S&P Global
Ratings

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Summary:

Equitable School Revolving Fund, Delaware
Arizona Industrial Development Authority; State Revolving Funds/Pools

Primary Credit Analyst:
Scott D Garrigan, New York (1) 312-233-7014; scott.garrigan@spglobal.com

Secondary Contact:
Beatriz Peguero, New York (1) 212-438-2164; beatriz.peguero@spglobal.com

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Summary:

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Credit Profile		
US$124.39 mil natl charter sch revolving loan fd rev bnds (Equitable School Revolving Fund) ser 2020A due 08/01/2050		
Long Term Rating	A/Stable	New
US$34.175 mil natl charter sch revolving loan fd rev bnds (Equitable Sch Revolving Fd) ser 2020B due 08/01/2050		
Long Term Rating	A/Stable	New
Arizona Industrial Development Authority, Arizona		
Equitable Sch Revolving Fd, Delaware		
Arizona Industrial Development Authority natl charter sch revolving loan fd rev bnds (Equitable Sch Revolving Fd)		
Long Term Rating	A/Stable	Affirmed
California Infrastructure & Econ Dev Bnk, California		
Equitable Sch Revolving Fd, Delaware		
California Infrastructure & Econ Dev Bnk natl charter sch revolving loan fd rev bnds (Equitable School Revolving Fund)		
Long Term Rating	A/Stable	Affirmed

Rating Action

S&P Global Ratings has assigned its 'A' rating to the Equitable School Revolving Fund (ESRF), Del.'s series 2020A and B bonds, issued by the Arizona Industrial Development Authority and California Infrastructure and Economic Development Bank, respectively. We also affirmed our ratings on prior 2019 ESRF bonds. Outstanding bonds, including the 2020A and B series, are senior obligations pursuant to a second amended and restated master trust indenture (MTI). The outlook is stable.

The purpose of the bonds is to purchase loans from the Equitable Facilities Fund (EFF).

The stable outlook reflects our expectation that EFF will continue to use ESRF as the sole vehicle for accomplishing its mission of providing loans to charter schools. We base this expectation on EFF's current practice of both directing its charitable contributions and selling loans to ESRF, of which EFF is its sole member. As ESRF grows, the outlook also reflects management's representation that over-collateralization levels through both additional debt service reserve fund (DSRF) deposits and annual debt service coverage (DSC) will either remain either consistent with or better than what is being contemplated as a result of the 2020 bonds being issued (i.e., a DSRF funded at about maximum annual debt service [MADS] and 1.3x annual DSC on the senior obligations). Also supporting the outlook is EFF's mission to provide school loans to high-performing charter schools, which we believe is likely to be correlated with generally higher charter school ratings.

The current cohort of 26 pledged loans to 25 charter school organizations/obligated groups with a total $377 million loan balance will be pledged to $263 million of outstanding bonds once the 2020 bonds are closed.

Credit overview

Our 'A' rating reflects an adequate enterprise risk profile and a very strong financial risk profile. Details of factors that contribute to our scoring methodology are below. While subordinate obligations can be issued pursuant to the MTI, our rating incorporates a default tolerance where no debt service payments on subordinate obligations are made.

Following mobility restrictions and closure of large segments of the economy due to COVID-19 and the swift onset of recession, all of S&P Global Ratings' sector outlooks in U.S. public finance are now negative. We believe that rating could face downward pressure if persistent use of either surplus cash flows or the program DSRF are needed to make timely bond debt service payments because our criteria scoring related to operating performance could worsen, depending on the number of pledged loans that are in place.

Stable Outlook

Downside scenario

We believe that the most immediate causes of any downside rating risk would be either one or a combination of the following: how ESRF's cash flows are structured to provide senior obligation DSC, the composition of the pledged loan portfolio, or whether ESRF experiences any payment delinquencies or defaults. Key factors we would consider are the following:

- ESRF cash-flow projections that provide for DSC significantly less than the currently projected level of about 1.3x. This level, in our view, provides a level of cushion to protect against potential defaults that is consistent with the current rating level; coverage of less than this could lead to downside rating risk.
- If the pledged loan portfolio begins to experience payment delinquencies or defaults, the rating could be lowered, even if there are funds sufficient to make all required bondholder payments, because our view of the program's operating profile would likely be weaker. All else being equal, we generally consider programs that have not experienced any defaulted or delinquent payments as stronger than those that have.
- While a growing loan portfolio could help lower the overall default stress we apply to ESRF's projected cash flows, future loans that have characteristics such as the following could lead to the cash flows needing to withstand a higher default stress to maintain the rating just at its current level: loans with a longer weighted average maturity or deferred principal payments, loans to a portfolio of borrowers that are materially lower in credit quality, or loans that create undue portfolio concentration in one or several states. All of these characteristics serve as inputs to our default tolerance analysis, and all can have direct effects on our assessment of ESRF's financial risk profile and overall credit rating.

Upside scenario

We do not believe that in the near term there is any rating upside, given the currently small size of the ESRF loan portfolio, only a year of loan repayment history (since this is a new program), our uncertainty related to the future composition of the loan portfolio (e.g., credit ratings, amortization/repayment schedules) as it grows, and our expectation that over-collateralization arising from both the DSRF and annual senior obligation DSC of about 1.3x

should continue to provide default tolerance consistent with the current rating level but not a higher one. As ESRF grows, senior obligation DSC levels significantly higher than the currently projected 1.3x could lead to a higher rating if we believe that level is sustainable for successive rounds of future bond issues. If the pledged loan portfolio improves significantly in credit quality, there also could be upside potential. We would note, however, that the need to withstand a significantly higher amount of default stress to achieve higher rating levels will likely preclude a higher rating for some time until the program matures.

Credit Opinion

Relevant bond provisions

- The bonds are issued pursuant to a MTI and supplementals. Pledged to repayment of the bonds are school loan agreements and related repayments made with funds transferred to the MTI from bond proceeds and charitable contributions, all funds pledged under the MTI, and related fund interest earnings.
- Included in the pledge is a $16.9 million DSRF available only to the senior obligations; the MTI provides flexibility to define the DSRF as needed under supplemental indentures, but in all cases the amount being no less than the amount that satisfies senior obligation financial sufficiency tests for both DSC (minimum pro forma MADS coverage of 1.15x) and leverage (minimum pledged assets to outstanding obligations no less than 1.2x).
- The defined Obligated Group (OG) under the MTI that grants the trustee a security interest in the pledged funds currently consists of only ESRF. Additional members of the OG would not necessarily introduce credit risk, in our view, as long as the charitable purpose of EFF does not broaden or change in a fashion that significantly changes the composition or purpose of ESRF.
- To transfer out funds from the MTI to EFF for any legal purpose, all prior financial tests and required deposits must be made pursuant to the provisions of the MTI. We believe that any legal purpose is generally restricted to EFF's furtherance of its charitable purpose of making loans to charter schools; currently this mission can be accomplished through ESRF. If there are transfers out of ESRF to make loans outside of the MTI, the rating could be negatively affected because our cash-flow analysis would then need to account for the release of funds. Given ESRF as currently being the sole vehicle for accomplishing the financial mission of EFF, our financial analysis assumes that surplus revenues from any year would be used by either EFF to either make additional pledged loans or ESRF to make up any shortfalls as needed.
- Release of school loans from the pledged assets is conditioned on compliance with sufficiency tests (same as those related to the DSRF), and if the outstanding loan principal due represents more than 5% of pledged assets, then additional rating confirmation is needed.
- A limitation on issuing additional bonds, subject to the sufficiency tests mentioned under both the DSRF and release from pledge sections above.

ESRF is a Delaware charitable nonstock limited liability corporation (LLC). Its purpose is to further the charitable purpose of EFF of making loans and providing financial assistance to charter schools. EFF is the sole member of ESRF. ESRF is currently the only member of the OG under the MTI, and therefore is the entity that grants a security interest in the pledged assets to the trustee. The trustee then makes all required payments, including debt service payments, pursuant to the flow of funds in the MTI. We do not believe that the existence of the LLC introduces additional credit risk to bondholders, given our view of the following:

- Limitations on LLC overall activities that are related to furthering the charitable purpose of EFF, including the ability to undertake any lawful act in furtherance of that charitable purpose;
- Within the LLC's operating agreement, provisions that account for both the existence of at least one independent director and separateness from other legal entities, including EFF;
- All deposits of bond proceeds and charitable contributions deposited into the MTI's loan program fund are held in trust solely for the benefit of the LLC and this fund has only two purposes: to make pledged loans or replenish the DSRF; and
- Our review of a non-consolidation opinion that addresses consolidation of assets held in trust under the MTI if EFF becomes a debtor under Chapter 11 of the U.S. Bankruptcy Code.

EFF history and mission

EFF's history and mission to support charter schools, as well as its nonprofit 501(c)(3) status, informs our view of ESRF's adequate enterprise risk profile. The EFF Board of Directors has ties to governmental entities that are charter authorizers, many of which are governmental institutions and public school districts. However, EFF is still a private nonprofit entity, and therefore, our enterprise risk profile is scored as adequate instead of a stronger score.

EFF was formed to leverage a $200 million charitable contribution that will fund loans to charter schools. It is supported by two nationally recognized charter school nonprofit organizations: National Association of Charter School Authorizers and National Alliance for Public Charter Schools. EFF staff has broad expertise in all areas of the charter school sector, including lending, financial management, operations, staffing, and educational standards.

Philanthropic goals of EFF include:

- Reducing the cost of capital for charter schools;
- Providing assistance to high-performing schools;
- Sharing sector best practices in both educational and financial areas; and
- Partnering with schools participating in ESRF to facilitate ongoing financial success.

ESRF loan pool

ESRF has been capitalized through a prior charitable contribution and now through bond proceeds. The program benefits in our analysis from having both a DSRF pledged to the senior obligations and a cash-flow structure that currently provides about 1.3x annual DSC to the senior obligations. Both of these factors, along with our view of the program administration policies, help support the very strong financial risk profile.

The over-collateralization of the annual debt service requirements consistent with a very strong financial risk profile reflects various criteria assumptions that are built into our default tolerance analysis. As stated above, our cash-flow analysis is supported by surplus revenues from any year that could be used by either EFF to either make additional pledged loans or ESRF to make up any shortfalls as needed. The reason for this is that ESRF is currently the sole vehicle for accomplishing the financial mission of EFF. On an aggregate basis, comparing all scheduled loan repayments and the $16.9 million DSRF to total senior obligation debt service due, we calculate that loan revenues can withstand about a 26% reduction with 0% recovery and still achieve aggregate 1x senior obligation DSC. However, in

our methodology, we use a portfolio-wide recovery assumption of 46%, which corresponds to the recovery group for the charter school asset class that is consistent with a very strong financial risk profile. Because of recovery, our default tolerance analysis indicates a higher level of defaults possible than the 26% gross default rate (we consider it a gross default rate because we aren't incorporating recovery) to maintain the very strong financial risk profile.

Related d Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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