S&P Global
Ratings

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Summary:

Equitable School Revolving Fund, Delaware; State Revolving Funds/Pools

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Credit Profile		
US$124.375 mil national charter sch revolving loan fd rev bnds (Equitable Sch Revolving Fd) ser 2021A due 11/01/2056		
Long Term Rating	A/Stable	New
US$42.7 mil national charter sch revolving loan fd rev bnds (Equitable Sch Revolving Fd) ser 2021B due 11/01/2056		
Long Term Rating	A/Stable	New
US$23.79 mil national charter sch revolving loan fd rev bnds (Equitable Sch Revolving Fd) ser 2021D due 11/01/2056		
Long Term Rating	A/Stable	New
US$17.305 mil national charter sch revolving loan fd rev bnds (Equitable Sch Revolving Fd) ser 2021C due 11/01/2056		
Long Term Rating	A/Stable	New

Rating Action

S&P Global Ratings has assigned its 'A' rating to the Equitable School Revolving Fund (ESRF), Del.'s senior series 2021A bonds, issued by the Arizona Industrial Development Authority; senior 2021B bonds, issued by the California Infrastructure and Economic Development Bank; senior series 2021C bonds issued by the Massachusetts Development Finance Agency, and senior 2021D bonds issued by the City of Albany Capital Resource Corp. All of the 2021 bonds are being issued as social bonds. We also affirmed our ratings on prior 2019 and 2020 ESRF bonds. Outstanding bonds are senior obligations pursuant to a second amended and restated master trust indenture (MTI). The outlook is stable.

Bond proceeds will be used to both make new loans and reimburse for loans made within the ESRF.

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.

A total of 44 loans to 40 charter school organizations/obligated groups with a total $671 million loan balance will be pledged to $490 million of outstanding senior-lien bonds issued once the 2021 bonds are closed.

Credit overview

Our 'A' rating reflects steady growth of ESRF in a manner consistent with its sole function to further the charitable purpose of its sole member, the nonprofit 501(c)(3) Equitable Facilities Fund (EFF): to make loans and provide financial assistance to charter schools.

A key factor supporting the rating is that annual loan repayments pledged to the MTI provide 1.3x debt service coverage (DSC) on the senior-lien obligations. Combined with the pledged excess revenues from prior loan repayments (currently totaling $14 million) and a debt service reserve (DSR; $21.2 million), these aggregate revenues provide enough over-collateralization to provide credit support for the current rating level. While subordinate obligations can be issued pursuant to the MTI, our rating incorporates a loss tolerance where no debt service payments on subordinate obligations are made. Along with this, because we incorporate about a 50% recovery assumption in our default tolerance analysis, the rating can withstand a higher gross default rate than the 22%-23% reduction in annual loan repayments if DSC were simply reduced from 1.3x to 1.0x.

We believe that bondholders are sufficiently insulated from credit risk due to the structural feature of the trustee being granted a security interest in the pledged fund identified above by an LLC and its sole member being a 501(c)(3). We base this on 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.

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. 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 DSC will either remain consistent or improve. 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.

Stable Outlook

Downside scenario

We believe that the most immediate cause of any downside rating risk would involve the pledged loan portfolio beginning to experience payment delinquencies or defaults even if there are sufficient funds sufficient to make all required bondholder payments. All else being equal, we generally consider programs that have not experienced any defaulted or delinquent payments as stronger than those that have.

In the future, deterioration in the pledged loan portfolio could also lead to downside rating risks. Generally, this would include 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. In this case, the 1.3x annual DSC and additional pledged revenues currently available as loss coverage may not be sufficient to sustain the existing rating in the context of a loan portfolio with worsening credit quality.

Upside scenario

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.

While we understand that EFF is the beneficiary of governmental grants to further its charitable purpose and ESRF is a program that works directly with charter schools that receive direct governmental aid to support their operations, we nevertheless do not foresee upside in the rating due solely to governance factors since EFF itself is a private non-profit corporation.

Credit Opinion

EFF history and mission

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.

Relevant additional bond provisions

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 maximum annual debt service [MADS] coverage of 1.15x) and leverage (minimum pledged assets to outstanding obligations no less than 1.2x). A proposed MTI amendment will remove the leverage test, which we do not currently view as material to the rating since our cash-flow stress tests concentrate on annual coverage rather than leverage. We also view a proposed MTI amendment which will extend the permitted investments as not currently material to the rating; however, there could be future effects if we would consider DSRF investments susceptible to liquidation or credit risk. These MTI amendments are likely to be in effect once the holders of the senior obligations represent at least 50% of outstanding principal.

The sole current member of the obligated group who is a party to the MTI is ESRF. Additional members 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.

Ratings Detail (As Of September 14, 2021)		
Arizona Industrial Development Authority, Arizona		
Equitable Sch Revolving Fd, Delaware		
Arizona Industrial Development Authority natl charter sch revolving loan fd rev bnds		
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		
Long Term Rating	A/Stable	Affirmed