S&P Global
Ratings

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

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US$170.015 mil sr natl charter sch revolving loan fd rev bnds (Equitable Sch Revolving Fd) ser 2022A due 11/01/2057		
Long Term Rating	A/Positive	New
US$69.08 mil sr natl charter sch revolving loan fd rev bnds (Equitable Sch Revolving Fd) ser 2022B due 11/01/2057		
Long Term Rating	A/Positive	New
Albany Cap Resource Corp, New York		
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Massachusetts Development Finance Agency (Equitable Sch Revolving Fd) national charter sch revolving loan fd rev bnds		
Long Term Rating	A/Positive	Outlook Revised

Rating Action

S&P Global Ratings revised the outlook to positive from stable, and affirmed its 'A' rating on the Equitable School Revolving Fund (ESRF), Del.'s senior national charter school revolving loan fund revenue bonds, issued in 2019, 2020, and 2021 in various series by the Arizona Industrial Development Authority (AZIDA), the California Infrastructure and Economic Development Bank, the Massachusetts Development Finance Agency, and the City of Albany Capital Resource Corp., N.Y.

At the same time, S&P Global Ratings assigned its 'A' rating with a positive outlook to the $170.0 million series 2022A senior bonds issued by AZIDA, and the $69.1 million series 2022B senior bonds issued by the California Infrastructure and Economic Development Bank; both series are being issued as social bonds. Bonds outstanding are senior obligations pursuant to a second amended and restated master trust indenture (MTI).

The revised outlook is based on the trend of ongoing diversification of the loan portfolio that is expected to increase to 58 loans in 2022, from only 11 loans in 2019. The growth strengthens the pool's ability to withstand default stresses, and reduces concentration geographically, among the largest borrowers. The outlook further reflects our expectation that the demonstrated ability of ESRF in attracting loan borrowers to the pool, and the good operating performance since the program's first loan in 2018 of no delinquent payments or defaults will likely continue over the next two years.

Bond proceeds will be used to both make new loans and reimburse for loans made within the ESRF. Upon issuance, the total amount of senior and subordinate ESRF bonds outstanding will be approximately $735.3 million.

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 58 loans to 50 charter school organizations and obligated groups with a loan balance of approximately $946 million will be pledged to $714 million of senior-lien bonds outstanding issued once the 2022 bonds are closed.

Credit overview

Our 'A' rating reflects the 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 previous loan repayments (totaling about $14 million) and a debt service reserve ($25.06 million), these aggregate revenues provide enough over-collateralization to provide credit support for the current rating level. Although 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 25%-27% reduction in annual loan repayments if DSC were simply reduced to 1.0x from 1.3x.

We incorporate into our credit view the following:

- 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 loan quality;
- Management's representation that over-collateralization levels through both additional debt service reserve fund (DSRF) deposits and annual DSC will remain consistent with the 1.3x coverage target;
- 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.

Positive Outlook

Upside scenario

We could raise the rating by one notch if the program continues generating additional loan demand that increases the pool's asset diversity, while continuing to exhibit solid operating performance with no delinquencies or defaults. In addition, we expect that as loans are added to the portfolio, the credit quality of individual borrowers will generally be in line with or better than that of the overall portfolio, and that the credit quality of existing borrowers will remain generally stable.

Return to stable scenario

We could revise the outlook to stable or lower the rating if the pledged loan portfolio begins to experience payment delinquencies or defaults even if there are sufficient funds to make all required bondholder payments. In addition, we would view negatively a weakening of the overall pledged loan portfolio by way of adding 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. An additional potential factor is, if our view of the overall quality of the existing individual loan borrowers declines meaningfully. If these cases occur, the 1.3x annual DSC and additional pledged revenues currently available as loss coverage might not be sufficient to sustain a higher rating or the existing rating in the context of a loan portfolio with worsening credit quality, and material actual delinquencies or defaults.

Credit Opinion

EFF history and mission

EFF was formed to leverage an initial $200 million charitable contribution, and 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.

While we understand that EFF is the beneficiary of government 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, EFF's status as a private nonprofit corporation is a somewhat limiting factor on our view of enterprise risk.

Relevant additional bond provisions

The MTI provides flexibility to define the DSRF as needed under supplemental indentures, but in all cases with 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 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 that will extend the permitted investments as not currently material to the rating; however, there could be future effects if we consider DSRF investments susceptible to liquidation or credit risk. These MTI amendments will likely be in effect once the holders of the senior obligations represent at least 50% of principal outstanding.

The sole current member of the obligated group that 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 affects 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 is currently 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 (the 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.

ESRF's ability to issue additional bonds is subject to the sufficiency tests mentioned under both the DSRF and release from pledge sections above.