Start-up muni charter school revolving loan fund to come with $120M

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A $120 million deal from a start up, Equitable Facilities Fund, whose mission is "to make it easier, faster and less expensive for charter schools to put down roots in sustainable facilities," will price Thursday amid a busy new-issue week.

Equitable School Revolving Fund, consisting of national charter school revolving loan fund revenue bonds for the Arizona Industrial Development Authority and the California Infrastructure and Economic Development Bank, is a unique development in the industry.

"Great schools deserve equitable financing terms," CEO and founder of EFF, Anand Kesavan said. "With this bond offering, we're taking a small but important step toward providing equitable financing for all high-quality public charters — and we're doing it with an 'A' rated, high-credit, long-term, scalable investment product."

Anand Kesavan, Founder & Chief Executive Officer, Equitable Facilities Fund

RBC will run the books for the bonds, which mature from 2020-2049 in two series. S&P Global rates the fund A.

In a premarketing scale, the Arizona tranche will be priced with 5% coupons and the spreads range from 37 basis point over Refinitiv MMD's AAA scale for shorter maturities to 77 basis points over the scale on the long end. The California tranche is also all 5% coupons with spreads of 22 basis points on the short end and 57 basis points on the long end.

While some in the municipal industry are skeptical of the charter school systems — and many are junk-rated deals — EFF has the backing of the Walton family. The firm is a 501c(3) and all the equity in the company is slated to pay debt service.

During the deal's online road show presentation posted on munios.com, some analysts questioned what S&P Global ratings would require to maintain an A rating, given that many of the charter school loans in the pool were not investment grade or are unrated.

Analysts also asked whether more unrated or non-investment grade borrowers could be included in the pool going forward that might result in a lower rating, but the finance team sought to reassure investors in comments that they would be striving to maintain the current A rating.

Tim Williams, Managing Director, Head of Public Power & Utilities Group at RBC Capital Markets, the sole manager on the deal, said during the road show that the firm has strong insight into the default tolerance of the proposed pools.

He also noted that S&P's report said that 26% of these borrowers could default and they would still make debt service.

Though the borrower mix listed in the bond document is not guaranteed and more non-investment grade or non-rated borrowers may be included, ESR is running a default tolerance model in concert with S&P's requirements, Williams said.

“We could take more BB–minus borrowers,” Williams said. “But the rating is expected to be maintained. We do have to be careful of the concentration.”

As the pool gets bigger, diversity will help the fund to withstand more non-rated loans, he said.

Kesavan, the chief executive, said during the road show that the fund will originate $600 million in school loans using $400 million in bonds and $200 million in equity. He noted that in the offering documents it shows that they anticipate growing the loan pool to $600 million, of which a quarter of that has been originated over the past year or so.

The fund expects to issue another $130 million to $150 million in bonds in mid-2020, he said.

"Our initial pooled school portfolio of 11 schools using $158 in philanthropic enhanced loans are amongst the best public charters schools in the nation," Kesavan said.

From the issuer perspective

"Equitable Facilities Fund has been an incredible partner for [us]," said Jeremy Chiappetta, CEO of Blackstone Valley Prep Mayoral Academy (BVP), which received a $16 million loan from the EFF to finance the acquisition of a previously leased high school facility for its 1,959 K through 12th grade students in northeast Rhode Island. The loan will save BVP — one of the highest performing school networks in Rhode Island — over $60,000 annually throughout its 30-year term, Chiappetta said.

"As a relatively young and growing organization, our ability to access facilities funding was limited. The EFF team, however, not only provided us with very favorable financing terms, but also provided sage strategic advice and counsel. As a result of this project, we are able to reallocate hundreds of thousands of dollars into classrooms."

"RBC saw this as a unique opportunity to serve as banker to assist in effectuating an innovative program from several perspectives – combining pooled, revolving fund financing techniques with charter school finance (something that hadn't been done before) and to broaden financing options for charter schools," Williams said. "Also, it was an interesting opportunity to work with a start-up issuer consisting of highly experienced professionals."

Prior to founding Equitable Facilities Fund, Kavesan led the Structured Finance Group and ran the Facility Fund for the Charter School Growth Fund, where he "helped identify the nation's best schools and invest in them." Prior to CSGF, he served as Chief Financial Officer of KIPP

Austin Public Schools. Prior to KIPP, Kavesan spent more than a decade in senior investment banking roles, including UBS, financing more than $10 billion in public projects including state revolving funds and K-12 schools with a specialty in credit ratings & quantitative structuring.

“There is potential for this fund to grow as it demonstrates the effectiveness of using capitalization monies to create over-collateralization for a pool of assets to access the muni market on better terms,” Williams said.

“An over-collateralized, pooled revolving loan fund approach to municipal financings has historically been a very effective approach to financing water and other infrastructure projects,” Williams said. “It is an important approach to leveraging funding dollars into financing more projects than would otherwise have been possible.”

Kesavan said his ESRF builds on over 30 years of success in the clean water State Revolving Fund (SRF) structure where EPA grants are used to create high secure credits providing scale, liquidity, pooling, diversification & credit enhancement to investors while providing low rates and funding certainty to small & large water municipalities.

“They say imitation is the best form of flattery, so ESRF uses a similar credit structure as these water SRFs to accomplish the same thing for the charter school market,” he said. “Over the next 30 years we hope to grow, improve in credit, and eventually be as successful as the water revolving funds.”

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