



Board Agenda Item #	IV.A.- Action Item
Date:	June 11, 2020
To:	Magnolia Educational & Research Foundation dba Magnolia Public Schools (“MPS”) Board of Directors (“Board”)
From:	Alfredo Rubalcava, CEO & Superintendent
Lead:	Nanie Montijo, Chief Financial Officer
RE:	Ratification of Approval of PPP Loan

Recommendation:

Staff recommends that the Board ratify its April 23rd approval of the Paycheck Protection Program (PPP) Loan from Citibank in the amount of \$5,461,600 according to the resolutions attached as Exhibit A.

Background:

The federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) created a new product called the Paycheck Protection Program (“**PPP**”), which provides \$349 billion in forgivable loans to small businesses and nonprofit corporations. The PPP funding is structured as a Small Business Administration (“**SBA**”) loan from a local bank, fully guaranteed by the SBA, with a two-year term and a 1.0% annual interest rate, to be used towards ensuring continuing employment for employees of small businesses and nonprofit corporations.

The MPS Board approved the PPP Loan from Citibank on April 23, 2020. The resolutions attached hereto as Exhibit A do not modify the April 23rd resolutions but rather provide clarifying information and confirm and ratify the April 23rd resolutions.

Fiscal Impact:

PPP Loan proceeds will be used to pay gross payroll, healthcare benefits, retirement benefits, lease/mortgages for facilities, and utility costs over the 8-week period following loan origination.

Name of Originator:

Nanie Montijo

Attachments

Board Resolutions Ratifying and Confirming the Approval of the PPP Loan



Exhibit A



**RESOLUTIONS OF THE BOARD OF DIRECTORS OF MAGNOLIA EDUCATIONAL & RESEARCH
FOUNDATION DBA MAGNOLIA PUBLIC SCHOOLS #20200611-01**

**RATIFICATION OF PARTICIPATION IN THE PAYCHECK PROTECTION PROGRAM FEDERAL
STIMULUS PROGRAM**

JUNE 11, 2020

WHEREAS: Magnolia Educational & Research Foundation dba Magnolia Public Schools (“**MPS**”) is a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “**Code**”) that operates ten (10) public charter schools in Southern California (collectively, the “**Magnolia Schools**”).

WHEREAS: the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) created the Paycheck Protection Program (“**PPP**”), which provides \$349 billion in forgivable loans to small businesses and nonprofit corporations.

WHEREAS: the PPP funding is structured as a Small Business Administration (“**SBA**”) loan from a local bank, fully guaranteed by the SBA, with a two-year term and a 1.0% annual interest rate, to be used towards ensuring continuing employment for employees of small businesses and nonprofit corporations.

WHEREAS: due to the unknown economic impact of the COVID-19 crisis on statewide K-12 funding, cash flow deferrals, negative impacts to enrollment, ongoing economic recessionary trends and other factors, current economic uncertainty created a need for additional funding to ensure and support the ongoing operations of MPS and the Magnolia Schools over the next twenty-four (24) months.

WHEREAS: MPS received a loan from the SBA under the PPP (the “**PPP Loan**”) in the amount of FIVE MILLION FOUR HUNDRED SIXTY ONE THOUSAND SIX HUNDRED DOLLARS (\$5,461,600) from Citi Commercial Bank.

WHEREAS: on April 23, 2020 the MPS Board of Directors (the “**Board**”) approved the acceptance of the PPP Loan.

WHEREAS: the Board wishes to confirm and ratify its prior decision to approve the PPP Loan by setting forth further information concerning the circumstances under which the PPP Loan was applied for, received and approved.

WHEREAS: applicants for PPP loans must certify to the following statements (as such may be amended by subsequent legislation):

- *Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.*
- *The funds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments, as specified under the Paycheck Protection Program Rule; I understand that if the funds are knowingly used for unauthorized purposes, the federal government may hold me legally liable, such as for charges of fraud.*
- *The Applicant will provide to the Lender documentation verifying the number of full-time equivalent employees on the Applicant's payroll as well as the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight-week period following this loan.*
- *I understand that loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities, and not more than 25% of the forgiven amount may be for non-payroll costs.*
- *During the period beginning on February 15, 2020 and ending on December 31, 2020, the Applicant has not and will not receive another loan under the Paycheck Protection Program.*
- *I further certify that the information provided in this application and the information provided in all supporting documents and forms is true and accurate in all material respects. I understand that knowingly making a false statement to obtain a guaranteed loan from SBA is punishable under the law, including under 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.*

WHEREAS: SBA guidance released on April 24, 2020, April 29, 2020 and May 27, 2020 (the "**SBA Guidance**") advises that "*all borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application*" and "*[a]lthough the CARES Act suspends the ordinary requirement that borrowers*

must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary”.

WHEREAS: the SBA Guidance advises that applicants pay particular attention to the certification in the PPP loan application regarding “[c]urrent economic uncertainty” as follows:

Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.

WHEREAS: MPS meets the requirement that current economic uncertainty makes the PPP Loan necessary to support the ongoing operations of MPS because it faces substantial financial risk due to COVID-19, including but not limited to the following factors:

- (1) state apportionments for June will be deferred until the 2020-21 fiscal year and more deferments are expected;
- (2) relatively modest budget reserves at some Magnolia Schools may not be adequate to cushion against many downside risks the Magnolia Schools will face in the coming months, such as funding deferrals and budget cuts;
- (3) existing bond covenants that severely limit or altogether prevent MPS from accessing credit lines (for example, the bond representative for the holders of the 2017 bonds declined to allow Magnolia Science Academy 1 to borrow additional funds to complete the construction of its new building at 18220 Sherman Way in Reseda instead requiring MPS to cover the cost with reserves); further, even if available, additional loan liability to remedy a cash shortage might lead MPS to not meet “debt service coverage ratio” and “cash on hand” bond covenants which would result in MPS defaulting on its bond/loan;
- (4) the inability to transfer reserves between and among the Magnolia Schools without first receiving authorizer prior written approval and the further complication of having to receive prior written approval from multiple authorizers when a Magnolia School chartered by one authorizer seeks to borrow or to lend funds to another Magnolia School chartered by a separate authorizer (for example, when MSA-1 was unable to borrow additional funds to complete the construction of its new building at 18220 Sherman Way it was required to

“borrow” funds via an intra-organizational loan from another Magnolia School, Magnolia Science Academy—5, the approval of which took approximately eight (8) months);

- (5) significant decreases in fundraising in fiscal year 2019-20 and likely in fiscal year 2020-21;
- (6) expected declining enrollment at all Magnolia Schools due to families moving to less expensive areas due to the financial impact caused by COVID-19;
- (7) unplanned for but necessary financial burdens connected to distance learning and temporary closure of campuses, and upon the re-opening of campuses, insuring the safety and well-being of students and staff upon the re-opening of campuses, including but not limited to the following:
 - a. purchases of wi-fi hotspots for students without internet access (to date, approximately \$129k); chromebooks (to date, approximately \$80K); and iTV (to date, approximately \$18k) to provide all Magnolia Schools students with the ability to access distance learning resources and to allow teachers the means to deliver instruction;
 - b. reimbursement for staff usage of phone and internet (to date, approximately \$17K) while teleworking; and
 - c. upon the re-opening of campuses, the ongoing expense of performing rigorous cleaning and disinfecting of Magnolia School facilities, and the hiring of additional personnel with health and wellness expertise to insure the ongoing health and safety of all students and staff;
- (8) insufficient state and federal emergency financial relief with unclear timing for receipt of funds.

WHEREAS: the PPP Loan proceeds will be used to retain workers and maintain payroll, and make facility lease payments and utility payments, as specified under the PPP requirements, as such may be amended or adjusted by Federal legislation.

WHEREAS: MPS staff has certified that the information provided in its application and the information provided in all supporting documents and forms is true and accurate in all material respects.

NOW, THEREFORE BE IT RESOLVED: that the MPS Board determines in good faith that:

1. The current economic uncertainty makes the PPP Loan necessary to support the ongoing operations of MPS and the Magnolia Schools, including meeting payroll obligations in June 2020 and MPS meets all other requirements of the PPP certifications; and
2. The CEO and Superintendent shall review further guidance relating to the PPP Loan as it is released by the SBA and is authorized to report back to the Board if changes to these guidelines may cause MPS to no longer meet the program requirements.

RESOLVED, FURTHER: that MPS Staff may allocate the PPP Loan proceeds pro-rata to each Magnolia School and to the MPS central office based on their projected share of PPP eligible expenses.

RESOLVED, FURTHER: that the Resolutions adopted by the MPS Board on April 23, 2020 are hereby ratified, approved, and confirmed.

RESOLVED, FURTHER: that the appropriate officers of MPS are hereby authorized and directed to take such additional actions, to execute and deliver such additional instruments, and to make such further determinations as may be necessary or appropriate to carry into effect the foregoing resolutions.

RESOLVED, FURTHER: that MPS ratifies and confirms the acts of its officers, agents or employees taken on behalf of MPS in connection with the PPP Loan transaction and that all actions heretofore taken by the CEO & Superintendent, CFO, or any other officer of Magnolia, in connection with or otherwise in contemplation of the PPP Loan be, and they hereby are, ratified, confirmed and approved as the acts and deeds of MPS.

RESOLVED, FURTHER: the Secretary or Assistant Secretary of Magnolia, acting singly or together, be and hereby is and are authorized and directed to execute, acknowledge and deliver a certified copy of these resolutions to any person or agency which may require copies of these resolutions and that the certification of the Secretary or Assistant Secretary as to the signatures of the officers, agents or employees will be binding on MPS.

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CERTIFICATE OF SECRETARY

I, Barbara Torres, do hereby certify that I am the duly appointed and acting Secretary of Magnolia Educational & Research Foundation dba Magnolia Public Schools ("**Magnolia**"), a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, and do hereby further certify that attached hereto is a full, true and correct copy of certain resolutions of the Board of Directors, duly and regularly passed on June 11, 2020, by the majority vote of the Board of Directors then in office at a meeting duly held on such date in compliance with the bylaws of Magnolia and California law.

I hereby further certify that said resolutions are still in force and effect and have not been amended or revoked.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of Magnolia this ____ day of _____ 2020.

Barbara Torres, Secretary