

## WELCOME - FACILITY FINANCING

**“Money is better than poverty  
if only for financial reasons.”**

*---Woody Allen, 1935-*



# **HIGHMARK**

**SCHOOL DEVELOPMENT**

**CHARTER SCHOOL FACILITY  
FINANCING OPTIONS**

**THE BASICS IN PLAIN  
LANGUAGE**

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# FACILITIES: THE BASICS

## ✦ Today's Approach

- ✓ Vendor-neutral
- ✓ Plain speech
- ✓ Mostly jargon-free
  - Just a few acronyms and abbreviations
- ✓ Tactical – not too technical
- ✓ Real people you can turn to
- ✓ Practical, real questions you can use
- ✓ Access to source documents and reports via download

# FACILITIES: 7 WAYS

## ✦ Seven ways to finance a building

# Slides

- |                                   |    |
|-----------------------------------|----|
| 1. Cash                           | 2  |
| 2. Loan                           | 3  |
| 3. Lease: Find-and-Fill           | 5  |
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# 7 WAYS + 7 POINTS

✦ Seven points covered for each approach

1. What is it?
2. Which Schools Use This Approach?
3. Need to Know
4. Why Use This Model?
5. People to Call
6. What to Ask
7. Watch Out For . . .



# CASH

**“Never underestimate the  
value of cold cash.”**

*---Gregory Nunn*

# CASH I

## ✦ What is it?

- ✓ It's cash. 100% paid by the school to buy, build, renovate.
- ✓ Typically from a capital campaign or wealthy benefactor.

## ✦ Which Schools Use Cash?

- ✓ Almost none. And rarely for 100% of a large project.
- ✓ Some EMO/CMO Schools, but only rarely.
  - Even the well-heeled are better off spending someone else's money.

## ✦ Need to Know

- ✓ It is simply not the norm.

# CASH II

## ✦ Why Use Cash?

- ✓ No interest, no monthly payments, no obligations to other stakeholders, not paying a return on investment to anyone, you're building equity, you call all the shots: architect, builder, etc., not paying property tax or "sales tax" on rent through a tax-paying building owner.

## ✦ Call These People

- ✓ A wealthy benefactor.

## ✦ What to Ask

- ✓ Nothing.

## ✦ Watch Out For . . .

- ✓ Anyone promising you free cash for buildings.
- ✓ E.g. Nevada: A group offered a \$200,000 facility "grant" in exchange for a seat on the board. Hmmm . . .



# LOAN

**“A bank is a place  
that will lend you money  
if you can prove  
that you don’t need it.”**

*---Bob Hope, 1903-2003*

# LOAN I

## ✦ What Is It?

- ✓ A typical buy-and-build loan from a local/commercial bank.
- ✓ You have a construction project and a long-term mortgage. Simple.

## ✦ Which Schools Use Loans?

- ✓ EMO/CMO Schools, even some of their start-ups.
- ✓ Some Independent schools with a track record and a balance sheet.
- ✓ NOT start-ups for large construction projects.
  - Sure, you might get a line of credit or a furniture loan but not \$5 million to put up a building.

# LOAN II

## ✦ Need to Know

- ✓ It is a business transaction—start working it early. YOU have to sell it.
- ✓ Charters are HIGH risk to most banks.
- ✓ Banks almost never finance 100% of a deal, even for proven schools.
- ✓ Plan on a well-tuned balance sheet and ponying up \$\$.
- ✓ Personal guarantees may be required.
  - For years, many founders put up their homes as collateral.
- ✓ YOU get to handle the land purchase, design, and construction procurement. Lucky you.
- ✓ The bank will be looking over your shoulder at every step—watching its investment.

# LOAN III

## ✦ Why Use a Loan?

- ✓ You don't have cash.
- ✓ Easy to understand and navigate . . . the financial side.
- ✓ Can get you more building earlier than saving up cash.
  - Can allow you to serve more students earlier.
- ✓ Puts you in an ownership position. A good thing?
  - No property tax or "sales tax" on rent.

## ✦ Call These People

- ✓ Local commercial lenders, your colleagues, community leaders, bank board members.

# LOAN IV

## What to Ask

- ✓ What is the process: start to finish?
- ✓ How long will an approval take? What can derail it?
- ✓ What would mitigate your risk?
- ✓ What is my rate? How much do we have to put in?
- ✓ What fees are built in?
- ✓ Do you have a portfolio of charter school loans? Have you ever done this?
- ✓ What happens if our charter is revoked?
- ✓ Do you need guarantees from the board? From founders?
- ✓ How do we find a property . . . or developer . . . or builder . . . or designer . . . ?
- ✓ How do we budget this whole thing?

# LOAN V

## ⚡ Watch Out For . . .

- ✓ Keep your expectations realistic.
- ✓ Most commercial lenders still don't understand charter schools
  - Cash flow, performance metrics, politics. Can be an uphill battle.
- ✓ Heavy cash in (20-40%) is not uncommon even with a track record.
- ✓ Your cash in mitigates risk for the bank.
- ✓ The approval and underwriting process can be lengthy.
- ✓ The bank will not develop the property; you will navigate that with assistance.
  - Make friends early who understand charter schools and development
- ✓ Keep a contingency plan in place.

## LEASE: FIND-AND-FILL

**“Someone's sitting in the shade today because someone planted a tree a long time ago.”**

*--Warren Buffet, 1930-*

# LEASE: FIND-AND-FILL I

## ✦ What is it?

- ✓ Typically a short-term rental solution in an existing building.
- ✓ Have the owner convert it with minimal expense to “get by for now.”
- ✓ Not usually an option to buy.

## ✦ Which Schools Use a Find-and-Fill Lease?

- ✓ A lot.
- ✓ Especially start-ups.
- ✓ But also independent and EMO/CMO schools.



# LEASE: FIND-AND-FILL II

## ✦ Need to Know

- ✓ Most common for start-ups. Often temporary—though not always.
- ✓ Owner typically can finance improvements—depending on size.
- ✓ Several moves can communicate instability for parents.
- ✓ Forget finance rate: Can you afford it?
  - Compare available and leased spaces.
- ✓ Keep the lease under 20% of revenue—each year.
  - Many wisely recommend under 15%. But real estate has to cooperate.
- ✓ Anticipate typical lease escalators: maybe 3% annually.
  - That is . . . 3% of the hard dollar amount.
- ✓ Calculate property tax and “sales tax” (on rent) in advance: AZ
- ✓ Study the expansion options; study the move options.
  - Will you lose your population if you choose to or must move?
- ✓ You need an educational certificate of occupancy (C of O).

# LEASE: FIND-AND-FILL III

## ✦ Why Use a Find-and-Fill Lease?

- ✓ Often the only economical option for cash flow.
- ✓ Turnaround can be fast.
- ✓ Often no money paid until occupancy or later.
- ✓ Available vacant buildings in your draw area.
  - Private/parochial school buildings.

## ✦ Call These People

- ✓ Building owners, EDCs, Chambers of Commerce, City Planning, local civic groups, charter school real estate specialists.
- ✓ Your charter school colleagues.

# LEASE: FIND-AND-FILL IV

## What to Ask

- ✓ What is the zoning? Can we even put a school there?
- ✓ What if re-zoning or a special-use permit is required?
- ✓ How will you assure compliance with school facility standards?
- ✓ Can you finance improvements? And navigate the approvals process?
- ✓ What do you know about charter schools?
- ✓ Can we take any improvements with us (lockers? kitchen stuff?).
- ✓ How are utilities and insurance addressed in the lease?
- ✓ Are there lease escalators? Automatic extensions?
- ✓ Do we have (or even want) any purchase options?
- ✓ What other tenants are permitted nearby (bars? high-traffic businesses?).

# LEASE: FIND-AND-FILL V

## ⚠ Watch Out For . . .

### ✓ Location is everything.

- Code compliance, zoning, demographics, population, your submitted charter, what you promised the community, public transportation, road access, and parental drop-off are all crucial.

### ✓ Some building owners see big \$\$\$\$ with charters or don't understand your space needs.

- Know your lease limits well ahead of time (<20%, even <15%).
- Calculate any lease escalators in your budgets.
- Know your SF needs, including growth needs.
- Seek real-estate/finance help in negotiating the lease.

### ✓ A short lease term gives you flexibility but could force a move.

### ✓ A find-and-fill solution is rarely perfect but can be "pretty good."

- Something is always compromised.
- Develop a stellar communications plan for parents and staff.

LEASE: DEV. BUILD-to-SUIT

**“Anyone who lives within  
their means suffers from a  
lack of imagination.”**

*---Oscar Wilde, 1854-1900*

# LEASE: DEV. BUILD-to-SUIT I

## ✦ What Is It?

- ✓ A permanent solution.
- ✓ A developer buys or owns property and builds on raw land or converts a building that will you will lease.
- ✓ Usually with options to buy: 20+ year term is common.

## ✦ Which Schools Are Doing This?

- ✓ Common with EMO/CMO start-up schools; many have an affiliated real estate development company.
- ✓ A few independent start-ups can use this: but risk is high for some developers.
- ✓ For some independent schools with a track record, this can be a bond market alternative.

# LEASE: DEV. BUILD-to-SUIT II

## ✦ Need to Know

- ✓ Developer typically takes the risk without requiring money in.
- ✓ So you don't have to bring "money to the table."
- ✓ You move in; pay the lease.
  - All costs will translate into the lease payment: acquisition, legal costs, real estate commissions, permitting, re-zoning, engineering, design, construction, etc.
- ✓ Few developers intentionally embrace charter schools.
- ✓ The actual finance rate should be higher than a bond or bank loan, especially if there's no money in from the school.
  - But examine all the moving parts of your realistic options:
    - Origination fees, costs-of-issuance, underwriter fees, rating fees, legal fees, interest reserves, cash required of you, timing to move-in, ability to phase your growth, early buy-out options, etc.

# LEASE: DEV. BUILD-to-SUIT III

## # Need to Know, cont.

- ✓ New and redeveloped properties have many unknowns that need to be worked through.
  - E.g. zoning, traffic studies, environmental studies, public hearings, utility extensions, annexation, etc.
  - Don't guess or assume. And have a contingency plan.
- ✓ Existing buildings must be *intelligently* reviewed before committing.
  - Wal-Mart: Different traffic patterns and air-exchange requirements than a school.
  - A lead-acid battery plant might have a few environmental issues.
  - Don't guess or assume. And have a contingency plan.
- ✓ A smart developer will be *very* interested in the quality of the school
  - Board, administration, program, demographics, budgets, etc.
- ✓ You might not be able to take "your" architect or builder with you.
- ✓ Could serve as bridge to a commercial loan or the bond market.
- ✓ As with find-and-fill, you should see typical lease escalators.
- ✓ Calculate property tax and "sales tax" (on rent) in advance: AZ



# LEASE: DEV. BUILD-to-SUIT IV

## ✦ Why Use a Developer Build-to-Suit Lease?

- ✓ A permanent solution designed around your program, mission, and goals.
  - No moving every two years as you grow.
- ✓ More building for more students sooner than other models.
  - Can provide future money for expansion.
- ✓ You should have options to buy.
- ✓ Might pay nothing until you occupy—then the lease kicks in.
- ✓ Developer has skin in the game: will take on the headaches you would otherwise handle (as with a loan).
  - You get real-estate, design, and construction expertise.
  - Hopefully you get charter school expertise.

## ✦ Call These People

- ✓ Your association, other state charter school associations, the National Alliance, your colleagues, vendors.

# LEASE: DEV. BUILD-to-SUIT V

## What to Ask:

- ✓ What is the process: start to finish?
- ✓ What is the source of your capital, and what is the finance rate?
- ✓ How much money do we have to put in?
- ✓ What are my buy-out options—and when do they occur?
- ✓ Lease escalators? Automatic extensions?
- ✓ Can the lease float with our revenue stream? Can we phase this?
- ✓ How are taxes, utilities, and insurance handled?
- ✓ How do you handle zoning, design, permitting, construction, etc.?
  - What do we take on?
  - Do we have any say in what goes in the building?
- ✓ What do you know about charter school spaces?
- ✓ What if you're late in delivering the building?
- ✓ What if construction costs less than everyone thought?
  - Will my lease be less?
- ✓ What happens if our charter is revoked?

# LEASE: DEV. BUILD-to-SUIT VI

## ⚡ Watch Out For . . .

- ✓ Developers who don't understand charter school budgets, requirements, and operations—some are “one and done.”
  - Some commercial developers might see big \$\$\$ when they hear a school needs a home.
  - The economics are very different from common commercial developments: restaurants, strip malls, hotels.
  - You cannot spend like a district school with opulent architecture and single-use spaces.
    - In fact, with a developer scenario, you're not spending: the developer is.
  - Check references.
- ✓ Developers who have to shop for capital.
  - Without a named source, they have to sell commercial lenders on their developments. This could take time.

# STATE PROGRAMS

**“Man is the only animal  
that laughs and has  
a state legislature.”**

*---Samuel Butler, 1835-1902*

# STATE PROGRAMS I

## What Is It?

- ✓ A state provides facility finance assistance in some form to charter schools.
- ✓ AZ, Per AZ Stat. 15-185(B)4, Charters receive (for 2012) \$1,654.41 per pupil for students in K-8 and \$1,928.19 per pupil for students in grades 9-12 for facilities and other overhead costs.
- ✓ Published list of unused (or portions) of state or district buildings—but no first rights of refusal or \$1 lease: not cutting any deals for charters
- ✓ Access to bonding authorities: Industrial Dev. Authorities.

## Which schools use this?

- ✓ All . . . We hope

# STATE PROGRAMS II

## ✦ You Need to Know

- ✓ A bond deal through a state-authorized authority is not a free ride from the state; there's no credit pledge or credit enhancement
- ✓ It's still an investment and a complex transaction

## ✦ Why Use State Monies?

- ✓ You're a public school; it's your money already.

## ✦ People to Call

- ✓ Other state associations, your colleagues in AZ, your legislators, your association

# STATE PROGRAMS III

## ✦ What to Ask

### ✓ For future lobbying . . .

- What is our consistent message to legislatures?
- How can we exert the most influence most efficiently?

## ✦ Watch Out For . . .

- ✓ Typical misunderstandings: “Why is the state supporting private schools?”

# FEDERAL PROGRAMS

**“Money is usually attracted,  
not pursued.”**

*---Jim Rohn, 1930-2009*



# FEDERAL PROGRAMS I

## ✦ What Is It? – “Pheromone” Programs

- ***(Bring on the jargon; and acronyms!)***

- ✓ Federal participation in charter school facilities *in some form.*
- ✓ The National Charter School Resource Center identifies seven “programs”—and there’s one more:
  - 1. FEMA’s Public Assistance Grants:
    - Reimburses for repair, restoration, or replacement of disaster-damaged facilities.
  - 2. The Federal Charter Schools Facilities Incentive Grants:
    - Available “if the state has a law in place authorizing per-pupil facilities aid for charter schools.” State is awarded monies and passes them to charter schools.
    - Not in South Carolina yet. But IN, CA, UT, and MN, are getting their share.
  - 3-4. Two bond programs through the US Treasury:
    - Discuss with your bond brokers or bond counsel.

# FEDERAL PROGRAMS II

✦ What is it?, cont.

✓ 5. USDA's Rural Development Community Facilities Program:

- Provides loans, grants, and guarantees for various facilities, including charter schools. Sometimes in cooperation with other funding entities.
- Sub-20,000 population required. More poverty = lower rates on loans.
- In 2011, 15 charter school projects for a total of \$51,250,880.
  - Utah received \$21,555,273.
  - Ohio, \$6,312,000;
  - Florida, \$5,800,000;
  - Hawaii, \$3,834,349;
  - Arkansas, \$3,000,000;
  - North Carolina, \$2,790,000
  - Delaware, \$2,775,000;
  - South Carolina, \$2,100,000;
  - New Hampshire, \$1,530,000;
  - Minnesota, \$1,393,000; and
  - Arizona, \$161,258.. (Wow!)

# FEDERAL PROGRAMS III

✦ What is it?, cont.

## ✓ 6. Federal Charter School Credit Enhancement Program

- “Provides grants to absorb some of the risk of making loans to charter schools” to “acquire, construct, and renovate facilities.”
- Grantees are lending institutions, non-profits, public authorities, or governmental entities, even authorizers if government or non-profit (not typically schools directly).
- Some federal grantees work nationally, others are regional or state-specific.
- There are other ways to “enhance credit,” but here we mean the specific Federal Charter School Credit Enhancement Grant to lenders.
  - “Guaranteeing, insuring, and reinsuring bonds, notes, evidences of debt, loans . . .
  - Guaranteeing and insuring leases of personal and real property.
  - Facilitating financing by identifying potential lending sources, encouraging private lending, . . . for the benefit of, charter schools.
  - Facilitating the issuance of bonds by charter schools or by other public entities for the benefit of charter schools . . . ”
- Some **Community Development Financial Institutions** (CDFIs) are recipients.

# FEDERAL PROGRAMS IV

## ✦ What is it?, cont. – **A word about CDFIs . . .**

✓ CDFI is a *designation* by the federal government applied to *some* lending organizations

- A CDFI is “a specialized financial institution dedicated to serving low-income individuals and communities”—about 1,000 certified CDFIs.
- They can be “community development loan funds, banks, credit unions and venture capital funds.”

## ✦ And . . .

- CDFIs are not exclusive to charter schools but some are very active in the market.
- They support many community and non-profit organizations.
- And they do more than just loan: technical support, guidance, etc.
- They can raise loan funds from large banks or foundations and re-loan to charters.
- They might assemble 100% financing, depending on project size.
- Some can provide small grants in conjunction with their loans, often to cover some early project costs.
- When a CDFI (or other institution) leverages a Federal Credit Enhancement Grant, schools benefit through lower investor risk and thus lower cost of financing.

# FEDERAL PROGRAMS V

✦ What is it, cont.

## ✓ 7. New Markets Tax Credits (NMTC)

- A “geography-based program” under the US Treasury that “attracts investment capital to low-income communities by permitting individual and corporate investors . . . a tax credit against their federal income tax return in exchange for making equity investments.”
- A NMTC allocatee (as these organizations are called) must raise the debt and equity funds to make a NMTC loan.
  - NMTC allocatees must be mission-driven to support low-income communities or persons.
  - These NMTCs are not limited to charter school projects.
  - Lenders compete for these allocations.
  - The NMTC allocation comes from the federal government.
  - This allocation is the permission to do NMTC transactions up to a certain dollar amount.
  - In certain NMTC structures, a qualified borrower may have between 15-25% of the total loan amount “forgiven” after the 7-year tax credit period.
- Many active charter-savvy CDFIs can leverage NMTCs.

# FEDERAL PROGRAMS V

✦ What is it, cont.

## ✓ 8. Federal Program: EB-5

- Designed to attract foreign investors
- \$1 million required by the foreign investor or \$500,000 in “targeted employment areas”
- Project must create or preserve 10 permanent jobs—more often used for manufacturing facilities and hotels than charter schools
- Requires assembly of highly-complex financing and sometimes legal structures to augment the foreign money
- Developers using this do not have the foreign or domestic capital dedicated early and the deals can “fall apart” like many federally-flavored programs
- Project must create (or maintain) 10 jobs
- Created by the Immigration Act of 1990
- Investor gets green cards for self, spouse and children

# FEDERAL PROGRAMS VI

## ✦ Which Schools Use These?

### ✓ Charter School Federal CE Grant

- Start-up and operational schools that don't qualify for financing based on their own balance sheet.
- Independent and EMO/CMO schools.
- Some schools issuing bonds.

### ✓ NMTC

- Start-up or operational schools in underserved neighborhoods with at-risk and high-poverty populations. "Qualifying" locations.
- Schools with a higher risk profile than a developer might fund.
- EMO/CMO schools can benefit also.

# FEDERAL PROGRAMS VII

## ✦ Need to Know

- ✓ Charter School CE and NMTC are not grants to a school.
  - They're components of certain loans or financial transactions that reduce risk and/or save investors taxes.
  - Altruism? Maybe. Capitalism? Yes.
  - CE grantees NMTC allocatees typically structure deals cooperatively with foundations, bond-buyers, investors, commercial lenders, and even developers—this can take time.
- ✓ NMTCs require specific locations exhibiting certain economic and demographic characteristics.
  - [http://www.novoco.com/new\\_markets/resources/maps\\_data.php](http://www.novoco.com/new_markets/resources/maps_data.php)
  - Literally, the wrong side of a street can disqualify a location.
- ✓ The vetting process with lenders using these programs is as thorough and time-intensive as any other model.



# FEDERAL PROGRAMS VIII

## ✦ Why Use a Federal CE Grant or NMTC?

- ✓ Location, size, and character of your school fits.
- ✓ This is public tax-paid leverage to attract private investment in your public school facility (the pheromone factor). You're a public school.
- ✓ The "blended" financing costs are often very attractive.
  - Remember: projects leveraging these programs frequently have multiple investors with differing rates.

## ✦ Call These People

- ✓ Active charter school CE grantees (contact sheet provided for download).
- ✓ Active charter school NMTC allocatees.
- ✓ Your alliance; bond folks you're working with; your local lender.
- ✓ USDA field offices in AZ.
- ✓ US Customs and Immigration Center (EB-5)

# FEDERAL PROGRAMS IX

## What to Ask

- ✓ Are you a Federal Charter School Credit Enhancement Grantee?
- ✓ Can you leverage New Markets Tax Credits?
- ✓ What is the process: start to finish? How long until we know if this will be funded?
- ✓ Could my school and proposed location even qualify?
- ✓ What fees are associated with this? What are my obligations and rates?
- ✓ Who are your financing partners for the deal? Names, please.
- ✓ What is your capacity? How many projects have you financed in the last three years, representing how much money?
- ✓ Where is your footprint? Do you work in Arizona?
- ✓ What happens if our charter is revoked?
- ✓ What if this does not get underwritten? Who pays our architect and builder?

# FEDERAL PROGRAMS X

## ⚡ Watch Out For . . .

- ✓ Putting the deal together takes time, time, and more time.
- ✓ Deal can “blow up” at the 11<sup>th</sup> hour. They often do.
- ✓ Don’t assume your local charter-friendly banker can participate in a Federal CE, NMTC, or USDA deal.
- ✓ Be ready with a contingent facility plan if the deal cannot be structured as hoped.
- ✓ There is only so much Federal CE grantee money and NMTCs and USDA capacity to go around.
  - Any participating lender has only so much capacity to assemble financing and lend each year.

# BONDING

**“Money will come when  
you’re doing the right thing.”**

*---Michael Phillips, 1938-*

# BONDING I

## What is it

- ✓ An investment by an entity for permanent financing for facility acquisition and/or construction or refinancing. It's a loan.
  - Usually through tax-exempt bonds that make the investment attractive thus reducing the cost of capital to you.
  - Long payback term—up to 30 years is common. Thus, lower payments.
- ✓ Many moving parts:
  - School, issuer, underwriter, bond counsel, other lawyers, rating agency, sometimes credit enhancement.
- ✓ Many fees and costs:
  - Legal fees, trustee fees, rating fee, credit enhancement fees, underwriter's discount (a fee) . . . collectively "cost of issuance" or COI.
  - Interest reserves and/or cash on hand are to be expected through bond covenants.
- ✓ Common to underwrite 100% of the total amount needed, including fees. Which means you might finance \$10 million but get only \$9.3 in construction.

# BONDING II

## ✦ Which Schools Are Doing This?

- ✓ Independent schools with a track record and balance sheet.
- ✓ EMO/CMO operational schools and sometimes their start-ups.
- ✓ Rarely (i.e. never) new, independent start-up schools.

## ✦ Need to Know

- ✓ This is permanent financing.
  - You hold title to a property in most cases.
- ✓ With tax-exempt bonds, the investors' profit is free from federal income tax (and often state/local tax).
  - This drives down the school's finance costs.
  - Altruism? Maybe. Capitalism? Yes.
  - Some mission-driven investors love charter schools.
- ✓ A "rating" is a measure of risk.
  - A rated bond will get you a lower finance rate.
    - And usually drives down other costs—if only marginally.

# BONDING III

## ⚡ Need to Know, cont.

- ✓ Most tax-exempt bond deals go to the large, established, fiscally-sound, and academically-excellent charter schools.
- ✓ This is not an opinion but was demonstrated by ...
  - Two Charter Bond Studies by LISC, a large, prominent CDFI.
    - 1998-2010: 478 tax-exempt bond deals for charter schools .
    - 2011-Mid-2012: Another 75 deals + a few not covered: 590 total.

# BONDING VII

## ✦ Need to Know, cont.

- ✓ During the period covered by both LISC studies, charters in the US grew from 1,542 to nearly 6,000.
  - 590 schools bonded.
  - Meaning: around 10% of US charter schools had bonded via tax-exempt issuances through May 2012.
- ✓ 86 in Arizona . . .
  - 86 out of 531—16.1% of charters in the state
  - Above the average; speaks to a mature market



# BONDING VI

## Need to Know, cont.

- ✓ Average rates and fees, all charter school bond transactions--nationally

	1998-2010	2011-2012
Finance Rate - Unrated Bonds	7.09%	7.42%
Finance Rate - Rated Bonds	6.06%	7.09%
Difference	1.03%	0.33%

	1998-2010	2011-2012
Cost of Issuance - Unrated Bonds	6.72%	4.84%
Cost of Issuance - Rated Bonds	5.31%	4.60%
Difference	1.41%	0.24%

	1998-2010	2011-2012
All-in Costs - Unrated Bonds	7.88%	7.90%
All-in Costs - Rated Bonds	6.46%	7.51%
Difference	1.42%	0.39%

# BONDING IV

## Need to Know, cont.

- ✓ Case study – Arizona: 86 bonds out of 531 schools through June 2012 . . .

→Average deal size at issuance:	\$10.1 million
→Average cost to play (all-in costs):	7.4%
→Average finance rate:	6.89%
→Median annual revenue:	\$4.65 million
→Median school enrollment:	633
→Median outstanding balance:	\$7.65 million

# BONDING VIII

✦ Need to Know – cont. (National Pattern)

✓ **Rated** bonds . . .

- Median school population: 824
- Annual median revenue: \$7,388,642
- Median age at issuance: 7.1 and 9.0 years\*

✓ **All** outstanding bonds nationally . . .

- Median school population: 646
- Median annual revenue: \$5,347,896
- Median age at issuance: 6.3 years

✓ **Unrated** bonds . . .

- Median school population: 380
- Annual median revenue: \$4,188,241
- Median age at issuance: 3.9 years

✓ **22 Defaulted** Charter School bonds . . .

- Median school population: 247
- Annual median revenue: \$2,722,356 (est.)
- Median age at issuance: 4.6 years.

**Which group  
looks like  
your school?**

\*Non-investment and investment grade, respectively

# BONDING IX

## Call These People

- ✓ Bond folks: Ziegler, Wachovia, RBC, Piper Jaffrey, DA Davidson, others.
- ✓ Your school's attorney, a bond attorney, your colleagues, your alliance.
- ✓ Arizona bond issuers: Industrial Development Authorities
  - "Conduit issuer" that can sell bonds on your behalf.

# BONDING X

## What to Ask

- ✓ What is the process: start to finish?
- ✓ How realistic is it for us, and what is the timeline?
- ✓ What does it take to get a rated bond? When will we know?
- ✓ What's the difference between public and private placement (i.e. sale)?
- ✓ What are my total costs? And when will I know my finance rate?
- ✓ What fees are associated with this?
  - Costs of issuance? Underwriter discount? Other?
  - Can you show me a typical deal for a school of our size?
  - <http://emma.msrb.org/Search/Search.aspx>
- ✓ Could you show us your track record?
- ✓ What if we need to expand in two years? How do we get more money?
- ✓ When do we buy the property?
- ✓ How do we handle property acquisition, design, permitting, construction?
- ✓ What if this doesn't get underwritten?
  - Who pays our architect and builder for planning and development work?
- ✓ What happens if our charter is revoked?

# BONDING XI

## ⚡ Watch Out For . . .

- ✓ Bond covenants that should limit additional debt and should provide a pre-pay lockout period
  - Bond holders need to protect their investment.
  - Understand what this means to the school.
  - Future expansion may be a challenge. Maybe not.
- ✓ Understand your fees and timelines.
- ✓ Start the conversation two years before expected bond sale date.
- ✓ Compare apples to apples.
- ✓ Ask a lot of questions. Then ask more.

## Best Wishes . . .

**“You should always live  
within your income, even if  
you have to borrow to do so.”**

*---Josh Billings, 1818-1885*

# DISCUSSION – Q&A

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✓ Mobile: 801.824.9606

✦ Available by email link

✓ This Presentation; LISC Bond Studies I & II; List of CDFIs that work with charter schools; Descriptions of the federal credit enhancement program; more

