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Financing Charter Schools Through Bond Finance and P3



BNY MELLON

Financing Charter Schools Through Bond Finance and P3



Zeyu Zhang

Manager, Research & Technical Assistance
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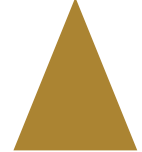
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CDFA // BNY MELLON DEVELOPMENT FINANCE WEBCAST SERIES:

Financing Charter Schools Through Bond Financing

Tuesday, May 16, 2023
2:00 PM - 3:00 PM Eastern

First Tryon Advisors
SIMPLIFYING PUBLIC FINANCE



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First Tryon Advisors specializes in project debt financing and related services for charter schools and other non-profit and governmental borrowers. We help organizations structure and secure flexible and low-cost financings. We are SEC and MSRB registered Municipal Advisors with a fiduciary duty to our clients and a 20+ year operating history.





SECTION I

Financing Options and Process

First Tryon Advisors
SIMPLIFYING PUBLIC FINANCE

FINANCING NEEDS

- Lease Buyouts
- Property Acquisitions
- New Construction
- Renovations and Improvements
- Equipment and Technology Upgrades
- Refinancings and Restructurings



BASIC FUNDING ALTERNATIVES

	Developer Lease Financing	New Markets Tax Credit (NMTC)	Community Development Financial Institutions (CDFIs)	Direct Purchase Bank Loan (Tax-Exempt)	Public Offering of Bonds (Tax-Exempt)
Best For	Startup and newer schools which are unable to secure more favorable financing directly for themselves	Any school. However, sophisticated financing structure limited to qualified projects (market area and/or students served)	Schools with several years of operating history and reasonably strong financial performance	<ul style="list-style-type: none"> Established schools with good credit quality Typically smaller financing need (< \$25MM); larger financings possible Borrower seeks lower cost financing, albeit with shorter term rate commitment Project satisfies lender’s typical LTV requirements Does not expect to have frequent or multiple financing needs 	<ul style="list-style-type: none"> Generally for more established schools (although credit quality varies widely) “Replication” and startup financing possible Ideal for larger financing needs or outside credit parameters of direct lenders Borrower seeks rate commitment with no refinancing risk Seeks Master Trust Indenture to support additional future financings
Term	3-7 Years (Short Term) 20-40 Years (Long Term)	7 Years	5-7 Years	5-15 Years	30-40 Years
Loan-to-Value Requirement	No	Sometimes (90-100%)	Typically 70-80%	Typically 70-80%. However, some lenders may not have appraisal requirements	None



TAX-EXEMPT FINANCING STRUCTURES

	Direct Purchase Bank Loan	Public Offering of Bonds
Rate Commitment Period	Generally up to 15 years. Slightly longer terms may be available for exceptional credits	Up to 40 years. 30-35 years more common
Amortization Period	Generally up to 30 years. Some banks limited to 25 years	Up to 40 years. Matches rate commitment period
Interest Cost	Fixed: 3.75-4.50% (15/30) Variable: SOFR + Spread (15/30) 5.25-6.00% Today	5.00-5.50% (BBB-/Baa3) 5.75-6.25% (BB+/Ba1) / 6.50%+ (Unrated) (Fixed for Full Term)
Interest Rate Swap	May be required by certain lenders in order to achieve a fixed rate	Not applicable
Financing Amount	Usually up to 75% of available security based on loan-to-value (exceptions possible)	Up to 100% of project costs
Prepayment Limitations	“Make-whole” for fixed rate. None for variable rate	7-10 year call protection
Appraisal Requirement	Usually Yes	Usually No
Transaction Costs	Approximately \$300-400,000	Approximately \$400-500,000 plus Underwriter’s Discount of \$7.50-12.50/Bond (typical for BB/BBB rated transactions)
DSRF Requirement	No	Yes (usually sized at Maximum Annual Debt Service or MADS)
Feasibility Based on Financial Projections	Generally, no. Must work based on historical financial performance	Yes
Credit Structure	Revenue pledge and usually a mortgage. “Negative pledge” may be available for exceptional credits	Revenue pledge and usually a mortgage. Revenue pledge only may be available for exceptional credits
Financial Covenants	Generally More Restrictive <ul style="list-style-type: none"> • Higher DSCR (1.15-1.25x) • Higher DCOH (90-150 days) or other liquidity test (e.g., Cash to Debt) • No/Limited Additional Debt Test (usually subject to bank consent) 	Generally More Liberal <ul style="list-style-type: none"> • Lower DSCR (1.00-1.10x) • Lower DCOH (45-90 days) • Flexible Additional Debt Test • Possible R&R Fund Requirement
Public Disclosure	No	Yes (ongoing)
Credit Rating	No	Yes (annual update)



CHARTER-SPECIFIC LOAN FUNDS



- ~\$1B of completed financings to date
- Long term (30 year) fixed rate loans intended to be “permanent debt” of the borrowing school
- 100% of project costs
- Average loan size \$20-30MM
- Targeting schools seeking interest cost savings vs. a typical public market alternative (savings optimized for low and below investment grade rated schools)
- No Debt Service Reserve Fund required

www.eqfund.org



- ~\$200MM of completed financings to date
- Fund managed by Civic Builders in partnership with the Walton Family Foundation
- Short term (5 year) fixed rate loans generally intended for construction financing and a school’s initial growth phase
- 90% of project costs
- Up to \$25MM loan size
- Targeting schools with historically limited access to affordable capital

www.fiflending.org

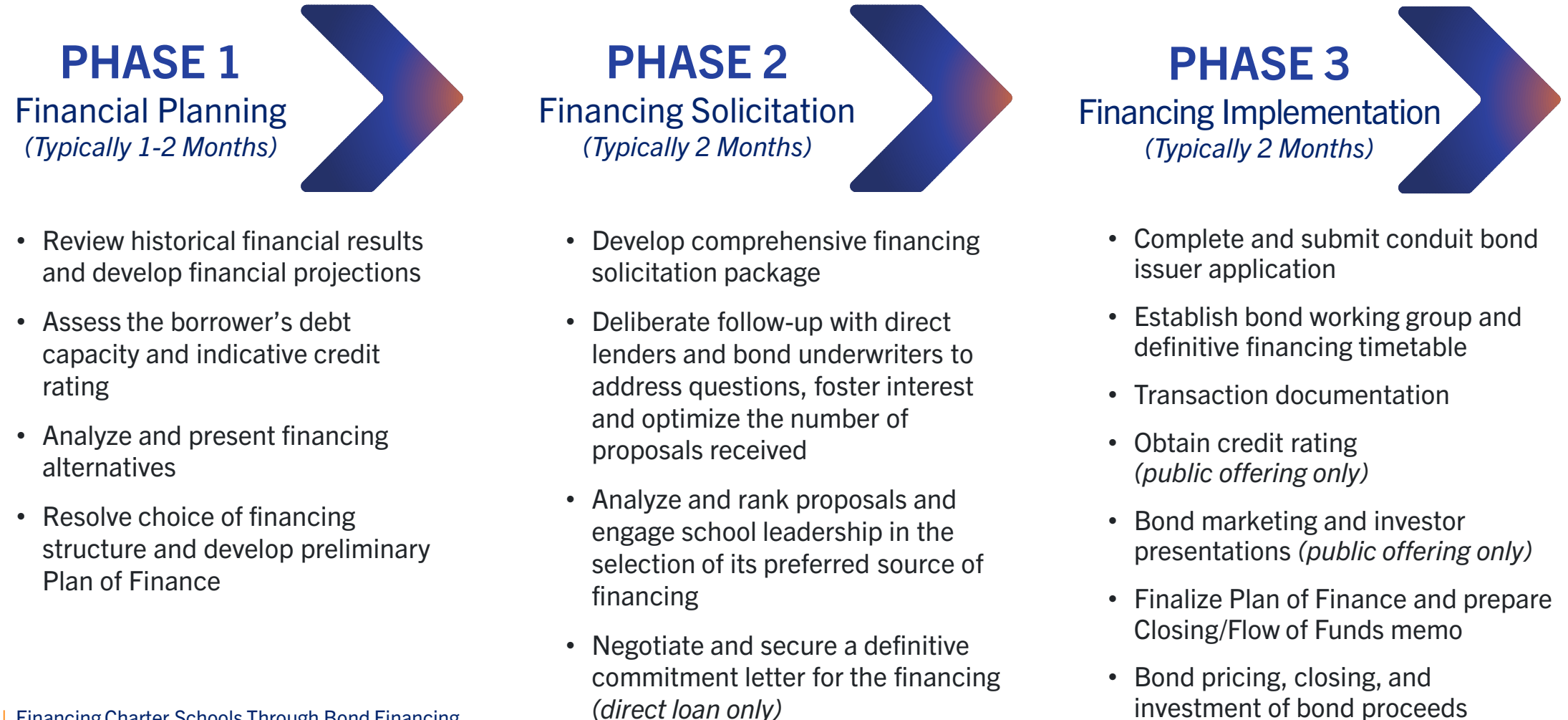


- Partners include the Walton Family Foundation, LISC and Reinvestment Fund
- Highly flexible short term (up to 7 year) loans for predevelopment, site acquisition, construction, and leasehold improvements
- Up to 110% LTV
- Up to \$2.5MM loan size
- Can be subordinate to resolve loan-to-value concerns of senior lender. Interest only to term if desired
- Targeting both proven and early-stage school operators with a focus on flexibility

www.levelfieldfacilitiesfund.org

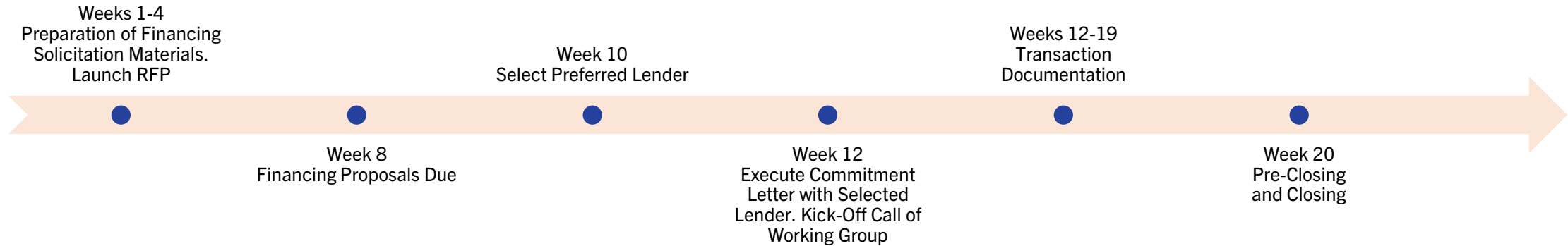


THE FINANCING PROCESS

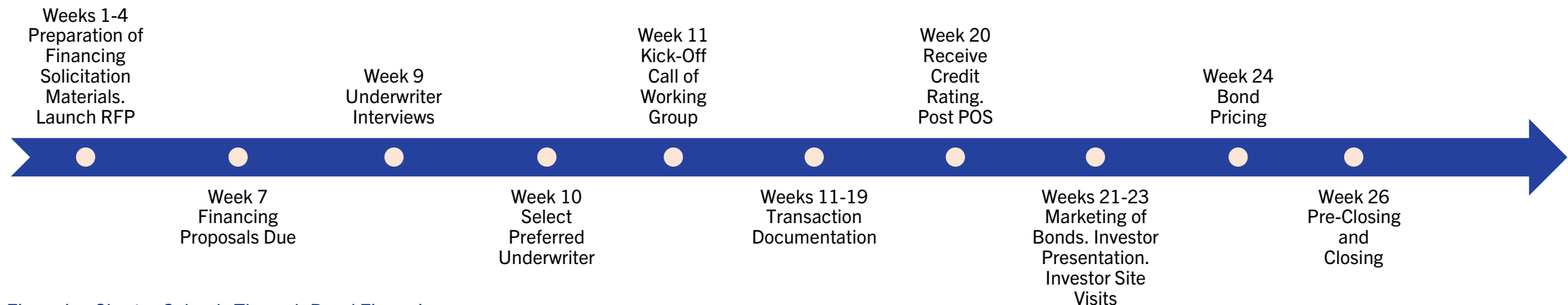


SAMPLE FINANCING TIMETABLES

Direct Purchase Bank Loan (Tax-Exempt) – 20 Weeks

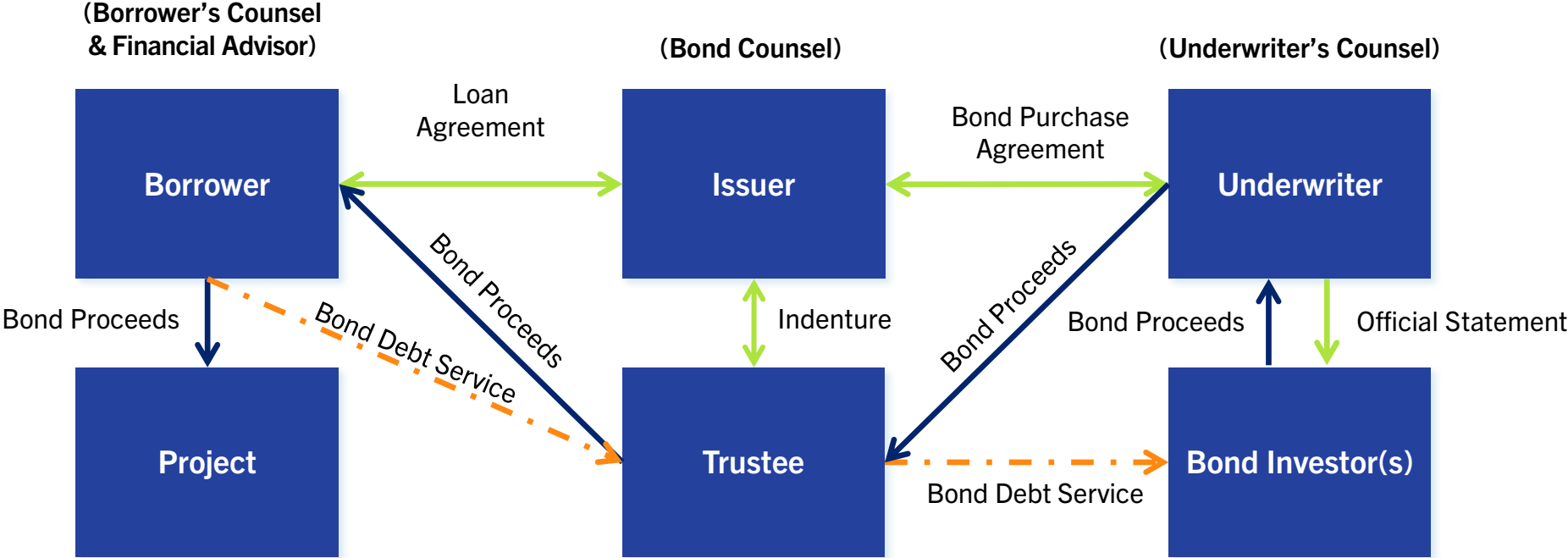


Public Offering of Bonds (Tax-Exempt) – 26 Weeks



PARTIES TO A TAX-EXEMPT FINANCING

Public Offerings of Bonds



Direct Purchase Bank Loans

- Same basic structure as above but no Bond Investor or Underwriter (replaced by Lender)
- Bond Purchase Agreement and Official Statement (or Limited Offering Memorandum) not required
- Some Issuers also do not require the involvement of a Trustee
- Debt service payments typically flow directly from the Borrower to the Lender





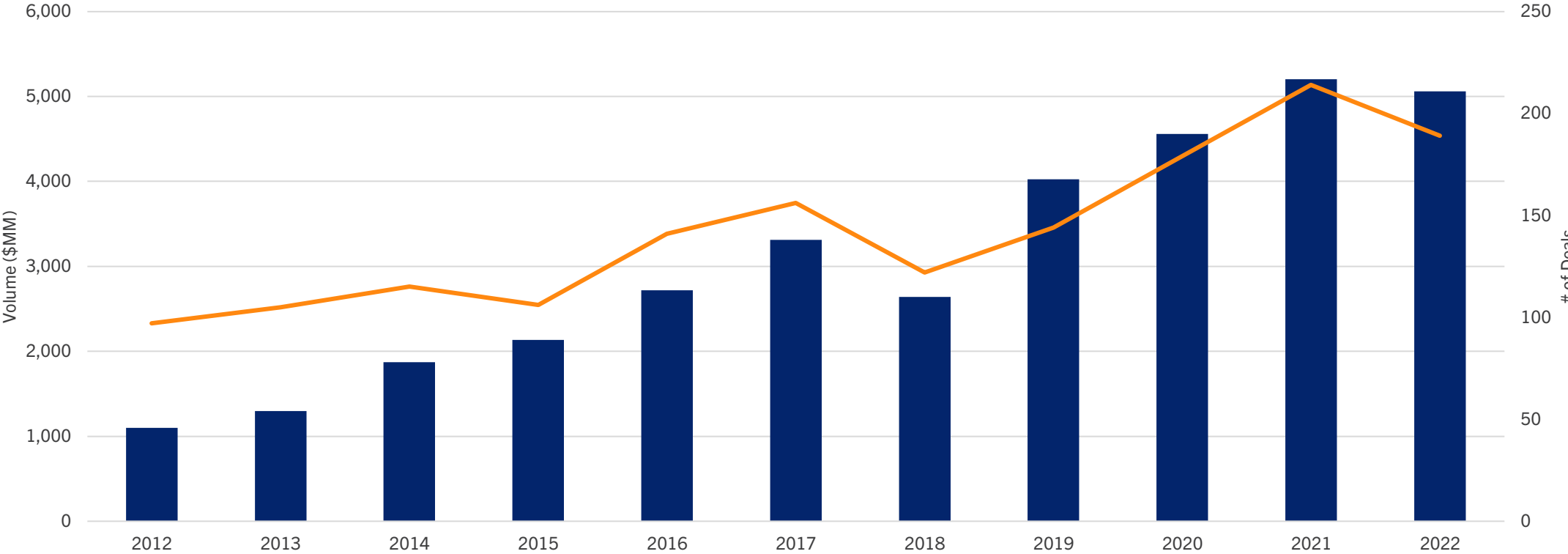
SECTION II

Market Data

First Tryon Advisors
SIMPLIFYING PUBLIC FINANCE

DEAL VOLUME

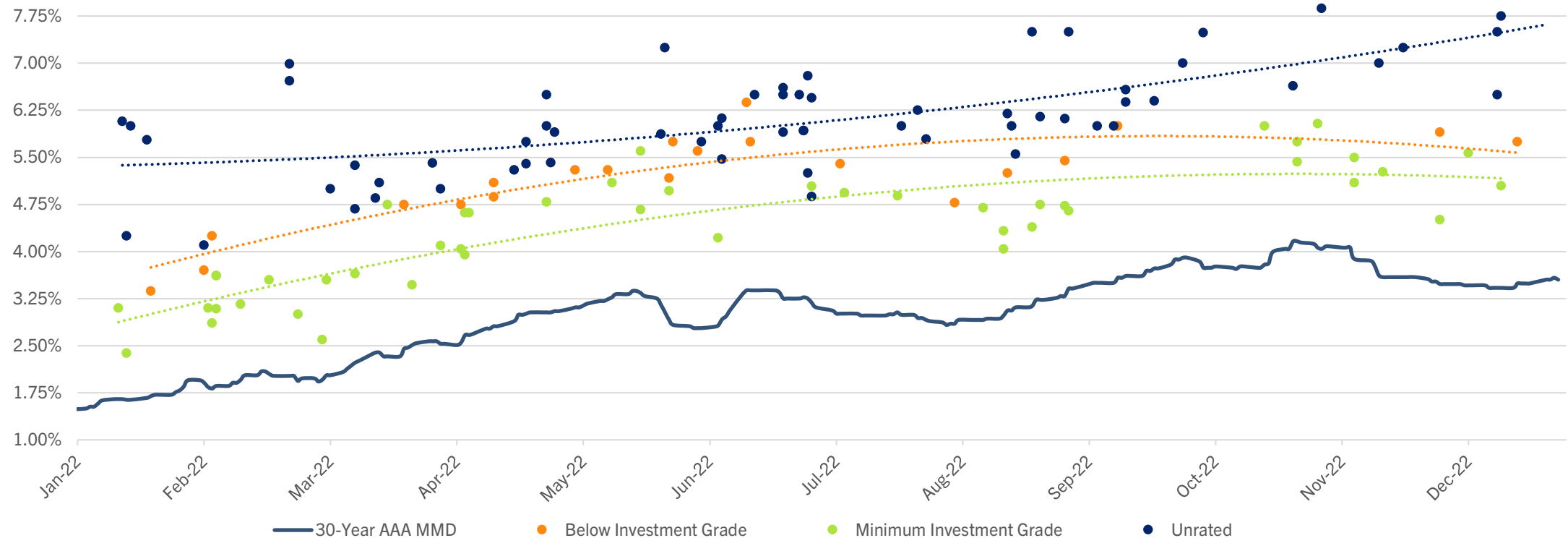
Despite higher rates, project cost escalation, and concerns that a recession might be coming, deal volume in the public capital markets in 2022 was over \$5B, down only slightly from the record-breaking year in 2021. However, volume in the first quarter of 2023 saw a precipitous decline. Only 16 public deals were completed in 1Q23 and volume (at ~\$310MM) was 25% of what it was for the same period in 2022.



WIDENING BORROWING COSTS

MMD (Municipal Market Data), the market standard index for public offerings of tax-exempt bonds, rose to a high of 4.16% at the end of October 2022 before stabilizing in the mid 3% range for the remainder of the year.

MMD remains in the mid-3s today. Rising benchmark rates combined with widening credit spreads contributed to higher borrowing costs for charter schools in 2022. Average rates over the course of the year increased by approximately 190 to 230 basis points depending on the underlying credit quality of the school.



THE 10 LARGEST FINANCINGS OF 2022

- 189 public bond issues were completed in 2022. The total par amount of all transactions was approximately \$5.1 billion, with an average par amount of \$26.8 million. The top 10 largest transactions contributed nearly \$1.5 billion (or 29%) of total par
- The following four transactions exceeded \$150 million in size:
 - IDEA Public Schools (TX) – AAA & A- rated issue sold by Baird and PNC
 - KIPP NYC (NY) – BBB- rated issue sold by Morgan Stanley
 - KIPP Texas (TX) – AAA rated issue sold by RBC, Baird, Truist and Oppenhemier
 - Equitable School Revolving Fund (AZ & CA) – A rated issue sold by RBC, Goldman Sachs, Morgan Stanley and Siebert Williams Shank
- KIPP networks claimed 3 of the largest transactions of 2022, totaling nearly \$450 million in par
- For the fourth time since its inception in 2019, Equitable Facilities Fund (EFF) issued bonds through the Arizona Industrial Development Authority and the California Infrastructure and Economic Development Bank for its Equitable School Revolving Fund (ESRF). The latest \$220 million ESRF financing benefitted over 40 charter school borrowers. ESRF expects a fifth public offering in the fall of 2023 (amount TBD).

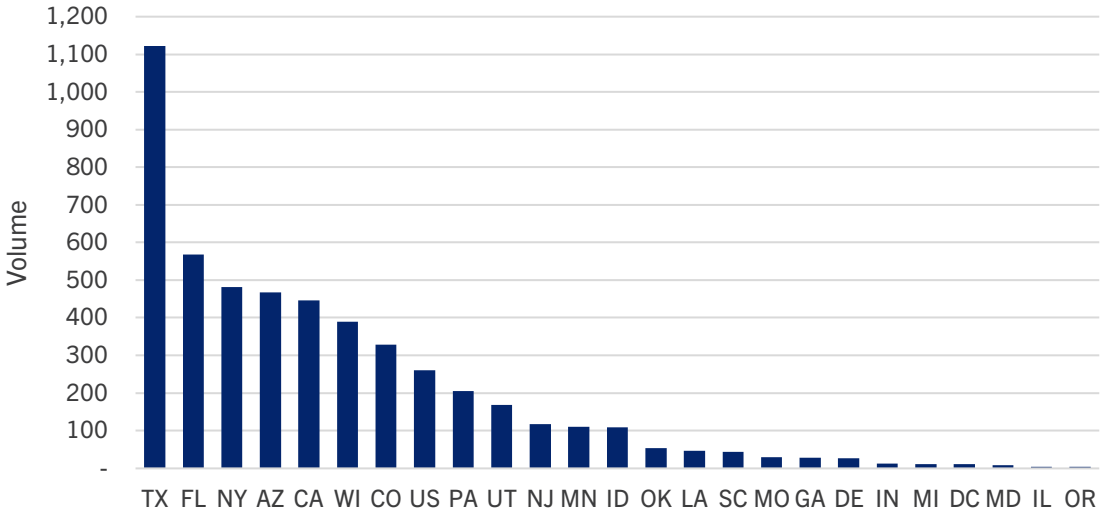
State	Date	Project	Par Amount
TX	1-Feb	IDEA Public Schools	\$266,485,000
AZ	30-Aug	Equitable School Revolving Fund	219,410,000
NY	5-Jan	KIPP NYC Public Charter Schools	209,295,000
TX	1-Mar	KIPP Texas Inc	156,355,000
TX	1-Apr	Riverwalk Education Foundation Inc	141,085,000
AZ	19-Sep	Meadow Oaks Education Foundation	129,295,000
FL	28-Apr	Mater Academy	114,405,000
TX	8-Sep	International Leadership of Texas Inc	108,865,000
CO	26-May	Colorado Early Colleges Aurora	88,130,000
NJ	15-Nov	KIPP Cooper Norcross Obligated Group	84,130,000
Total			\$1,451,570,000



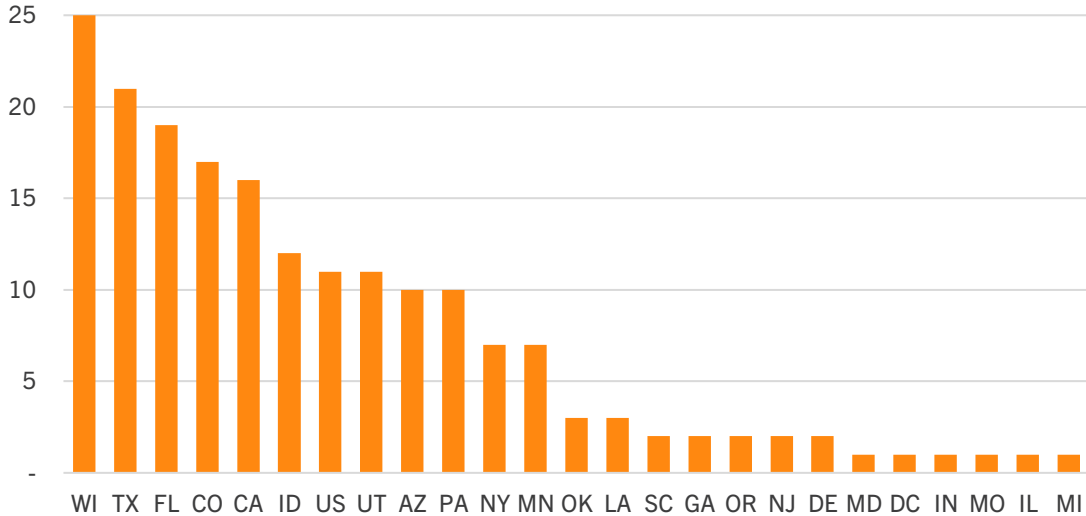
MOST ACTIVE STATES

- 23 states and the District of Columbia participated in the charter school bond market in 2022. The bulk of these issues were concentrated in Texas, claiming over \$1.1 billion in par, largely from sizable issues by IDEA Public Schools, KIPP Texas, Riverwalk Education Foundation, and International Leadership at Texas
- Certain of the most active states in 2021 (including Texas, Florida and Arizona) saw year-over-year decreases in deal volume. This was largely made up for by increased activity in New York, Colorado, Utah
- Wisconsin and Arizona hosted 36 transactions through its Public Finance Authority (PFA) and Arizona Industrial Development Authority (AZIDA), respectively. These conduit issuers served schools across several states – Arizona, Hawaii, North Carolina, New Jersey, New Mexico, Nevada, Ohio, and Tennessee

Transaction Volume (\$MM)



of Transactions



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Financing Charter Schools Through Bond Finance and P3

David Holmes

Associate Director
S&P Global

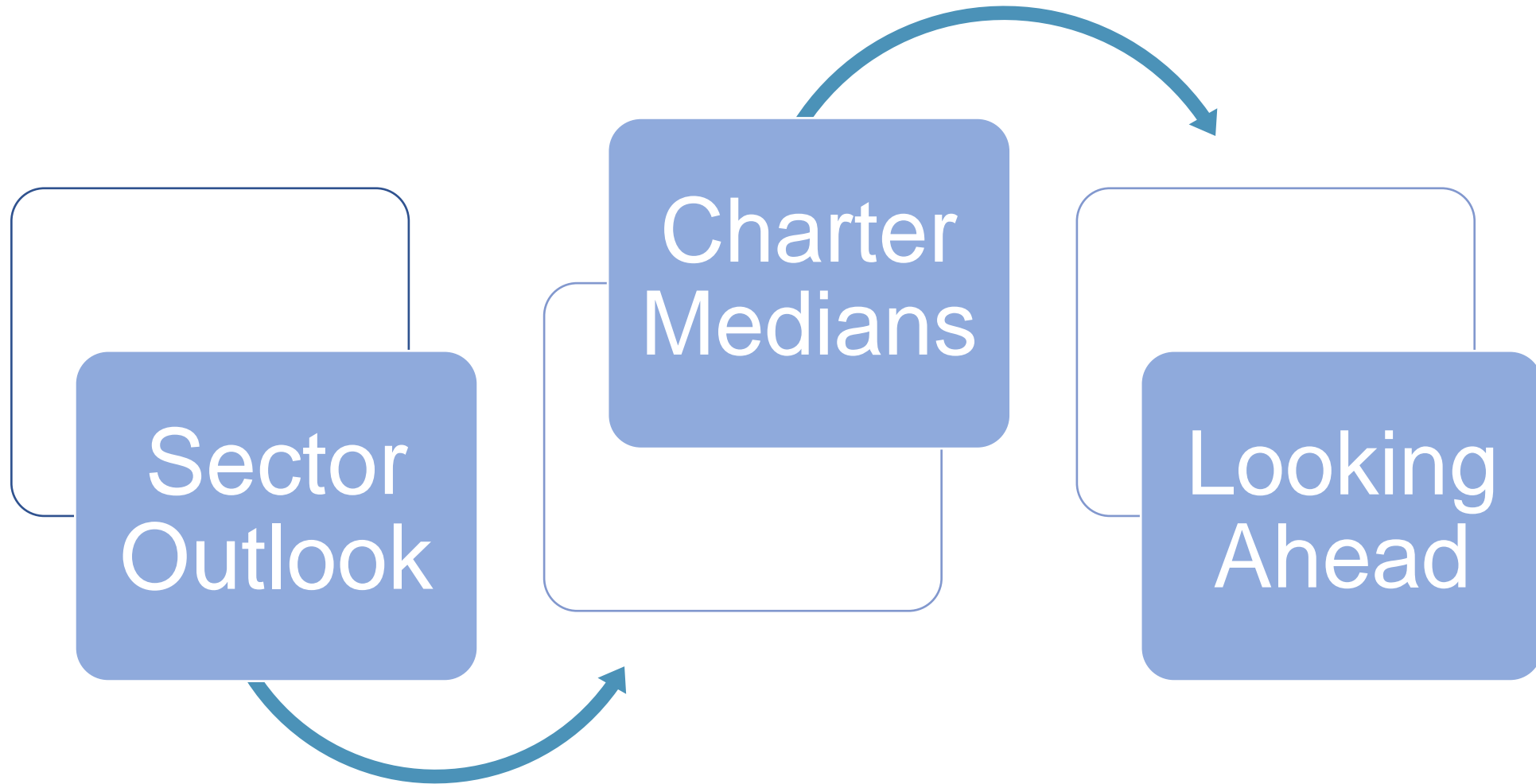


Charter Schools Ratings Trends & Outlook

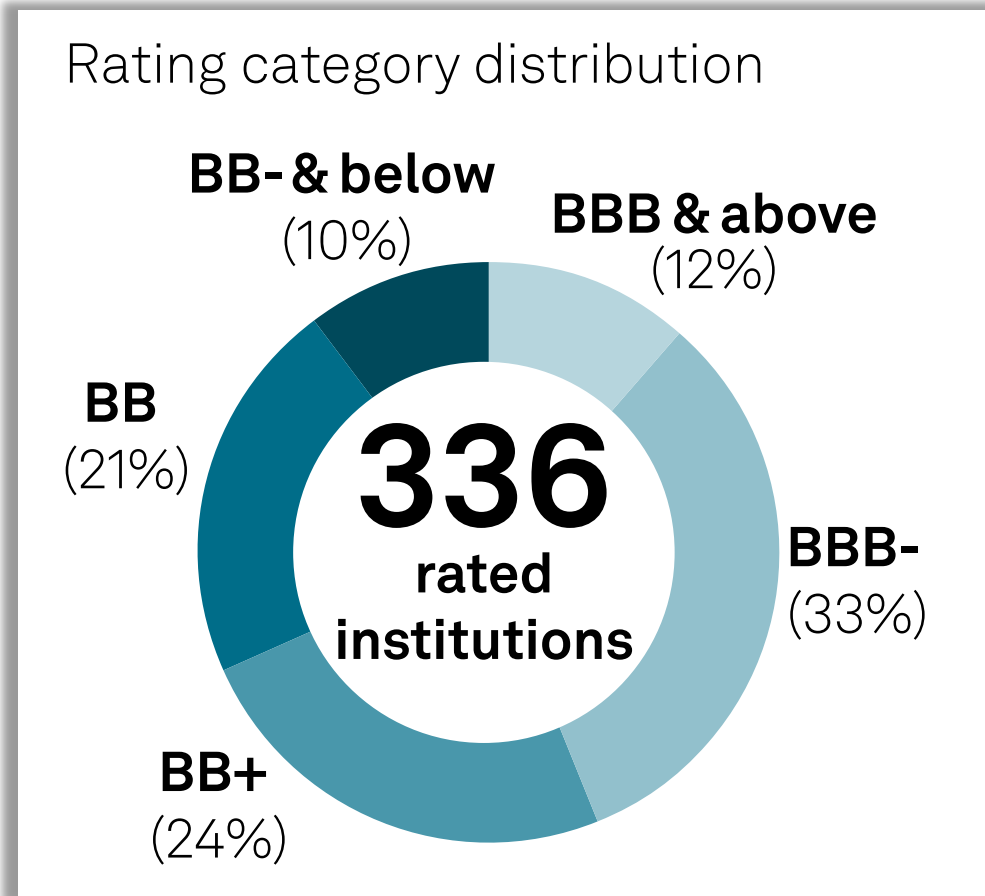
David Holmes, S&P Global



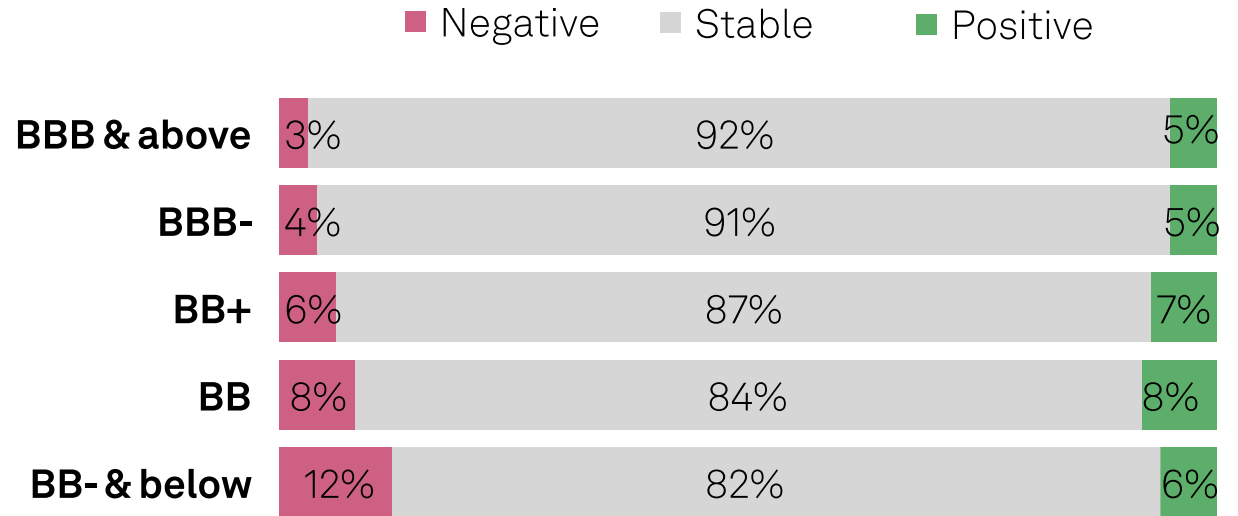
Agenda



Charter Schools | By The Numbers



Outlook distribution



1,085
Enrollment

141
Unrestricted DCOH

\$0.80
What the average charter school receives for every \$1 the average district school receives, creating an overall average shortfall of **\$3,064** per student

Source: S&P Global Ratings. Data as of December 31, 2022

Charter Schools | Stable Sector View for 2023

Charter school demand continues to grow, per-pupil funding levels are healthy overall, significant federal funds remain available, and we expect credit stability for states. These positives partly offset increased expense pressures, enabling the sector to enter 2023 with greater financial flexibility.

- Operating margin compression is possible in 2023--but not for all
- Post-pandemic enrollment continues to grow
- Extraordinary federal support remains available
- Outlook and rating actions point to stability in 2023

Charter Schools | 2023 Q1 Rating Actions



Total actions

13



Upgrades

6



Downgrades

3



2

New ratings



0

Outlook
revisions
to positive



1

Outlook
revisions
to stable



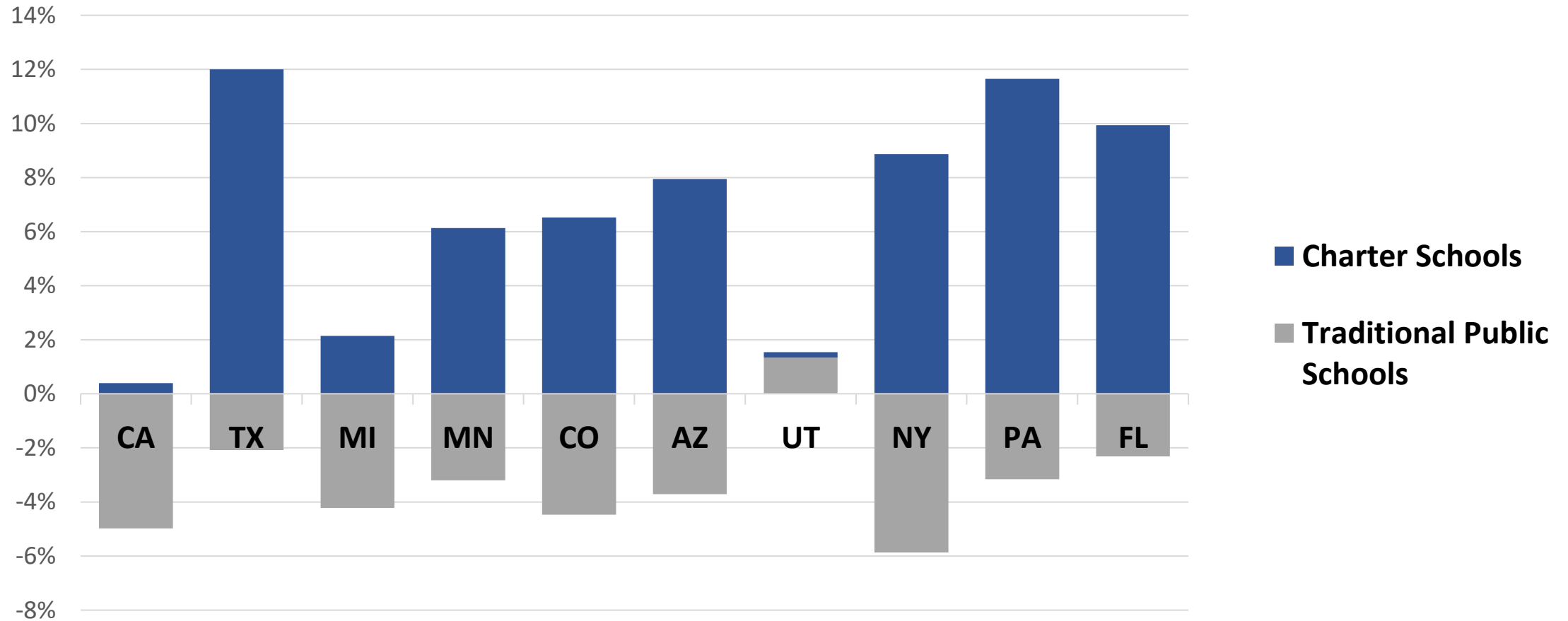
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Outlook
revisions
to negative

Source: S&P Global Ratings.
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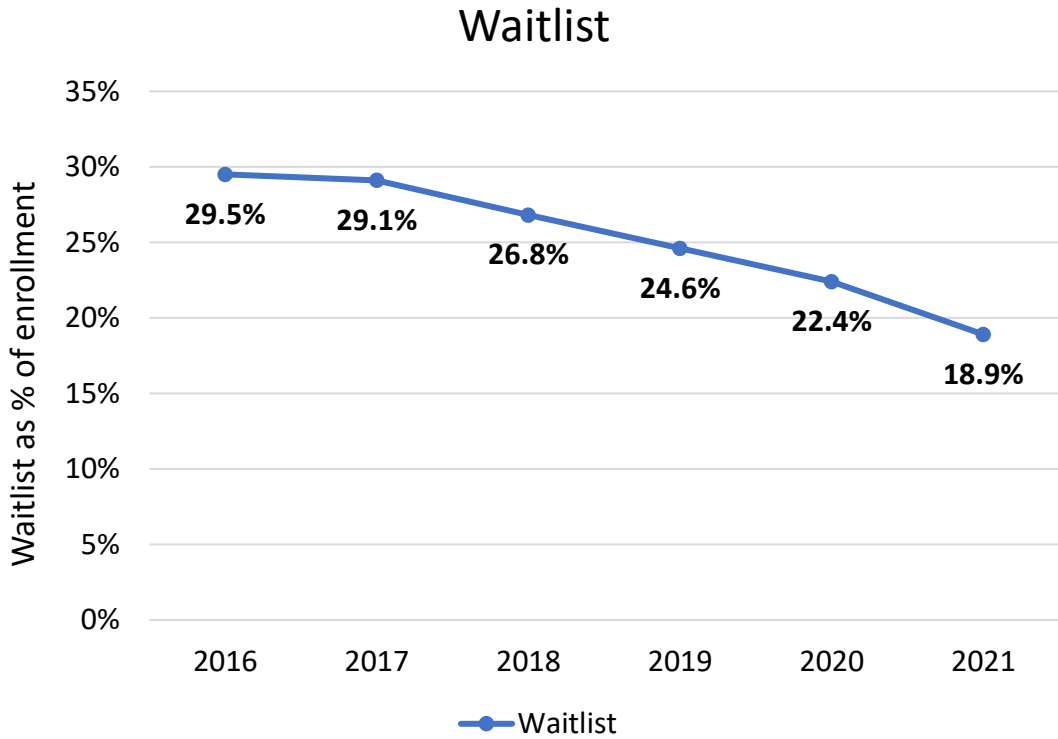
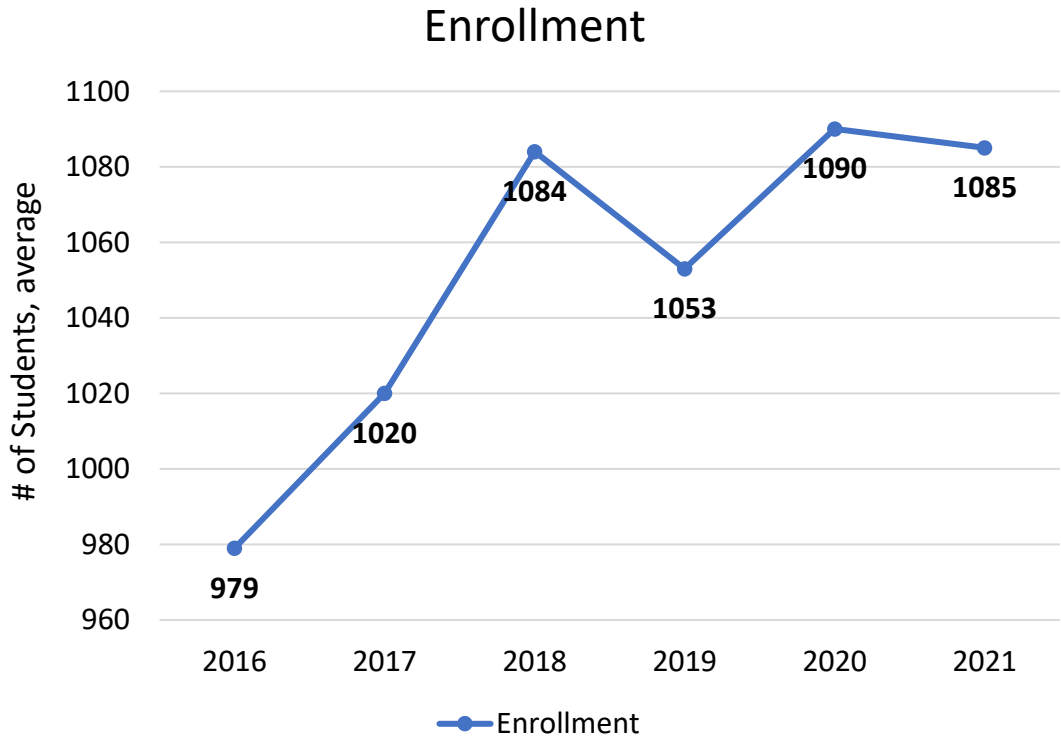
Charter Schools | Growing Charter School Demand

% Change in Public School Enrollment from Fall 2019 – Fall 2021



Enrollment growth data for top ten states by number of S&P Global charter ratings.
Data source: National Alliance for Public Charter Schools

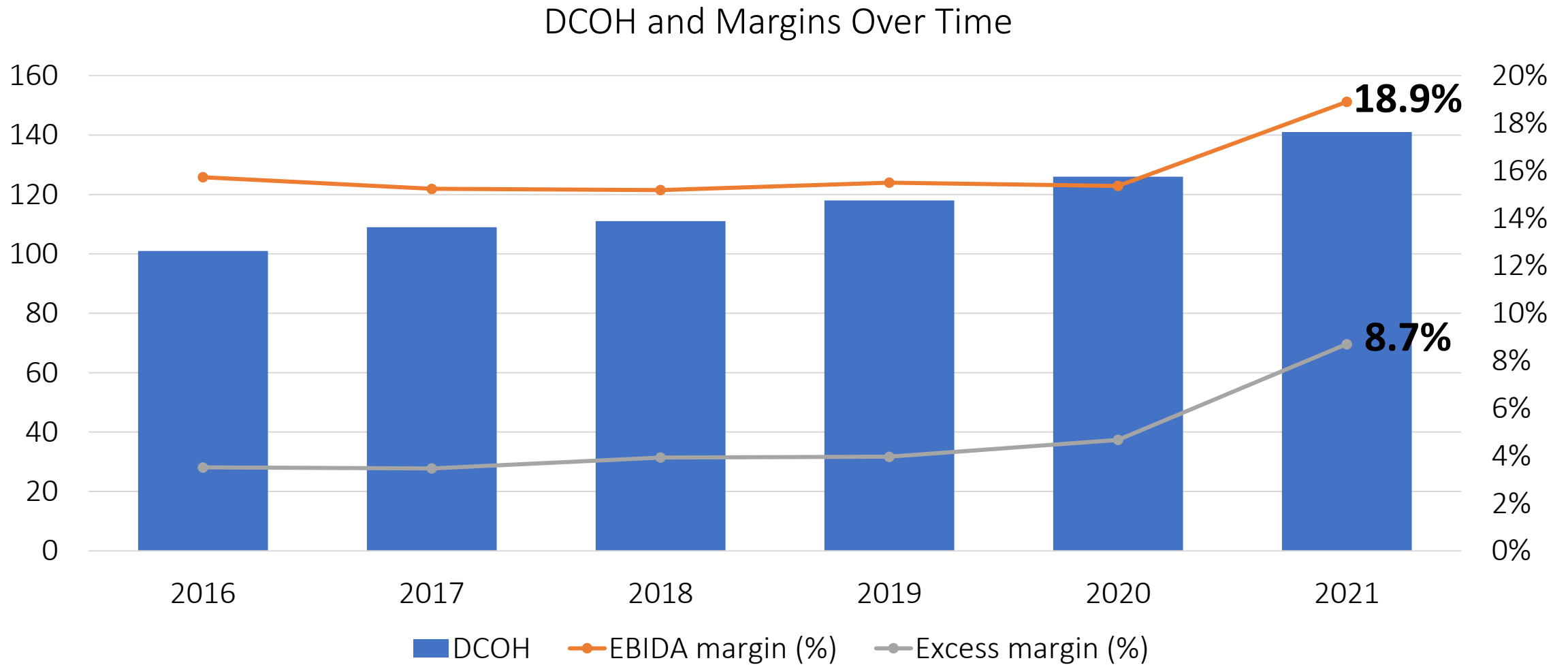
Charter Schools | Median Demand Trends



S&P Global, Charter Schools:
Fiscal 2022 Medians Webcast: June 15th

Source: S&P Global Ratings. Data as of December 2022.

Charter Schools | Median Financial Trends



Source: S&P Global Ratings. Data as of December 2022.

Charter Schools | What We're Watching



Inflation and recessionary pressures

Operating costs continue to rise or remain high and could challenge schools' budgets



Federal stimulus funding

Most schools have ample funds remaining, which bodes well for the near term



Enrollment and demand

Demand has been growing, but will this continue?



Labor shortages & relations

Teacher burnout, attrition, and acute labor shortages present operational challenges



Politics and legislation

Some midterm election results could influence school choice policies in 2023



State budgets

Funding levels for public K-12 have grown, bolstered by extraordinary federal aid. What happens when it's gone?



State testing & accountability measures

How will learning loss factor into testing? What will it mean for charter renewals and authorizer relations?



Event risks

Cyber breaches, management turnover, governance scandals, even weather events, can constrain operating flexibility

S&P Global | SPOs



For more information on S&P Global Ratings' SPO analytical approach, please contact:



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Director, Sustainable Finance
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alan.bonilla@spglobal.com

S&P Global Ratings: Use of Proceeds SPO (Second Party Opinion)

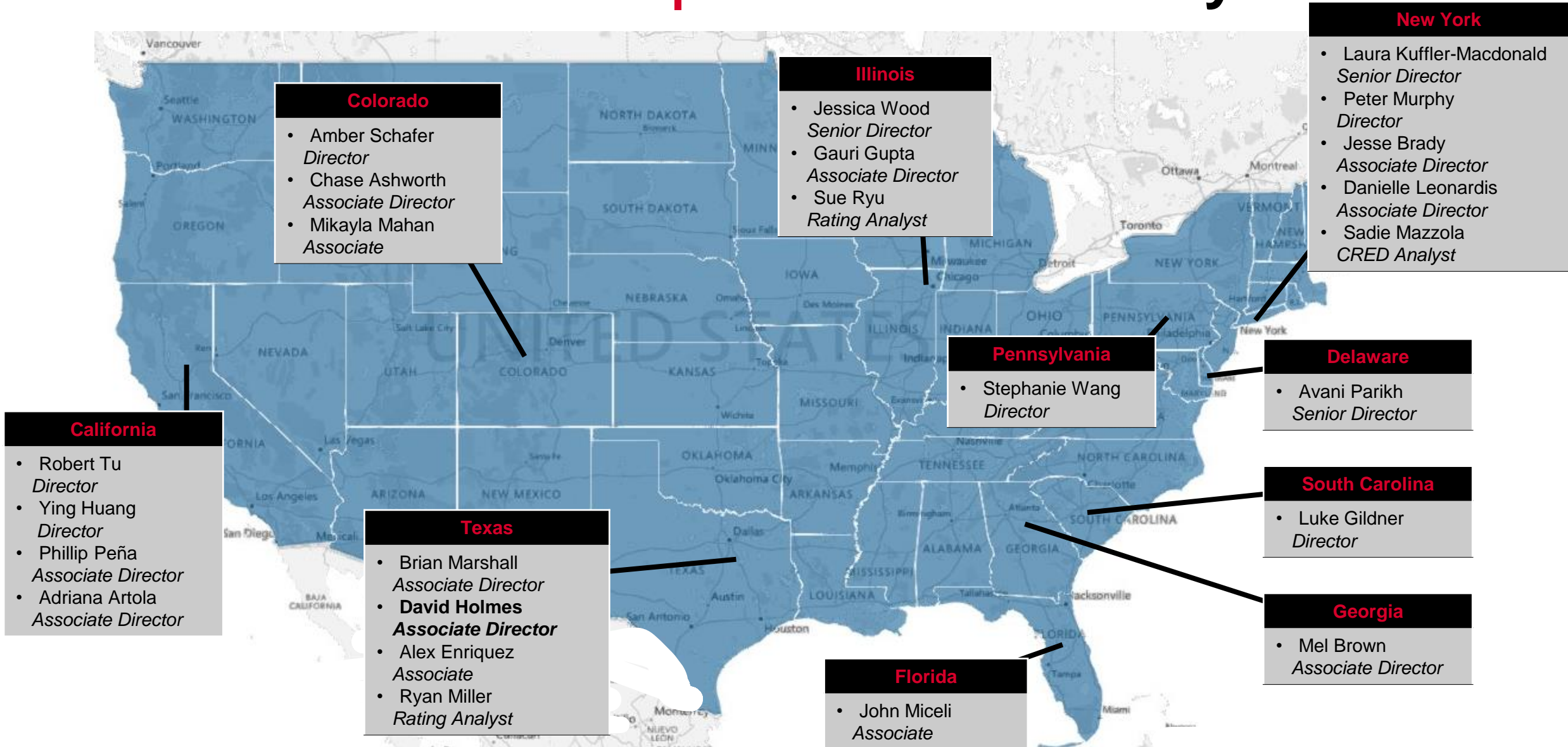
- Assesses a sustainable finance framework or transaction where the proceeds will be used exclusively to finance or refinance environmental or social projects against third-party principles, standards, and taxonomies.

With an SPO, issuers can:

- Demonstrate to stakeholders that their sustainability objectives are aligned to best market practices
- Obtain an independent opinion that delivers the transparency and rigor investors and lenders demand
- Map use of proceeds to the UN Sustainable Development Goals
- Navigate access to the public and private sustainable debt markets

**Case Study: East Harlem Scholars
Academy Charter School**

U.S. Charter Schools | Our Team of Analysts





Financing Charter Schools Through Bond Finance and P3



Kimberly W. Mooers

Executive Director
Rhode Island Health and Educational Building Corporation

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Financing Charter Schools Through Bond Finance and P3



May 16, 2023

What is RIHEBC?


- ▶ Rhode Island Health and Educational Building Corporation.
- ▶ Quasi-state agency that issues tax-exempt bonds on behalf of private and public educational institutions, healthcare entities, and other not-for-profits.
 - Quasi = created by the state but governed by an independent board of directors, and services and operating expenses funded by fees collected.
- ▶ Bond proceeds are used for mission critical construction projects and school construction and renovation.



Summary of RIHEBC Charter School Activity

- ▶ RIHEBC has issued over \$197 million in tax-exempt bonds on behalf of 17 different RI charter schools.
- ▶ Largest transaction: Achievement First of RI (\$70 million)
- ▶ Smallest transaction: Paul Cuffee School (\$3 million)
- ▶ See next page for a sampling of RIHEBC/Charter School bonds.

A Sampling of RIHEBC's Charter School Bond Issues

 <p>PAUL CUFFEE SCHOOL A Maritime Charter School for Providence Youth</p>	 <p>Trinity Academy for the Performing Arts – 5/31/2019: \$6,500,000 – Purchase the land and building to house grades 7-12</p>
 <p>Blackstone Valley Prep – 10/26/2022: \$12,760,000 – Finance the purchase of the Upper Elementary School in Lincoln and the Junior High School in Central Falls</p>	 <p>Blackstone Valley Prep – 4/26/2019: \$16,000,000 – Finance the acquisition of the 40,000 square foot high school facility being leased prior to the purchase</p>
 <p>Achievement First Rhode Island – 4/7/2022: \$70,950,569 – Finance the purchase and renovation of the building that houses Achievement First Iluminar plus a new building to house Achievement First Providence High School</p>	 <p>Achievement First Rhode Island – 1/31/2019: \$9,500,000 – Fund capital improvements at the Achievement First Providence Mayoral Academy Elementary and Middle Schools and the future home of AF Iluminar; refinance existing debt</p>
 <p>Blackstone Valley Prep – 3/5/2021: \$15,955,000 – Finance the purchase of 52 Broad Street in Cumberland and refinance existing debt for prior purchase and improvements</p>	 <p>TIMES² Academy – 10/8/2014: \$11,130,000 – Refinance the outstanding principal balance of the Series 2004 bonds</p>
 <p>The Compass School – 10/4/2019: \$3,850,000 – Finance the conversion of a historic barn into a middle school</p>	 <p>The Compass School – 6/28/2011: \$2,000,000 – Purchase 20 acres of land including 7 acres on which the currently leased school building is situated plus improvements to facilities on land</p>
 <p>Kingston Hill Academy – 8/21/2019: \$6,200,000 – Finance school expansion project and refund the School's portion of the 2004A bonds</p>	 <p>The Learning Community Charter School – 2/28/2008: \$4,000,000 – Finance capital improvements to school facilities; refinance debt</p>

Bonds for Charter Schools in RI

- ▶ All of RIHEBC's charter school bonds were direct placements.
- ▶ Most direct placement purchasers are banks with a local presence who are invested in the community.
- ▶ Recently, EFF (Equitable Facilities Fund) has been a direct purchaser in RI:
 - ▶ Mission is to empower high-impact public charter schools to grow and thrive.
 - ▶ Purchase the bonds then securitize them on a national level to recapitalize.

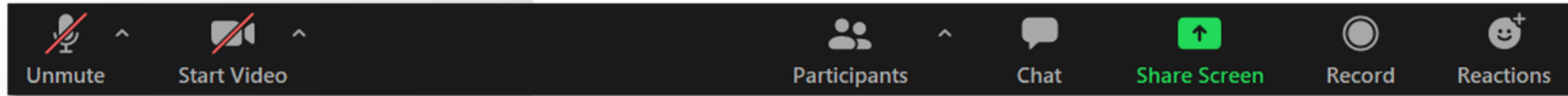


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- ▶ Social media
 - LinkedIn -- Rhode Island Health and Educational Building Corporation
 - Twitter -- @RIHEBC1
- ▶ Contact – Kim Mooers, Executive Director
 - ▶ kmooers@rihebc.com
 - ▶ 401-831-3770 x107



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2023 Equitable Lending Learning Series: Evaluating Risk

May 23, 2023 // 1:00 - 4:00 PM Eastern

SSBCI Coalition Meeting

May 26, 2023 // 1:00 - 2:00 PM Eastern

Intro Tax Increment Finance Course

June 14-15, 2023 // 12:00 - 5:00 PM Eastern

Contact Us



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