Credit Enhancement Webinar Series:

Collaborations to Enhance Facility Financing

About the National Charter School Resource Center

- Funded through the U.S. Department of Education
- Makes accessible high-quality resources to support the charter school sector

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Presenters

National Charter School Resource Center:

***Mary Ann Spracher**, Technical Support Lead at Safal Partners*

U.S. Department of Education:

***Clifton Jones**, Program Officer for Credit Enhancement Grants, Charter Schools Program*

Independent Consultant:

***Jim Ford**, President Ford Research & Solutions, Inc.*

Agenda

- **Introduction — Clifton Jones**
- What do we mean by Collaboration? — Jim Ford
- Types of Collaborations — Jim Ford
- Poll Question
- Collaboration Type Features & Share Outs — Jim Ford
- Poll Questions
- Questions and Comments

Introduction 1 of 2

City-wide collaboration among:

- Lenders
- Philanthropy
- Authorizers
- Charter Support Organizations

Introduction 2 of 2

Efforts to improve financing opportunities continue to be an attractive idea across the nation-What is the typical size of a board?

- What factors have made those collaborations effective?
- What factors have made them more difficult than expected?
- What can we learn from prior experience?
- How can the Department help support the development of solutions for the difficulties?

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How are we Defining Collaboration?

Very simply:

"Any partnering of entities (including one or more CE recipient(s)) with a city, state, regional, and/or national focus that creates more charter school facility financing options and opportunities for operators ranging from newbies to seasoned to scaling to scaled."

- *Please note that entities refers to traditional lenders, CDFIs, and a broad class of providers and partners(including government agencies, philanthropy, developers, and operators).*

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Types of Collaborations We Are Discussing Today

1. Multiple entities working together — not just CDFIs or other CE grantees — with focus on a particular city, geography, state, or region
2. Collaborations between CE recipients and branches /agencies of local or state government
3. CDFI and other entities working together on project-by-project collaborations
4. Unique or hybrid collaborations engendered by CE recipients that are not direct capital providers (or conduits) per seEvaluate and hold the school leader accountable

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POLL: Have you ever participated in any of these types of collaborations? Select all that apply.

1. Multiple entities working together *with a specific geographic focus*
2. CE recipients working with branches/agencies of local or state government
3. CDFI and other entities working together *on project-by-project* collaborations
4. Unique or hybrid collaborations engendered by CE recipients that are not capital providers or conduits per se

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Type 1 — Characteristics & Features

Multiple entities working together with a specific geographic focus. Collaborators may include, but not be limited to:

- National philanthropy
- Local philanthropy
- School District(s), Municipalities, State Department of Education, Other State Agencies
- Facilities Developers
- District Charter School Compact Members (Operators)
- Charter Authorizers
- Traditional financial institutions, CDFIs, Capital Services Providers
- CSOs, State Charter Associations, or Other Advocacy Organizations

Type 1 Example — Participant Share Out (1 of 3)

Project: Central Falls District Charter Compact

- National philanthropy
- Target Geography: Central Falls School District, RI
- Primary Collaborators: Bill & Melinda Gates Foundation, Civic Builders, Five/Six Charter School Operators / Compact Members, Central Falls District Schools
- Target # of Projects: 5 to 7
- Projects Completed To-Date: 2
- Project Collaborators: Blackstone Valley Prep *(BVP) ES2*: Boston Community Loan Fund, Eastern Bank, and US Bancorp Community Development Corporation; *BVP MS1*: Boston Community Loan Fund, US Bancorp Community Development Corporation
- Project Details: Foundation PRI loan to Civic Builders invested onward as project equity. This PRI is matched with Civic generated equity capital. Leverages senior lender(s) and NMTCs. Developer mitigates construction risk. Planned take out by school post NMTC compliance period.
- Use of CE’s: To attract senior capital.

Type 1 Example — Participant Share Out (2 of 3)

Project: Building Hope Charter School Facilities (Fund)

- Target Geography: State of Idaho
- Primary Collaborators: The JA and Kathryn Albertson Foundation, Building Hope, the Idaho Network of Charter Schools;
- Target # of Projects: 25
- Projects Completed To-Date: 5
- Other Project Collaborators: Vectra Bank
- Project Details: Foundation PRI loan to BH invested onward as low cost debt. This PRI can be matched with BH credit enhancements. Also allows for renegotiations of distressed properties
- Use of CE's: To engage philanthropic funds, to attract senior debt, and/or to blend down total costs (terms) for operators in a low funded state, to educate state agencies of possibilities, to generate interest in sector growth

Type 1 Example — Participant Share Out (3 of 3)

Building Hope/CSDC Developer-Specific Credit Enhancing

- Non-profit Joint Venture Development with Foundation Support
  - Project description and location: San Antonio. New school (first for Carpe Diem in the market) as part of the Choose to Succeed strategic growth plan for the city
  - Collaborators (and nature of participation)
    - Senior lender or capital provider: Local Bank
    - Foundation (PRIs): Choose to Succeed Partners (Ewing Halsell Foundation and George A. Brackenridge Foundation), Walton Family Foundation
    - CSDC credit enhancements
    - BH Equity
  - Pilot for a place-based solution (Local foundations were impressed with Idaho model
- Benefits to Operator (and local foundations supporting growth): Significant cost savings vs for-profit development model

Type 2 — Characteristics & Features

Collaborations between CE recipients and branches or agencies of local or state government commonly involve some or all of the following entities:

- State Departments of Education and Other State Agencies
- State Finance Authorities (or Conduits)
- Mayor’s Office and/or Other Municipal Executive Branch Agencies
- Local Philanthropy
- CDFIs
- Authorizers
- Incubator Organizations, Charter School Organizations, and State Charter School Associations

Type 2 — Participant Share Out (1 of 2)

Target Geography: Indianapolis and Indiana State

- Primary Collaborators: Charter Schools Development Corporation, IFF, Indianapolis Mayor's Office of Education and Innovation, Indiana State Department of Education, Indianapolis Public Schools/Indiana Department of Education, the Mind Trust, and local philanthropy State Finance Authorities (or Conduits)
- Vehicles: Indianapolis Building Block Fund and Indiana Charter School Facilities Loan Fund
- Vehicle Specifics
  - Indianapolis Building Block Fund (capitalized at $2M by the U.S. Department of Education's Credit Enhancement program and specifically dedicated to providing credit enhancements to charter schools sponsored by the Indianapolis Mayor's Office); and
  - Indiana Charter School Facilities Loan Fund (capitalized at $3.4M by the Indiana Department of Education State to leverage over $12 million in loans ranging from$10K to $1.5M)
- Total Projects Completed To-Date and Pending: 15 or more
- Project Sites: Indianapolis, Gary, Porter, South Bend, Anderson, East Chicago, Columbus and Richmond
- Use of CE's: To attract and leverage senior subordinate debt, leasehold improvement loans or lease guarantees

Type 2 — Participant Share Out (2 of 2)

Project: Charter School Incubator Initiative: Joint Venture Between Building Hope and DC State Dept. of Ed (OSSE)

- Target Geography: District of Columbia
- Primary collaborators: OSSE, Building Hope DC Mayor's Office/DCPS, Walton Family Foundation
- Target # of projects: 20
- Projects Completed To-Date: 12
- Other Project Collaboraters: Bank of America
- Project Details: Non-profit JV brings OSSE credit enhancements, BoA senior loans, WFF sub-debt, and BH development services together to improve/renovate DCPS vacant facilities
- Use of CE's: To attract senior debt to leasehold improvement loans, to encourage philanthropic participation, to elicit working relationships with other DC government agencies

Type 2 Examples

Target Geography: Massachusetts

- Primary Collaborators: MASS Development and the Massachusetts Charter School Loan Guarantee Fund
- Vehicle: Through the Massachusetts Charter School Loan Guarantee Fund, Mass Development provides guarantees (in the form of CE's) for bank loans or tax-exempt bonds financing the acquisition, construction, or renovation of owned or leased charter school facilities located in Massachusetts.
- Targets: New and established charter schools school facilities and equipment purchases financing needs.
- Project Collaborators: TD Bank North, CSDC, and East Boston Savings Bank.

Other State Recipients and/or Collaborations:

- California (CCSA vis-à-vis the CA School Finance Authority)
- Michigan (via the Michigan Public Education Finance Authority)
- Texas (via the Texas Public Finance Authority),
- Texas (via the Texas Public Finance Authority)

Type 3 — Characteristics & Features

CDFI and Other Entities engaging in *project-by-project collaborations* that may be characterized by:

- Multiple CDFI's and/or other lenders combining senior and subordinated capital, CE's, and other tranche capital (including national or local philanthropy) to make complicated deals work, to share risk, or to overcome lender concentration limits.
- New Markets Tax Credits provided by one or more collaborating entities, infused by additional subordinate debt, CE's, or other lender tool-box remedies to ensure affordability and sufficient risk mitigation.
- CE infusions to non-rated bond transactions to reduce investment risk and ensure placement/purchase.

Type 3 Example — Participant

CDFI Collaborations

Project: Wissahickon Charter School – Awbury Campus, Philadelphia, PA

- Primary Collaborators: The Reinvestment Fund, Nonprofit Finance Fund, JP Morgan Chase, School and Local CDC
- Deal Structure:
  - $12.5M NMTC from TRF; $3.5M JP Morgan Chase
  - Investor / Equity Provider: JP Morgan Chase $5.2M
  - School/CDC Equity: $1.1M
  - Leverage Debt: $10.2M TRF-led: $6.7M from TRF and
  - $3.5M by NFF
  - Grant Bridge Loan: TRF $2.5M (from PA Redevelopment Assistance Capital Program)
- Use of CE's: To support a subordinate loan to fill financing gap and to be able to execute a somewhat complicated transaction

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Type 3 Examples (1 of 2)

- Primary Collaborators: Nonprofit Assistance Fund (a local CDFI), the Minnesota Business Partnership, CSDC, and LISC
- Nature of Collaboration: To provide advance financing commitments to enable the metro area's highest performing, home-grown CMO, Hiawatha Academies, to open three more schools. CE's leveraging senior and subordinate capital.

Location: New Orleans

- Primary Collaborators: Walton Family Foundation; CSDC; Bank of America; Hope/Enterprise, and Building Hope
- Nature of Collaboration: Senior financing to acquire and develop a permanent site for a free standing charter school in Orleans Parish from Bank of America, with subordinate debt from Hope/Enterprise, Building Hope, and Walton Foundation PRI, and credit enhancements from Hope/Enterprise, Building Hope, and CSGF.

Type 3 Example (2 of 2)

Location: Brooklyn, New York

Project: Brownsville Ascent Lower Middle Schools (Pitkin Theatre)

- Primary Collaborators: Goldman Sachs Urban Investment Group, SeedcoFinancial Services, Nonprofit Finance Fund, Jonathan Rose Companies, and the Carver Community Development Corporation
- Project Details: $42M financing for complete renovation of historic building (7 stories, 90,000 sq. ft.) to accommodate (eventually) a K-12 program and ground floor retail tenant

Type 4 Example — Characteristics & Features

KIPP Foundation Credit Enhancing

- Program Targets/Beneficiaries: Less Mature or Less Funded Regions or Schools attempting to finance / refinance acquisition or improvements of permanent campus sites
- Primary Collaborators: KIPP Foundation, Traditional Financial Institutions, CDFI's, National and Local Philanthropy, KIPP Regions and Schools
- Number of Transactions Per Year: 1 to 2
- Use of CE's: To attract senior (and subordinate) capital and incentivize workable financing terms; to satisfy covenants that would otherwise compromise regions' liquidity / operating cash; serve to enhance lender collateral especially in early years when school enrollment is still filling in; can serve to fund debt service reserves, cure LTV shortfalls (thereby preserving school cash), act as letter of credit / security deposit in leasehold situations, etc.
- Benefits of CE Deployment Strategy: Provides less mature or less funded regions more equal footing in negotiations with prospective banks /funding sources; can cure fundamental obstacles to financing and growth, allowing regions to grow enrollment and revenue, thereby strengthening overall balance sheet of region; with stronger balance sheet, regions can ultimately access different types of financing (including the capital markets that may underwrite permanent, system-based financings)

Type 4 Example — Participant Share Out

KIPP Foundation Credit Enhancing

- Example 1 KIPP Region: KIPP Charlotte
  - Project Total Project Needs - $2,167,000 for Refinancing of KIPP Charlotte Middle School Campus
  - Deal Participants and Contributions: BB&T and KIPP Foundation
  - KIPP Foundation – Credit Enhancement in the amount of $330,000
  - Use of CE's: To Help Cure Bank's 85% LTV test and Appraisal Outcome, Mitigating Equity Shortfall of $482,000 for Cash-Strapped School, Enabling BB&T to lend an "extra" $297,000
- Example 2 KIPP Region: KIPP San Antonio
  - Project Total Project Needs - $3,445,000 for Acquisition for future KIPP San Antonio grade 6 -12 Campus
  - Deal Participants and Contributions: Frost Bank and KIPP Foundation
  - KIPP Foundation – CE's in the amount of $250,0000
  - Use of CE's: Served to fund environmental escrow fund for benefit of lender to protect against any future potential unfunded soil remediation; allowed growing region to (1) opportunistically close on deal for future campus; and (2) preserve cash during growth period

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POLL: How Does the CE Program Promote Collaboration? Select all that apply.

1. By leveraging senior and subordinate debt, and/or to offset limited lender capital or factors such as concentration limits
2. By reducing and/or spreading risk (and facilitate cobbling together deal structures and terms acceptable to all parties)
3. By addressing gaps/ requirements re: LTV/equity, restricted reserves, escrow, etc. and/or to minimize drain on operator cash outlay
4. By attracting philanthropic capital, fostering partnerships with government entities, or supporting state finance authority (or conduit) bond issuances

POLL: Which, If Any, of the Following Challenges to Collaborating Have You Encountered That CE's Cannot Fully Address? Select all that apply.

1. CEs may attract and leverage capital stacks but do not always result in terms/pricing desired or affordable by operators
2. Specific lender credit requirements, different underwriting approaches, and challenges re: first lien, subordination, "skin in the game" etc.
3. Lack of subordinate capital in some markets
4. Ensuring operators have viable refinancing exit strategies
5. Risk aversion
6. Need for philanthropic infusions

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OTHER QUESTIONS FROM JIM FORD (1 of 3)

- Ongoing collaborations were once somewhat common between CE recipients (especially CDFIs) and traditional, significantly-sized financial institutions. There seem to be fewer of this collaborations than in the past, though more project-by-project collaborations.
  - Is this observation accurate?
  - **Is this an** inevitable **market driven trend?**
- If CE collaborations slowed down since 2008 because of the general market economy (and stressed public education budgets – ala CA and MN), do you expect an increase in the near term (based on borrower need or other factors)?
  - If more of these collaborations are desirable, how, if at all, could the CE Program incentivize this?

OTHER QUESTIONS FROM JIM FORD (2 of 3)

- Capital providers (especially CDFIs) sometimes spend a lot of time working with operators / borrowers to plan for refinancing exit strategies. But some entities also have created their own exit strategies, specifically to be able to recoup/recapitalize previously issued financing, by selling seasoned paper to traditional financial institutions or other investors?
  - How many of you have relationships such as this, and are they increasing or decreasing?
  - In addition to recouping capital for new lending, does this strategy recoup or burn down CE's attached to the initial debt? Why or why not?

OTHER QUESTIONS FROM JIM FORD (3 of 3)

- What specific incentives could be put in place to incentivize collaborations that would revolve CE's faster and therefore leverage more deals and more financing? As a former director of a charter school facilities lending program (which received CE awards), my ideas are as follows:
  - Less emphasis on leverage (compliance) and more emphasis on seats created and the frequency of revolving CE's (outcomes)
  - Supplemental infusions of CE's if prescribed outcomes targets achieved (if funds continue to be appropriated for the program)
  - More focus on operating and/or debt service cost savings for the borrower
- Playing the devil's advocate, it appears (looking at the national landscape) that CSDC and Building Hope are exemplars with regard to collaborations, bringing more capital into the sector, and getting deals done, especially in challenging markets and states. What factors distinguishes these two entities – such as capitalization, organizational capacity, risk willingness, single asset focus, small nimble organization, or what – from other CE recipients?

Questions

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Closing Comments

Contact:

maryann.spracher@safalpartners.com
info@safalpartners.com
fordjimco@gmail.com

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