

National **Charter School** **Resource Center**

at LEARNING POINT ASSOCIATES

Webinar:

Financing Mechanisms for Charter School Facilities

February 2010



The National Charter School Resource Center is funded by the U.S. Department of Education's Office of Innovation and Improvement and administered by Learning Point Associates under contract number ED-04-CO-0109/0004.



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The **U.S. Department of Education** is committed to promoting effective practices, providing technical assistance, and disseminating the resources critical to ensuring the success of charter schools across the country. To that end, the Education Department, under a contract with Learning Point Associates, has developed the **National Charter School Resource Center**.



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Welcome and Overview

Abner Oakes

Deputy Director

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Center



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Welcome to the February 2010 webcast of the **National Charter School Resource Center.**

Protocols

- Please use the chat function to ask questions during the presentation. We will respond to questions during the Q&A session.
- Please direct technical questions to the “host,” which may be selected from the drop-down menu in the chat window.
- Please respond to the periodic polling questions. All responses are kept anonymous.



Purpose and Objectives

- To share practices that state education agencies (SEAs) can use to leverage funding and financing for charter school facilities
 - Distinguish the various funding mechanisms for charter school facilities.
 - Hear examples from SEA charter school staff and other experts about emerging and promising policies and practices.



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Agenda

- Welcome and introductions
- Overview of facilities and financing issues
- State facilities incentive grants program
- Credit enhancement
- Bonding authority
- Question-and-answer session



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A Few Facts and Figures

- A 2005 study by the Thomas B. Fordham Institute, Progress Analytics Institute, and Public Impact found that funding disparities between charter schools and other public schools ranged from 4.8 percent to 39.5 percent and that charter schools' access to local and capital funding was the primary driver of the funding gap.

Source: Batdorff et al. (2005)



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“Since most facilities funding for K-12 schooling is locally provided, the lack of access to local funds turns out to be the chief reason why charter schools are typically underfunded. When states pass charter school laws, it is relatively easy for them to ensure that federal and state funds flow to charter schools. To move local funds to charter schools requires substantially more political will. Some states try to make up for the absence or shortfall in local funds by providing additional state funds to charter schools, but... these strategies are generally not sufficient to compensate for local shortfalls.”

Source: Batdorff et al. (2005, p. 3)



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A Few Facts and Figures continued:

- A 2008 report prepared by WestEd for the U.S. Department of Education noted that charter schools receive about 78 cents for every dollar that traditional public schools receive. In addition, while traditional public schools may allocate all of their per-pupil funding for instructional programming, charter schools must use these dollars to also cover the costs of facilities.

Source: Office of Innovation and Improvement (2008)



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Policy Considerations and Funding Mechanisms

Guest Contributor

Mark Medema

Charter School Financing
Specialist



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Policy Considerations for SEAs: Payments

The National Alliance for Public Charter Schools identifies the following as components of a strong charter school policy for equitable access to capital funding and facilities:

- Per-pupil facilities allowances, which annually reflect actual average district capital costs
- A state grant program for charter school facilities
- A state loan program for charter school facilities

Source: Ziebarth (2010)



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Policy Considerations for SEAs: Leverage

- Equal access to tax-exempt bonding authorities or allow charter schools to have their own bonding authority
- A mechanism to provide credit enhancement for public charter school facilities
- Equal access to existing state facilities programs available to noncharter public schools

Source: Ziebarth (2010)



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Policy Considerations for SEAs: Buildings

- Right of first refusal to purchase or lease at fair or below-market value a closed, unused, or underused public school facility or property
- Prohibition of facility-related requirements stricter than those applied to traditional public schools

Source: Ziebarth (2010)



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Three mechanisms to improve financings for charter school facilities:

Incentive grants: Funding from the federal government to state and local governments, or one-time donations from organizations and/or individuals to nonprofit organizations.

Credit enhancement: A strategy to reduce credit risk by providing the lender with assurances that it will be compensated should the borrower default.

Bonds and bonding authority: A debt instrument through which an investor loans money to a borrower for a set period of time at an agreed-upon interest rate. An entity that may issue bonds is the bonding authority.



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Polling Question 1

What types of activities has your state engaged in to support access to financing for charter schools?

- Training and workshops
- Information dissemination (webinars, website, etc)
- Direct SEA technical assistance
- Technical assistance through other agencies
- Other (please specify)
- None of the above



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State Facilities Incentive Grant

Guest Contributor

Glory Kibbel

Minnesota Department of
Education



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Minnesota's (MN) Facilities Incentive Grant Program

- History of the grant
- \$11,214,410 total grant
- Two-stage granting process
 - Stage 1: Facilities Planning Grants
 - Stage 2: Facilities Renovation Grants
- MDE had two rounds



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MN Facilities Grant: SEA Role and Capacity

- Management of the grant
- Staff (.25 grant administrator)
- Challenge: finding a qualified person who had a mixture of administrative and school construction experience
- Ensure that school(s) meet Americans with Disabilities Act (ADA) requirements
- Visit site at beginning and end of project
- Provide technical assistance and review reports



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MN Facilities Grant: Purpose

Because the “Minnesota charter school facilities, in general, are substandard to district school facilities,” this grant will help **demonstrate innovative uses of education facilities with a connection to student academic improvement.**



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MN Facilities Grant: Major Goals

- To enhance student learning experiences
- To contribute to measurable increases in student achievement
- To model newer technologies with cost saving measures
- To collaborate with other schools and/or partners to accomplish goals



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MN Facilities Grant: Goal Four

Collaboration With the Community - TRIO Wolf Creek Example

- Two community offices were built using grant funds.
- The first office is used by a local health professional who donates time to work with students in lieu of paying rent.
- The second office is used by the county for a variety of needs. For example, county workers can meet with students who have truancy issues or a home health nurse can talk to a teen mom. “These are nice arrangements for the school due to the high at-risk population they serve.”



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MN Facilities Grant: Goal Four

Collaboration With the Community - Harbor City (Duluth) Example

- Charter School has an arts focus and is in an old warehouse facing Lake Superior. One floor was converted to an auditorium, which the community also uses.



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MN Facilities Grant: Requirements

- Schools had to meet ADA requirements.
- 30 percent of the student population had to be economically disadvantaged or academically at-risk.
- If the school did not make AYP, school leaders had to explain why and what is being done to make AYP.
- There must be a 5-year lease.
- Schools had a match requirement of 5 percent.



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MN Facilities Grant: Examples of Funded Projects



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Grant Challenge: Many of the charter schools are in older buildings where getting natural lighting is an issue.



As a result, many of the key renovations included the introduction of natural light.



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Grant outcome: Less referrals to the office for headaches, not paying attention in class.

- Changed lighting.
- Added windows for natural light.



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- Opened the room up with windows
- Added shelving for storage
- Lightened the walls



Grant Outcome: Made “every niche of space” in the school usable—therefore, increasing the physical size for the school without increasing the lease cost.



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New lighting for entrance hallway

Grant Outcome: A much more welcoming environment



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Renovation of an emissions check station—making it usable for classrooms

Space was renovated so that students could be divided into advisories. This configuration was established specifically to foster student-teacher relationships.



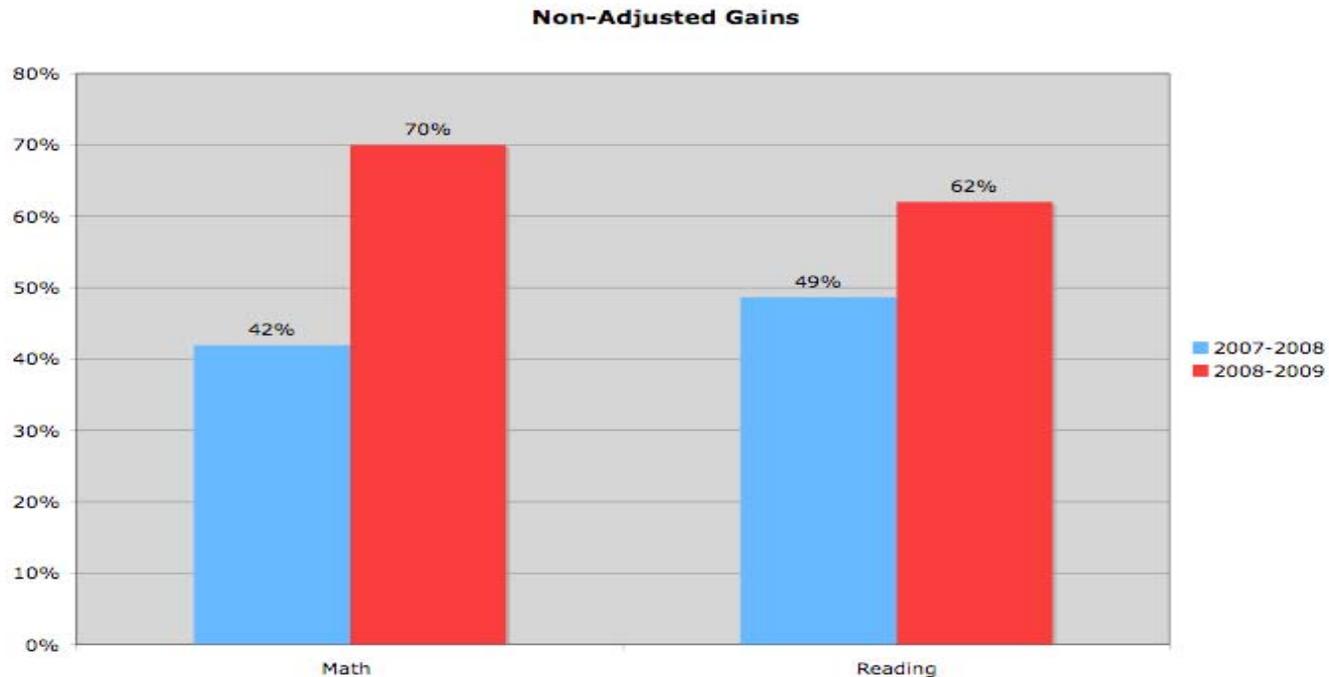
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MN Facilities Grant: Results and Outcomes



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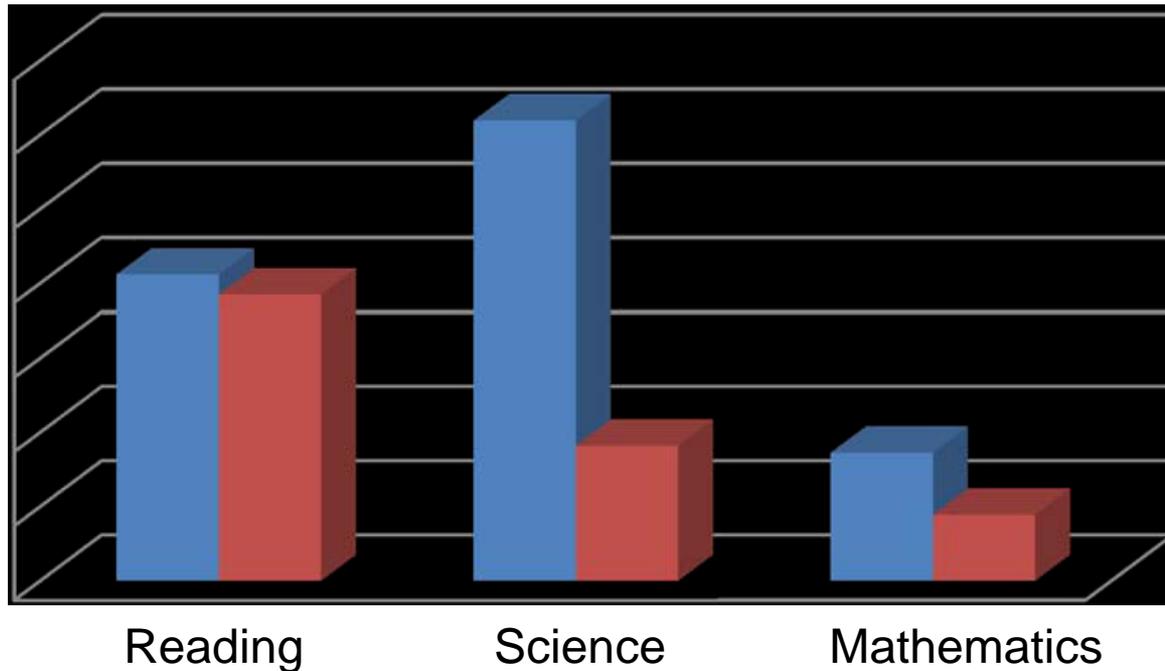


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MN Facilities Grant: Results and Outcomes

Wolf Creek Online High School Minnesota Comprehensive Assessment
Proficiency Percentages: New Building Versus Old Building



Blue Bar: 2009
New Building

Red Bar: 2008 Old
Building



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MN Facilities Grant: Data for Concordia Learning Academy

- Pre/post survey:
 - On the presurvey, **28%** of the children indicated that the lighting* and colors of the classrooms provided a positive learning environment.
 - On the postsurvey, **98%** of the children indicated a positive response for the lighting and colors.
- Attendance:
 - From 2004–05 to 2006–07, attendance increased from **94.5%** to **96.7%**.



MN Facilities Grant: Data for Concordia Learning Academy

- Every lighting fixture was replaced with new, improved full-spectrum lighting, increased light output per watt, and improved ballasts.
- Gymnasium received new skylights and new improved lamps.
- All rooms were equipped with dimmer controls and occupancy sensors.
- Change in Energy Costs:
 - 2006–07 6429.52
 - 2007–08 5090.87
 - 2008–09 4219.54



MN Facilities Grant: Other Examples

- Remodel and expansion to part of a media center to include a computer lab.
- Regulation size gym for basketball games (The team from this school actually went to MN state basketball tournament!)
- Noise abatement
- Creation of a formal presentation space for students
- Computer labs



MN Facilities Grant: Student Achievement Outcomes

- Success Measures
 - Energy savings
 - Surveys
 - Student turnover rate: One school went from 1.5 to 1.15
 - Community usage
 - Test scores



MN Facilities Grant: Unintended Consequences (both positive and negative!)

Challenges

- Finding “internal” problems after the construction was started
- Understanding what “reasonable” costs were.
- Having qualified people to review the applications
- State match



MN Facilities Grant: Unintended Consequences (both positive and negative!)

- Positives
 - The school becomes so welcoming that there are dramatic increases in enrollment
 - Money that would have gone to facilities upgrades goes to other items—like fiber optics.
 - Going green!



MN Facilities Grant: Lessons Learned

- What the MN Department of Education (MDE) could do to enhance these projects:
 - Look at the role of the architect.
 - Help schools find valid measurements aligned to the goals of the grant.
 - Ensure more sharing between projects.
 - Conduct statewide conference showcasing the results.



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MN Facilities Grant

- How one charter school director summed up the participation in the project:

“The facilities grant brought us from a mediocre school to a school of excellence!”



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Credit Enhancement

Guest Contributor

Mark Medema

Charter School
Financing Specialist



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What Is Credit Enhancement?

A strategy to reduce credit risk by providing the lender with reassurances that it will be compensated should the borrower default.

- Typically, a third party such as a foundation, an insurance company, or a government agency will provide a guarantee that the loan will be repaid.
- This lowers the borrowing costs and reduces the amount of interest paid.
- It is very common for government to support small businesses, student loans, and low-income housing.



Types of Credit Enhancements

- Commitment letters
 - A letter of credit is sold to the borrower.
- Cash deposits
 - A credit enhancement program funded by the U. S. Department of Education transfers funds to community lenders, nonprofits and state agencies.
- Moral obligation of a government
 - The full faith and credit of the government is pledged.



How Does Credit Enhancement Work?

- The lender (typically a bank) will ask the borrower (the charter school) to provide a credit enhancement of some proportion of the loan amount (10–20%).
- The borrower (the charter school) will have to find an organization such as a community lender (Building Hope), a foundation (Gates), or a government sponsor (District of Columbia-SEA).
- The type, amount, term, and price of credit enhancement is determined between borrower, lender, and the credit enhancer.



Characteristics of Credit Enhancements

- The credit enhancer conducts due diligence on the borrower.
- The credit enhancement may reduce the amount of upfront equity needed by the borrower.
- This can provide significant interest savings without making any cash payments – it has a high leverage ratio.



Example of Credit Enhancement

- Without Credit Enhancement

Loan	\$10,000,000
Interest rate	7.5%
Annual payment	\$847,000

- With Credit Enhancement

Loan	\$10,000,000
Interest rate	6.5%
Annual payment	\$766,000

(savings of \$81,000/yr)

Credit enhancement of ~\$1,000,000 (10%) can save \$2.4MM of interest payments over 30 years.



Case Study of Credit Enhancement

- Washington, D.C., Charter Schools Credit Enhancement Program
 - Received funds from the U.S. Department of Education Credit Enhancement program.
 - Supplements that allocation with discretionary funding.



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Bonds and Bonding Authority

Guest Contributor

Trish Brennan-Gac

Counsel and Senior
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How Can States Issue Bonds for Charter Schools?

- In most school districts, the district will issue a bond backed by its ability to levy taxes.
- Charter schools cannot levy taxes nor can they issue bonds, so they need an intermediary to issue bonds on their behalf. Their borrowing costs are much higher than a school district.
- A state can issue bonds at a low cost of capital and lease the buildings back to the charter school.



Three Types of Tax Credit Bonds for School Construction and Modernization

- Qualified Zone Academy Bonds (QZABs)
- Qualified School Construction Bonds (QSCBs)
- Build America Bonds (BABs)



Qualified Zone Academy Bonds (QZAB)

- QZABs were first authorized in 1997 and can be used only for modernization projects and not for new construction.
- QZABs have many restrictions. For example, to be eligible, a public school must be located in either an Empowerment Zone or an Enterprise Community or have at least 35% of its students eligible for free or reduced-price lunch.
- The federal government subsidizes these bonds by allowing bondholders to receive tax credits that are approximately equal to the interest that states and communities would pay to holders of taxable bonds.
- Issuers are generally responsible for repayment of the principal.



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Qualified Zone Academy Bonds (QZAB)

- U.S. Department of Education's Webpage for Qualified Zone Academy Bonds:
<http://www2.ed.gov/programs/qualifiedzone/faq.html>
- U.S. Department of The Treasury's Guidance for Qualified Zone Academy Bonds: <http://www.irs.gov/pub/irs-drop/n-09-30.pdf>
- State Allocations for Qualified Zone Academy Bonds:
<http://www2.ed.gov/policy/gen/guid/secletter/090529tables.pdf>



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Qualified School Construction Bonds (QSCB)

- QSCBs were first authorized under the American Recovery and Reinvestment Act (ARRA).
- The QSCB bond allocation authority generally goes to states (not necessarily SEAs) based on the state's Title I allocation.
- 40% of the national QSCBs bonding authority goes directly to the 100 local education agencies (LEAs) with the largest number of school-aged children living below the poverty line. The designated LEAs receive this bond allocation in proportion to their share of Title I funds.
- States with LEAs that receive bond allocations directly from the federal government receive a reduced direct allocation.



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Qualified School Construction Bonds (QSCB)

8 States have issued QSCBs:

Alabama

Colorado

Hawaii

Indiana

Maryland

Tennessee

Virginia

West Virginia (only state with 2 issuances)



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Qualified School Construction Bonds (QSCB)

- U.S. Department of the Treasury's Guidance for Qualified School Construction Bonds: <http://www.irs.gov/pub/irs-drop/n-09-35.pdf>
- State Allocations for Qualified School Construction Bonds: <http://www2.ed.gov/policy/gen/guid/secletter/090529tables.pdf>
- QSCB Issuance To-Date: <http://www.bondbuyer.com/pdfs/QSCB.pdf>



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Build America Bonds (BAB)

- The BABs program allows municipal bond issuers in 2009 and 2010 to offer an unlimited amount of taxable debt and to elect either to receive a cash subsidy from the federal government or to provide bondholders with a tax credit.
- Both the payment and the tax credit would be equal to 35 percent of the interest paid on the bonds.



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Build America Bonds (BAB)

17 states have issued BABs:

California (2)
Connecticut (7)
Delaware
Georgia
Hawaii
Illinois
Iowa
Louisiana (3)
Maryland (2)

Michigan
Nevada
New Hampshire (2)
Ohio (2)
Utah (2)
Vermont
Washington
Wisconsin (4)



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Build America Bonds (BAB)

- Treasury Guidance for Build America Bonds:
<http://www.irs.gov/pub/irs-drop/n-09-26.pdf>
- State Allocations of BABs (includes QZABs and QSCBs):
<http://www.treasury.gov/recovery/docs/Treasury%20Recovery%20Act%20Data%20as%20of%2011-30-2009.xls>
- Bond Buyer: BABs Issuances
<http://www.bondbuyer.com/pdfs/BAB.pdf>
- Build America Bonds Issuance and Trade Activity (Municipal Securities Rulemaking Board, July 2009):
<http://www.msrb.org/msrb1/Press/Release/MSRBBuildAmericaBondsReport.pdf>



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General Resources for Tax Credit Bonds

- Letter from Secretary Duncan to Chief State School Officers
<http://www2.ed.gov/policy/gen/guid/secletter/090529.html>
- U.S. Department of Education ARRA School Modernization Webpage
<http://www2.ed.gov/policy/gen/leg/recovery/modernization/index.html>
- National Clearinghouse for Educational Facilities (NCEF) Tax Credit Bond Webpage
http://www.ncef.org/rl/tax_credit_bonds.cfm
- NCEF School Modernization Webpage
<http://www.ncef.org/school-modernization/>



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Example of a State Bond

Issued by Charter School

Loan: \$10,000,000
Interest rate: 7.5%
Annual payment: \$847,000

Issued by State

Loan: \$10,000,000
Interest rate: 4.5%
Annual payment: \$614,000
(savings of \$233,000/yr)

State bond can save
\$6.6MM of interest
payments over 30 years.



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Review of Policies

- States can make payments (facility allowances, **grants**, loans).
- States can leverage their financial position (**credit enhancements, bond issuance**, access to other programs such as tax credits).
- States can write polices regarding buildings (first right of use, building compliance).



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Polling Question 2

What types of activities would your state be most interested in learning more about?

- Grant and loan programs
- Leveraging through credit enhancements, bonds, and tax credits
- Use of current school facilities
- Other (please specify)



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Questions and Comments?

We are happy to address your questions and comments.



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Upcoming NCSRC Events and Activities on Facilities

- E-newsletter – March 2010
- Development of a “Facilities 101” course of study
- Preconference institute on facilities
 - Preceding the National Charter School Conference
 - June 28, 2010
 - No cost to participate



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