

Charter School Facilities Institute

2010 Charter School Facility Finance Landscape



Outline

- Introduction
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- State Initiatives
- Private Nonprofit Organizations
- Tax-Exempt Bond Market

Introduction

- Since 2005, the Educational Facilities Financing Center of the Local Initiatives Support Corporation has provided periodic updates on the state of the charter school facility financing landscape.
- Charter schools have flourished in many ways since the last edition in 2007. Despite certain gains, however, equitable public facilities funding for charter schools remains an elusive goal.
- At the same time, the economic downturn and tightening of the credit markets slowed every source of private sector financing for charter schools.
- The 2010 Landscape provides an updated snapshot of:
 - federal policies supportive of charter school facilities
 - state policies in all 40 jurisdictions with a charter law
 - private philanthropies and nonprofit organizations active in the sector
 - information on charter school access to the tax-exempt bond market

Federal Initiatives

Several federal programs have been utilized by charter schools to help finance their facilities.

Department of Education (ED)

- Credit Enhancement for Charter School Facilities Program
- State Charter School Facilities Incentive Grants Program

Treasury Department

- Qualified School Construction Bond (QSCB) Program
- Qualified Zone Academy Bond (QZAB) Program
- New Markets Tax Credit (NMTC) Program

Other Federal Programs

- USDA Rural Development Community Facilities Programs
- FEMA Public Assistance Grant Program

Federal Initiatives – ED Programs

ED's Office of Innovation and Improvement administers two federal grant programs for charter school facilities.

Historical Appropriations & Expenditures (\$ in Thousands)

	2005	2006	2007	2008	2009
Appropriations					
Charter School Programs ¹	\$216,952	\$214,782	\$214,782	\$211,031	\$216,031
<u>Credit Enhancement Program</u>	<u>36,981</u>	<u>36,611</u>	<u>36,611</u>	==	==
Total Charter School Programs	253,933	251,393	251,393	211,031	216,031
Expenditures					
PCSP Start-up Grants	200,000	200,000	200,000	190,000	195,000
<i>Facilities Programs</i>					
Credit Enhancement Program	36,981	36,611	36,611	8,300	8,300
<u>State Incentive Grants Program</u>	<u>16,952</u>	<u>14,782</u>	<u>14,782</u>	<u>12,731</u>	<u>12,731</u>
<u>Sub-Total Facilities Programs</u>	<u>53,933</u>	<u>51,393</u>	<u>51,393</u>	<u>21,031</u>	<u>21,031</u>
Total Charter School Programs	\$253,933	\$251,393	\$251,393	\$211,031	\$216,031

¹ For Fiscal Years 2005 through 2007, this line-item funded both PCSP and the State Incentive Grants Program. Beginning in Fiscal Year 2008, this line-item funded PCSP, the State Incentive Grants Program and the Credit Enhancement Program.

Federal Initiatives – Credit Enhancement Program

ED has made awards totaling \$214 million in eight competitive rounds. As of 9/30/08, grantees had leveraged \$1.27 billion on behalf of 278 charter schools.

Federal Fiscal Year	ED Grant Awards (\$ Millions)	Financing Leveraged (\$ Millions)	Number of Charter Schools
2001	\$24.96	\$0.00	0
2002	0.00	0.00	0
2003	24.77	56.38	21
2004	37.29	71.78	29
2005	36.94	109.69	36
2006	36.61	168.37	46
2007	36.53	342.72	64
2008	8.30	520.48	82
<u>2009</u>	<u>8.26</u>	<u>Na</u>	<u>Na</u>
Total	\$213.66	\$1,269.42	278

- 5 of the 278 schools have gone into actual or technical default.
- 2 of these 5 defaults have resulted in actual losses totaling \$335,000.
- Losses represent 0.16% of the \$214 million in federal grant funds.
- Losses represent 0.03% of the \$1.27 billion in financing leveraged.

Federal Initiatives – State Incentive Grants Program

Designed to encourage states to provide per pupil facilities aid to charter schools, ED has provided program awards to four states totaling \$78 million and continues to fund a second cohort of two states with a total commitment of \$61 million.

Program Recipients (\$ in Millions)

Cohort 1 Grantees	2004	2005	2006	2007	2008	Total
California School Finance Authority	\$9.85	\$9.85	\$9.85	\$9.85	\$9.85	\$49.25
Minnesota Department of Education	5.00	4.00	2.21	2.00	1.00	14.21
Utah State Office of Education	2.79	2.38	1.66	1.28	0.80	8.90
<u>District of Columbia Public Schools</u>	<u>1.06</u>	<u>0.72</u>	<u>1.06</u>	<u>1.65</u>	<u>1.08</u>	<u>5.57</u>
Total	\$18.70	\$16.95	\$14.78	\$14.78	\$12.73	\$77.95
Cohort 2 Grantees	2009	2010	2011	2012	2013	Total
California School Finance Authority	\$7.72	\$8.70	\$9.70	\$10.00	\$10.00	\$46.12
<u>Indiana Department of Education</u>	<u>5.00</u>	<u>4.00</u>	<u>3.00</u>	<u>2.00</u>	<u>1.00</u>	<u>15.00</u>
Total	\$12.72	\$12.70	\$12.70	\$12.00	\$11.00	\$61.12

Federal Initiatives – Tax Credit Programs

	QSCBs	QZABs	NMTCs
Eligible Uses	Construction, renovation, land acquisition and FF&E.	Renovation, equipment purchase, course material development and training.	Economic development and business activities, including charter school facilities.
Allocation Amounts	State and local governments: \$11 billion annually in 2009 and 2010. Indian tribal governments: \$200 million in each year.	The Recovery Act increased the national cap to \$1.4 billion annually for 2009 and 2010, up from \$400 million annually from 1998 to 2008.	\$26 billion of tax credit authority has been awarded in seven competitive application rounds administered by the CDFI Fund.
Targeted Distribution	40% to 100 LEAs with the largest populations of school-age children in poverty. 60% to states based on proportion of prior year Title I funding.	To states based on share of population living below the poverty line. Location and/or student population restrictions; private partnership required.	Low-income communities, based on poverty rates and median family incomes, and targeted populations.
Tax Benefit	Federal government provides either a tax credit to investors or a cash subsidy payment to issuers based on the federal tax credit rate.	Federal government provides either a tax credit to investors or a cash subsidy payment to issuers based on the federal tax credit rate.	Federal tax credit of 39% over seven years for Qualified Equity Investments.
Charter Utilization	\$22 million in QSCB issuance for two charter schools out of an estimated \$2.7 billion in total issuance.	QZABs have been issued on behalf of charter schools in several jurisdictions.	Identified utilization for charter schools totals \$573 million, based on an EFFC poll of NMTC allocatees.

Federal Initiatives – NMTC Charter Utilization

(\$ in Millions)

Controlling Entity	Number of Awards	2009 Allocation	Total Allocation	Charter Utilization ¹	Remaining Available ²
NCB Capital Impact	5	\$90.0	\$409.0	\$86.8	\$177.3
Excellent Education Development, Inc.	3	50.0	121.0	71.0	50.0
Center for Community Self-Help	3	--	220.0	62.6	50.0
Charter Schools Development Corporation	1	--	40.0	40.0	--
City of Chicago	2	55.0	155.0	36.5	86.2
Revolution Ventures, LLC	1	--	35.0	35.0	--
Merrill Lynch Bank USA	2	--	205.0	34.3	91.6
Local Initiatives Support Corporation	6	115.0	623.0	29.9	188.7
The Reinvestment Fund, Inc.	4	90.0	278.5	29.4	99.4
Low Income Investment Fund	3	45.0	139.0	26.5	99.2
CFBanc Corporation	3	--	230.0	21.0	50.8
JPMorgan Chase & Co.	5	40.0	310.0	19.6	133.6
U.S. Bank, N.A.	4	95.0	435.0	16.0	108.0
Boston Community Capital, Inc.	4	85.0	300.0	15.8	170.0
Bank of America, N.A.	5	70.0	578.0	10.0	194.6
Community Reinvestment Fund, Inc.	5	75.0	597.5	9.0	154.3
National City CDC	2	--	200.0	8.1	94.8
Nonprofit Finance Fund	3	60.0	130.0	7.5	61.0
Wachovia Corporation	4	--	488.0	7.2	27.2
New Jersey Community Capital ³	2	--	50.0	6.0	35.0
IFF	1	--	10.0	0.4	--
11 Polled Allocatees Reporting \$0	22	430.0	1,228.0	0.0	682.6
<u>8 Non-responding Allocatees</u>	<u>29</u>	<u>280.0</u>	<u>1,973.3</u>	<u>Na</u>	<u>600.1</u>
Sub-Total Allocatees	119	\$1,580.0	\$8,755.3	\$572.6	\$3,154.4
Total NMTC Allocation		\$5,000.0	\$26,000.0		

¹ Amount employed for charters as reported by allocatees in EFFC survey.

² Per CDFI Fund's 2/1/2010 "NMTC Qualified Equity Investment Report."

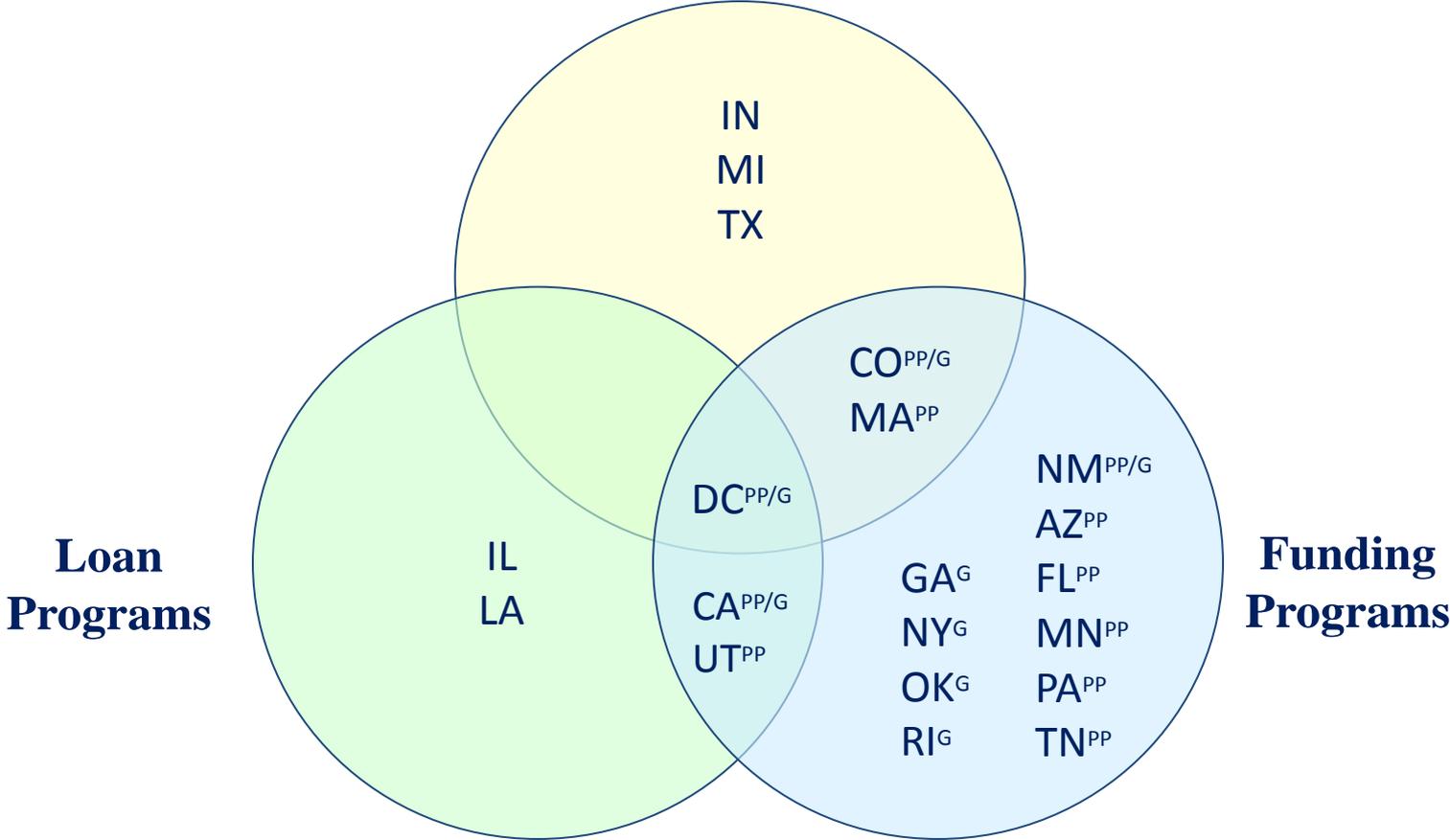
State Initiatives

Of the 40 jurisdictions with a charter law, slightly less than half have authorized funding or financing programs for charter school facilities, with magnitude of support varying widely.

- 11 jurisdictions offer a per pupil funding stream: 3 provide funding over \$1,000; 4 provide funding between \$500 and \$1,000; and 4 provide funding under \$250.
- 8 jurisdictions provide some other form of grant funding; an additional 2 states have grant programs which are not funded.
- 3 jurisdictions allow charter schools to tap into local taxing authority through mill levy provisions.
- 5 jurisdictions have active, publicly-funded loan programs.
- 6 jurisdictions offer some form of credit enhancement program.
- 34 jurisdictions allow charter schools to access tax-exempt debt through conduit issuers.
- 31 jurisdictions allow charter schools to participate in both their QSCB and QZAB programs, while 4 allow them to participate in one of the Q-Bond programs.

State Initiatives

Credit Enhancement Programs



^{PP} Per Pupil Funding Program ^G Other Grant Funding Program

Private Nonprofit Organizations

Foundations

- Annie E. Casey Foundation
- Bill & Melinda Gates Foundation
- Daniels Fund
- Eli and Edythe Broad Foundation
- Ewing Marion Kauffman Foundation
- Prudential Foundation
- Walton Family Foundation

Financing Organizations

- Bridgeway Capital
- Building Hope
- Charter School Growth Fund
- Charter Schools Development Corporation
- Community Reinvestment Fund, USA
- Excellent Education Development, Inc.
- Housing Partnership Network
- IFF
- Innovate Schools Development Corporation
- KIPP Foundation
- Local Initiatives Support Corporation
- Low Income Investment Fund
- NCB Capital Impact
- New Jersey Community Capital
- Nonprofits Assistance Fund
- Nonprofit Finance Fund
- Partners Advancing Values in Education
- Raza Development Fund, Inc.
- Self-Help
- The Reinvestment Fund, Inc.

Real Estate Developers

- Charter Schools Development Corporation
- Civic Builders
- Pacific Charter School Development

Private Nonprofit Organizations

Summary Data as of 12/31/09 (\$ in Millions)

Financing Organization	Direct Financing	Number of Schools ¹	ED Award ²	NMTC Allocation	NMTC Utilization
Bridgeway Capital	\$3.9	8	--	--	--
Building Hope	\$69.4	54	\$5.0	--	--
Charter Schools Development Corporation	\$33.5	78	\$21.6	\$40.0	\$40.0
Community Reinvestment Fund, USA	\$9.0	5	--	\$597.5	\$9.0
Excellent Education Development, Inc.	\$1.4	3	--	\$121.0	\$71.0
IFF	\$47.7	46	\$18.0	\$10.0	\$0.4
Innovative Schools Development Corporation	\$9.0	7	--	--	--
KIPP Foundation	\$2.6	9	\$6.8	--	--
Local Initiatives Support Corporation	\$97.6	130	\$26.5	\$623.0	\$29.9
Low Income Investment Fund	\$64.2	46	\$8.0	\$139.0	\$26.5
NCB Capital Impact	\$387.5	148	\$28.0	\$409.0	\$86.8
New Jersey Community Capital	\$38.3	12	\$8.2	\$50.0	\$6.0
Nonprofit Finance Fund	\$14.5	38	--	\$130.0	\$7.5
Nonprofits Assistance Fund	\$4.9	19	--	--	--
Partners Advancing Values in Education	\$3.3	8	--	--	--
Raza Development Fund, Inc.	\$52.8	55	\$14.6	--	--
Self-Help	\$106.5	43	\$10.2	\$220.0	\$62.6
<u>The Reinvestment Fund, Inc.</u>	<u>\$165.3</u>	45	<u>\$20.0</u>	<u>\$278.5</u>	<u>\$29.4</u>
Total	\$1,111.4		\$156.7	\$2,618.0	\$369.2

¹ No total number of schools due to repeat schools across organizations.

² Total does not add due to \$10 million joint award to NCB Capital Impact and TRF that is included in each organization's number.

Private Nonprofit Organizations

The financing organizations included in this study have provided \$1.1 billion in direct financial support to charter schools for their facilities.

Metric	Total/Average
<i>Capital Provision</i>	
Total Historical Financing	\$1,111,376,818
ED Credit Enhancement Awards	\$156,720,000
NMTC Allocation Awards	\$2,618,000,000
NMTC Allocation Employed for Charter Facilities	\$369,213,146
2009 Financing	\$227,996,300
<i>Portfolio Performance</i>	
\$ Amount of Loans Repaid/Refinanced	\$342,840,319
Total Number of Financings	875
Originated \$ Amount of Defaulted Loans	\$10,830,015
Default Rate as % of Total \$ Originated	0.97%
Number of Defaulted Financings	13
Default Rate as % of Total Number Originated	1.49%
\$ Amount of Write-offs	\$3,661,433
Write-off Rate as % of Total \$ Originated	0.33%
Number of Write-offs	9
Write-off Rate as % of Total Number Originated	1.03%

Tax-Exempt Bond Market

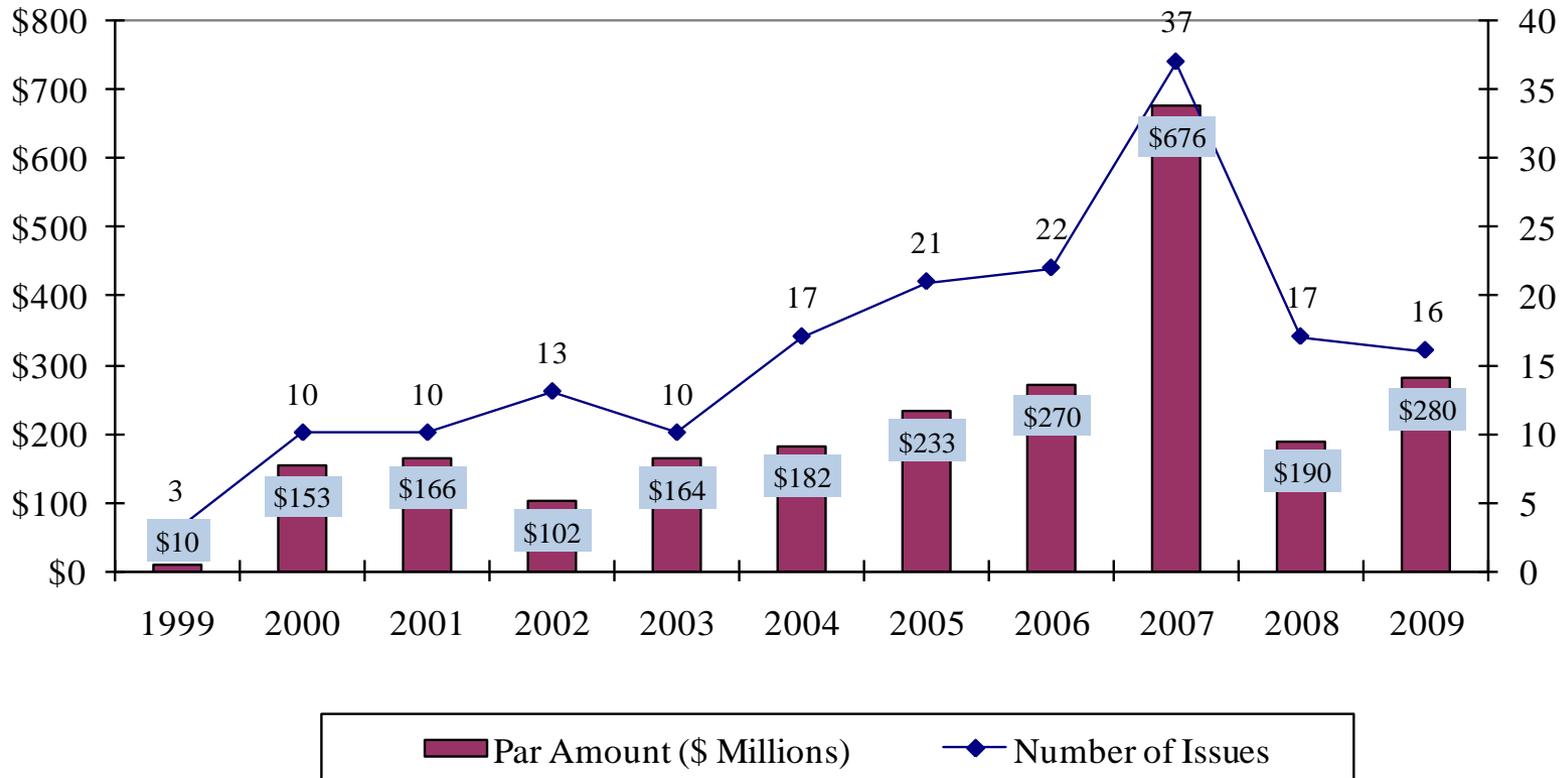
Tax-exempt bond financing is an attractive source of financing for charter school facilities and the natural last step in the financing life cycle.

- Natural take-out source for mini-permanent financing provided by nonprofit financing organizations and 7-year NMTC financing.
- Lower interest rates due to tax-exemption and longer, fully amortizing terms.
- Charter schools generally access the market by issuing revenue bonds through a conduit agency authorized by the state in which the school operates.
- Bonds are secured with school's per pupil revenues, with higher ratings for schools that have received a charter renewal, have enrollments of above 500 and healthy finances.
- Historically, schools have utilized credit enhancement to reduce repayment risk and lower interest rates on their borrowings.
- Collapse of the municipal bond insurers left a gap in the market and slowed charter school access significantly.

Tax-Exempt Bond Market

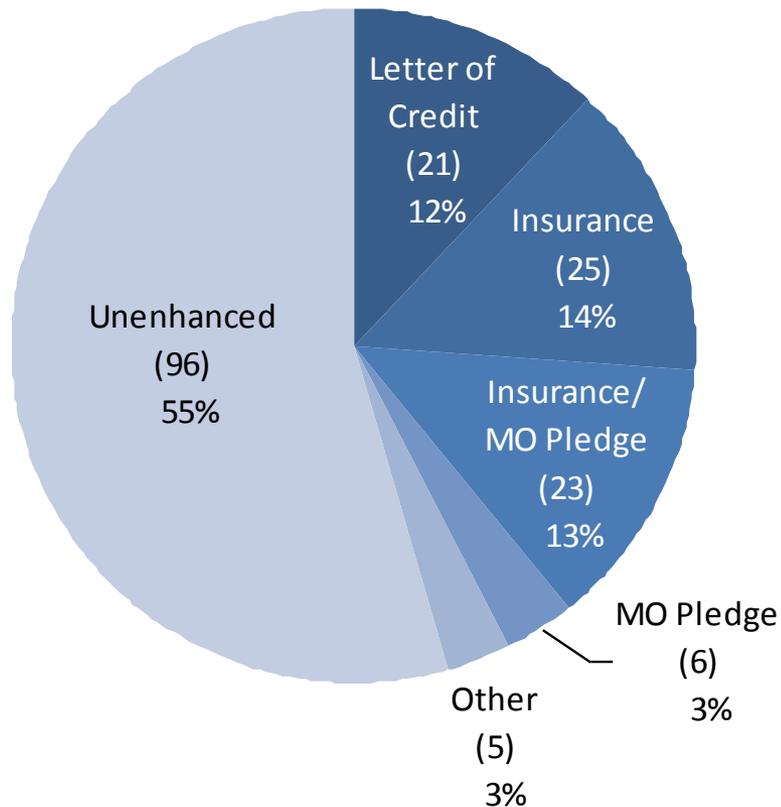
Between 2007 and 2009, the use of tax-exempt financing, both rated and unrated, for charter schools declined dramatically.

Rated Charter School Bond Issuance



Tax-Exempt Bond Market

Breakdown & Performance of 176 Rated Charter School Bond Issues



- 1 payment default among the 176 bond issues, representing 0.1% of total par issued and 0.6% of number of issues.
- 2 other cases of missed payments in which there was no loss to bondholders due to credit enhancement built into issuance.
- Adjusted default rate equal to 0.4% of total par issued or 1.7% of the number of issues.

For a Copy of the Publication

A complete version of the *2010 Charter School Facility Finance Landscape* can be downloaded by visiting www.lisc.org/effc/2010Landscape.

Downloadable spreadsheets are also available for the following items:

- Appendix A, Summary Data for Nonprofit Financing Organizations
- Appendix B, Rated Charter School Bond Issuance (including expanded data)
- Credit Enhancement for Charter School Facilities Program Recipients
- State Charter School Facilities Incentive Grants Program Recipients
- NMTC Utilization for Charter Schools
- USDA Rural Development Community Facilities Programs

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