



D.A. DAVIDSON & CO.
CHARTER SCHOOL FACILITY FINANCE

Facility Financing Options Through Case Studies & Structuring Debt

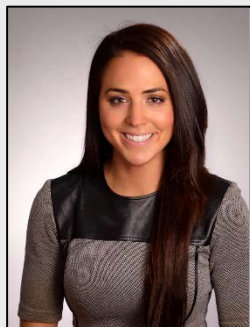
TODAY'S PRESENTERS



Eric Duran
Group Head & Managing Director



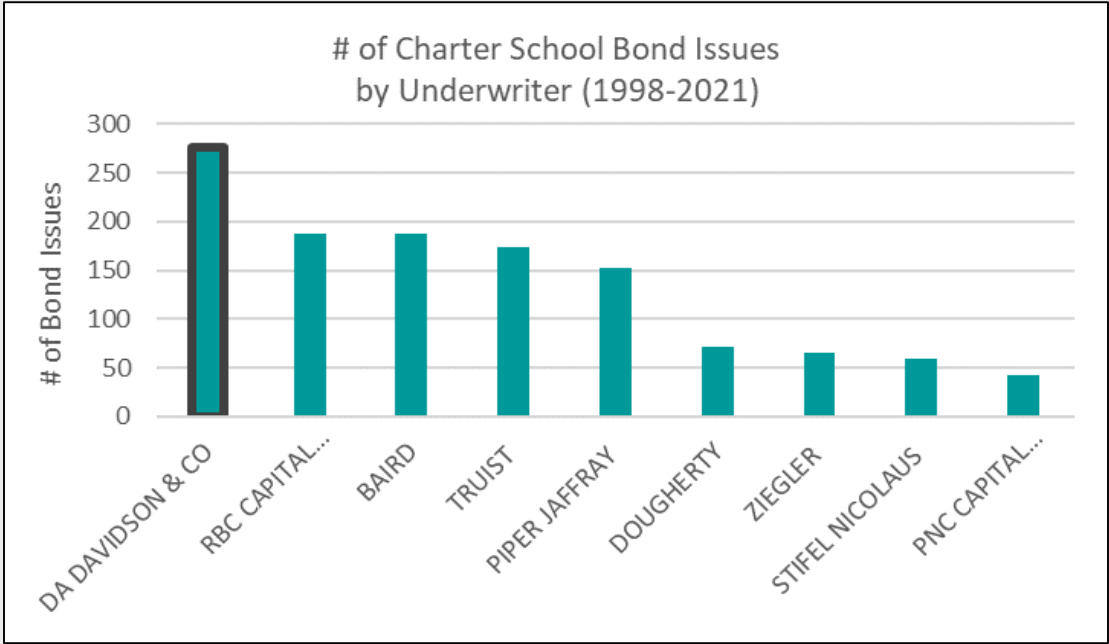
Matt DeAngelis
Managing Director



Maggie Mirsky
Vice President

D.A. DAVIDSON & COMPANY

- Davidson has been focused on the borrowing needs of charter schools since 1998 when we executed our first charter school transaction
- Executed 323 financings totaling over \$5.5 billion - \$182 million in South Carolina
- Below shows the # of transaction by underwriter for the years 1998-2021
 - Through the end of the third quarter, our team is on pace to be #1 again



TODAY'S LINE UP

- The Basics: Big SIX Financing Structures
- Case Study: Voyager Academy
- Bond Financing 101
- Recap: Keep More Money in the Classrooms
- Questions & Answers

A group of diverse children smiling, with a young girl in the center foreground. The image is dimmed and has a dark overlay. The text "start with the basics" is centered in white.

start with the basics

MORE FINANCING OPTIONS

- Charter schools have more financing options than ever before
- Increasing comfort with the choice movement
- Superior structures = more money in the classrooms
- Not all financings are created equal

THE BIG SIX

USDA
Loans

CDFI Loan

Bank
Financing

Lease to
Purchase

Bond
Financing

New
Markets
Tax Credit



LEASE TO PURCHASE

- Type of school
 - » Start ups/early stage schools/some replicating schools
- Type of financing
 - » Lease to the school (no ownership)
- Why this approach?
 - » Developer identifies site, finances, and builds to suit
- Worth noting
 - » Option to purchase at a later date with a premium (years 3 to 5)
- Keep in mind...
 - » Most costly option (for profit & not for profit developers)

CDFI LOAN

- Type of school
 - » Early stage & mature schools serving low income students
- Type of financing
 - » Provide both senior (5 to 10 years) and subordinate financing
 - » Historically have financed leasehold improvements in some cases
- Why this approach?
 - » CDFIs (non-profit) provide loans to schools that fit their mission
- Worth noting
 - » Loan size may be limited (<\$10M); 80%-90% loan to value
- Keep in mind...
 - » Can be a good source of capital for inner city schools

NEW MARKET TAX CREDIT

- Type of school
 - » Schools in distressed communities serving high FRL population
- Type of financing
 - » Interest only loan (25%) converts to equity at end of 7 years
- Why this approach?
 - » Can make an expensive project feasible (subsidized interest rate)
- Worth noting
 - » Limited NMTC allocation available from CDEs, competitive process
- Keep in mind...
 - » Complicated legal structures leads to significant upfront fees

USDA LOAN


- Type of school
 - » Rural schools (< 50,000 population)
- Type of financing
 - » New money or acquisition up to 40 year permanent financing
- Why this approach?
 - » Schools that may not qualify for other types of financing due to location/credit profile are provided access to financing
- Worth noting
 - » Below market interest rates, < 4% for 40 years
- Keep in mind...
 - » Longest financing process, can take up to 24 months

TAX EXEMPT BOND FINANCING

- Type of school
 - » Start up/early stage schools, mature/replicating schools
 - » Alamance Community School
- Type of financing
 - » Low risk, long term (30 to 40 years) permanent financing
- Why this approach?
 - » Interest rate not subject to taxation = lower interest rate for school
- Worth noting
 - » 100% financing = no loan to value/equity
- Keep in mind...
 - » Charter schools are eligible prior to first charter renewal

BANK FINANCING

- Type of school
 - » Established schools w/ equity (strong cash balances)
- Type of financing
 - » Interim/bridge financing; predominantly tax-exempt loans
- Why this approach?
 - » Attractive interest rates due to shorter term (up to 15 years)
- Worth noting
 - » Depository relationship
- Keep in mind...
 - » Subject to loan to value

A group of diverse children smiling, with a young girl in the center wearing a dark jacket.

how about an example...

VOYAGER'S FACT SET

- Location: Durham, NC
- Initial charter contract: ten year term to expire June 30, 2017
 - » **First year of operations 2007**
- Initial financing: middle school campus financed with a CDFI through a New Markets Tax Credit loan

CASE STUDY: VOYAGER ACADEMY

Lease to
Purchase

CDFI Loan

Bank Loan

+

New Markets
Tax Credit

Bond Finance

USDA Loan



VOYAGER'S FACT SET

- Initial financing: middle school campus (2007) financed with a CDFI (CDE) through a New Markets Tax Credit financing
- Developer lease: high school and elementary school
- Non-rated bond financing: acquisition of the elementary and high school facilities (2012)
 - » Enrollment at financing: 812 students in grades K-11
- Rated (BB+) bond financing: refi middle school campus (2014)
- Bank financing: athletic complex (2018)
- Taxable bond: investment grade (Baa3), cash flow savings (2020)

CASE STUDY: VOYAGER ACADEMY

Lease to
Purchase

CDFI Loan

Bank Loan


Investment Grade!

New Markets
Tax Credit

Bond Finance

USDA Loan



A group of diverse children, including a young girl with curly hair in the foreground, are smiling and looking towards the camera. The image is overlaid with a dark, semi-transparent filter. The text "bond financing 101" is centered in white, sans-serif font.

bond financing 101

WHY PURSUE BOND FINANCING?

- Finance **charter schools** (roads, housing, hospitals, colleges)
- **Ownership = autonomy**
- Financial longevity & **legitimacy**
 - No escalating lease payments
 - Lower cost of capital than private market
 - Fixed interest rate for 5 to 40 years (budget certainty)
 - Building equity/balance sheet strength
 - Refinancings/Flexibility for future financings

WHAT IS TAX EXEMPT?

- The investor(s) who purchase bonds are not required to pay taxes on the interest income earned from their investment
- As a result the investor(s) is willing to accept a lower interest rate than if the bond interest were subject to taxes
- Creating a Federal government subsidy to the charter school

CAN I BORROW TAX EXEMPT?

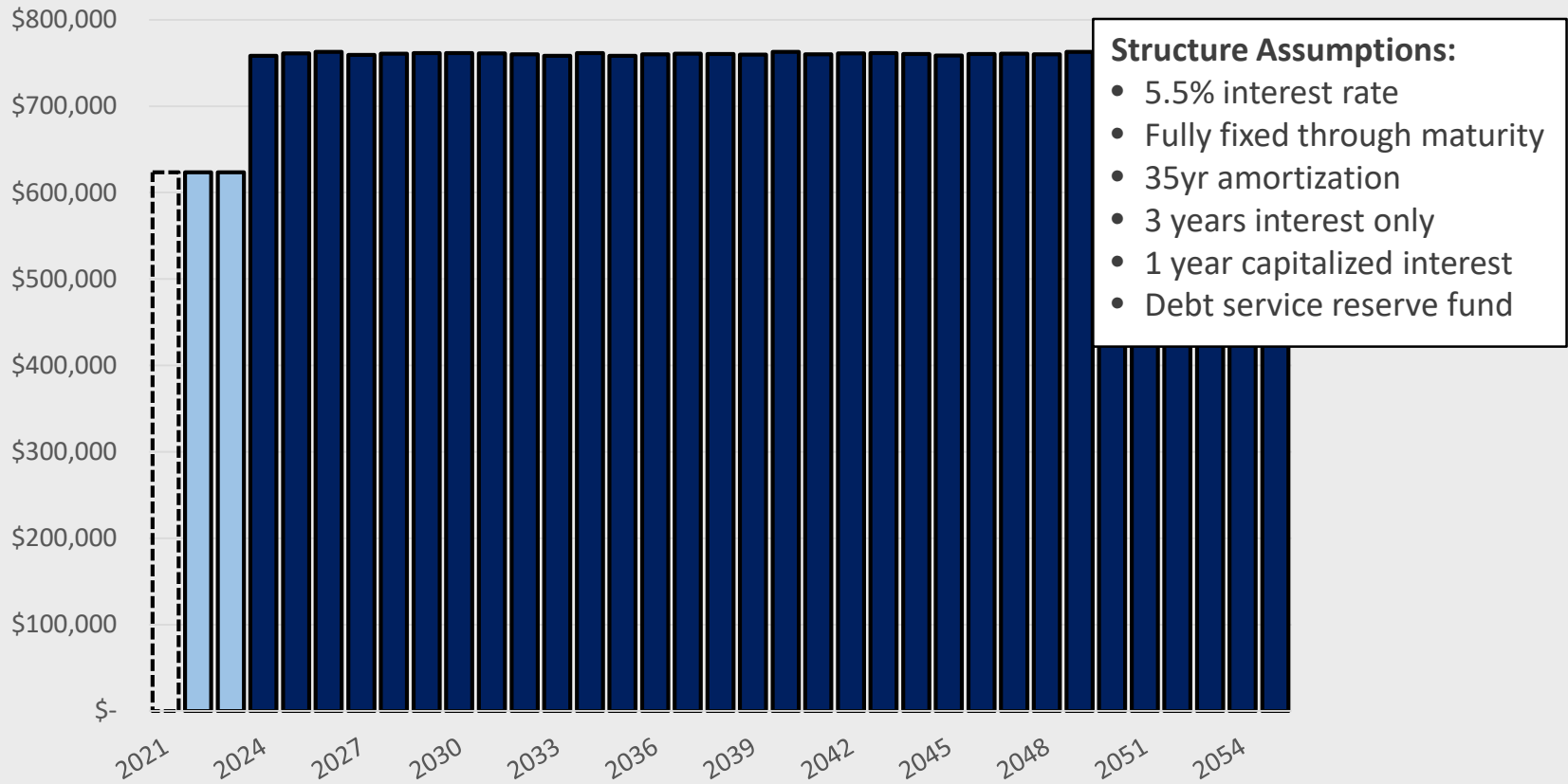
- Tax exempt bonds/bank notes are “**issued**” by governmental entity
 - Charter schools lack “**governmental**” powers (levy taxes, policing power, eminent domain)
- Structured as **501(c)(3)s** or quasi-governmental entities and qualify for tax-exempt bond financing as a result
- Tax exempt bonds can be issued by charter schools through governmental entities known as “**conduit issuers**”
- Tax exempt bonds are “**sold**” by underwriters
- Tax exempt bonds are “**purchased**” by higher tax bracket investors including individuals banks, mutual funds, insurance companies

WHAT IS A BOND?

- **A pledge to repay a debt issue**
 - Bonds are issued in the municipal debt capital markets
 - Proceeds are used to acquire/improve/construct facilities
 - 100% financing (no equity/loan to value restrictions)
- **Fixed interest rate for a term up to 35 years**
- **Up to 35 year amortization**
- **Long term solution - fully amortizing/no balloon**
- **Secured by a first lien on revenues, a debt service reserve fund and real estate collateral (first mortgage)**

FOR VISUAL LEARNERS: BOND FINANCING

- Charter school borrows \$10MM to acquire existing facility

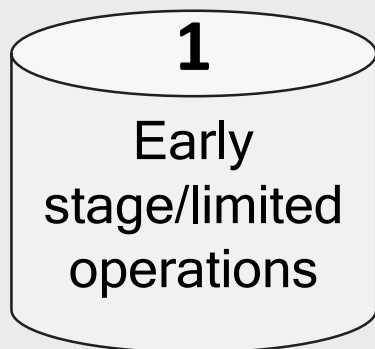


WHAT IS MY INTEREST RATE?

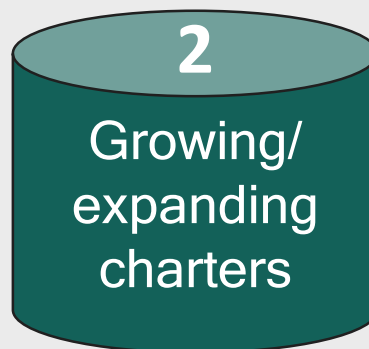
- Key factors that determine interest rate include:
 - **Market conditions** at the time of pricing/interest rate lock
 - **Total debt/loan size**
 - **Issuer State**
 - **Credit story/credit rating** of the borrower (charter school)

DETERMINING YOUR BUCKET

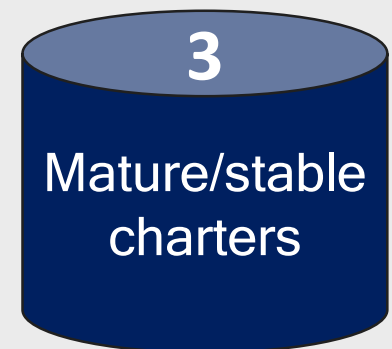
- A school's financing options depend upon its business plan and historical credit profile
- There are **three different "buckets"** that schools typically fit into:



- Lease to purchase
- Start up bond financing
- Non-rated bond financing
- CDFI loan



- Non-rated bond financing
- Sub-investment grade rated bond financing
- CDFI loan
- USDA loan



- Investment grade rated bond public offering
- Bank financing

BOND CREDIT RATING SPRECTRUM

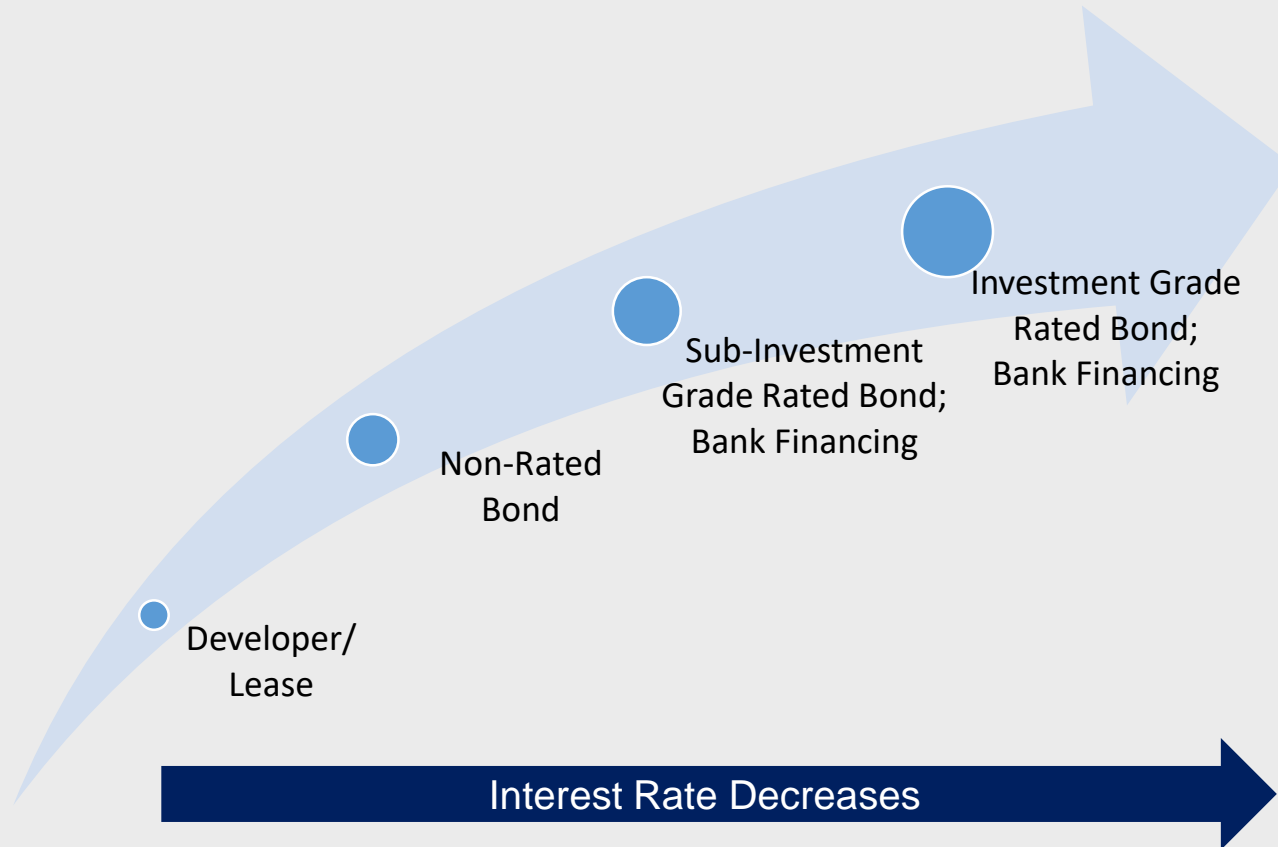
- Some charter schools are eligible to issue **bonds rated** by an independent third party credit rating agency, reducing the cost of borrowing
- Currently S&P and Moody's are active in rating charter schools


*Charter schools
(non-enhanced)*

Moody's	S&P	Category
Aaa	AAA	The Met
Aa1	AA+	Duke University
Aa2	AA	Investment Grade
Aa3	AA-	Investment Grade
A1	A+	Investment Grade
A2	A	Investment Grade
A3	A-	SF Ballet
Baa1	BBB+	Investment Grade
Baa2	BBB	Investment Grade
Baa3	BBB-	Chicago, Illinois
Ba1	BB+	Non-Investment Grade
Ba2	BB	Non-Investment Grade
Ba3	BB-	Non-Investment Grade
B1	B+	Non-Investment Grade
B2	B	Non-Investment Grade
B3	B-	Non-Investment Grade

TRANSLATION PLEASE!

- Stronger credit story = lower interest rates



A group of diverse young children, including a young girl with curly hair in the center, are smiling and looking towards the camera. The image is overlaid with a dark, semi-transparent filter. The text "keep money in the classroom" is centered in white, lowercase letters.

keep money in the classroom

STRUCTURAL CONSIDERATIONS

- Extended amortizations
- Interest only periods
- Capitalized interest

REFINANCING

- Acquisition financing
- Current refundings/restructures

SHORT TERM FUNDS

- Short end of the yield curve
- Bridge loan
- Balloon debt

DUAL TRACK PROCESS

- Credit rating sneak peek/investor solicitation
- Bank RFP (canvas 40+ lenders)

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now what?

TO-GO THOUGHTS

Davidson suggests the next steps be taken as the School works to evaluate financing options for the upcoming project:

1. How much can we afford?:

- 5-year financial forecast with enrollment assumptions (and audits as available)
- **DADCO Action Item**: review and provide the School with a “debt capacity” analysis (maximum amount of debt the School can afford while also maintaining the integrity of the academic program and find a bond investor). The analysis will utilize three different financial approaches to evaluating leverage and find the School’s “sweet spot”

2. What’s my “credit story”:

- “Zoom” or in person meeting
- **DADCO Action Item**: allows Davidson to “dive deeper” into the School’s credit by meeting with the board and leadership as well as discuss the School’s short term and long term master plan. Our goal is to obtain the lowest cost of capital while preserving the most financing flexibility for the future knowns and unknowns

A group of diverse children, including a young girl with curly hair in the foreground, are smiling and looking towards the camera. The image is dimmed with a dark overlay. The word "Questions?" is written in white, sans-serif font in the center of the image.

Questions?