Charter School Facility Financing

From Start-Ups to Stabilized Operators

Prepared for the South Carolina Charter School Conference

PIPER | SANDLER

Hubrich Contracting Inc

TURNER CAUDELL

Presentation Participants

PIPER | SANDLER

Wes Olson
Senior Vice President
(612) 505-9668
wesley.olson@psc.com

Jay Hromatka
Managing Director
(612) 303-1776
jay.hromatka@psc.com

Hubrich Contracting Inc

Steve Hubrich
President
(919) 471-2895
steve@hubrichcontracting.com

TURNER CAUDELL

Mary Allison Caudell
Partner
(803) 828-9708
macaudell@turnercaudell.com

Facility Finance 101

Own your facility from the beginning

- Tax-Exempt Bonds
- Private Placements

You can finance any capital expenditures and working capital (if needed)

- Land acquisition
- Building, construction, renovation, refinance
- Fixtures
- Athletic facility

Key Question
How Much Can you Afford?

Long-Term Bonds vs Bank Placement

	Long-Term Bonds	Bank Placement
Term	Up to 40 years	5-15 years
Amortization	Up to 40 years	Up to 25 years
Reserve Fund	Required	Not required
Credit Rating	Recommended	Not required
Equity Requirement	None, Borrower's choice	25%-35% of appraised value
Up front costs	Higher	Lower
Refunding Eligibility	Between 5-10 years	Flexible
Balloon Risk	None	Typical
Reset Risk	None	Typical

Variety of Charter School Clients

Piper Sandler's underwriting and placement agent services offer significant market penetration and expertise in the charter school sector.

Piper Sandler supports charter schools throughout their lifecycle as highlighted below:

	Start-up Schools	Expanding Schools	Stabilized Schools
Typical Ratings	Non- Rated	"BB/Ba" or NR	"BBB/Baa" or Enhanced
Bond Market	Single Investor Deals (likely), Limited Offerings (with right story)	Limited/Public Offerings	Public Offerings, Enhancement Programs
Placement Market	Banks (with equity/sub debt)	Banks (with equity/sub debt)	Nationwide Loan Funds
Typical Credit Metrics	Management, Demand Profile, Affiliations/Philanthropy, Brand	Demonstrated financial/academic success, 40+ days cash, clear market penetration	Waitlists, stable enrollment, 100+ days cash, 1.5x coverage ratios, demonstrated academic performance, charter renewals

Key Characteristics and Common Challenges

What do we consider?

- History & founding
- Historic enrollment
- Waitlist
- Educational program/academic performance
- Financial performance - liquidity, operating margin & debt service coverage
- Governance
- Administration
- Charter Contract
- Retention – students & teachers
- Student demographics (including free & reduced lunch)
- The Project
- Competition

Common Challenges

- Charter renewal/revocation risk
- Limited operating history compared to other sectors
- Slim margins/limited liquidity
- High debt burden
- Construction risk
- Significant increase in facility size
- Demonstrating demand

Debt Capacity Analysis

Piper Sandler can further review your school's planning process by performing a debt capacity analysis. The analysis will highlight the following:

- Affordability of contemplated project
- Impact of estimated debt service on financials
- Estimated rates based on the school's credit
- Additional project fund capacity based on credit and enrollment levels

The information needed to complete this analysis is listed below:

Historical and Projected Enrollment/Waitlist by grade	○
Audited Financials	○
Financial Projections	○
Any Estimated Project or Acquisition Costs (if available)	○
Academic results/authorizer reports	○

Governance and Administration Best Practices

- Engage Counsel
- Reimbursement Resolution
- Board & Administration/Management Involvement
  - At least one representative from each heavily involved
  - Board approved parameters & delegation rights
- Facilities Subcommittee
  - Board member involvement
  - Administration/management involvement
  - Attend regular meetings regarding facility and update Board
- Inform Authorizer
- Loop in financial service provider
- 501c3
- Communicate with Sponsor regarding facilities plans
- Develop the story and the "why" behind the facility
- If enrollment is expanding, have plan for additional staffing

Real Estate/Construction Considerations

- Engage with professionals early in process
  - In conjunction with financing partners
- Process takes time and expertise;
  - Site Selection
  - Government Approvals
  - Development & Construction Schedules
  - Architectural & Engineering services
  - Zoning and Permitting
- Supply chain pressures causing material price volatility and increased lead times
- Understand spatial requirements ie. build for needs not wants given the current economic environment
- Construction Contract with adequate protections
  - P&P Bonds
  - Liquidated Damages
  - Guaranteed Maximum Price
  - Contingencies
- Office of School Facilities Process
- Take advantage of any grants like erate

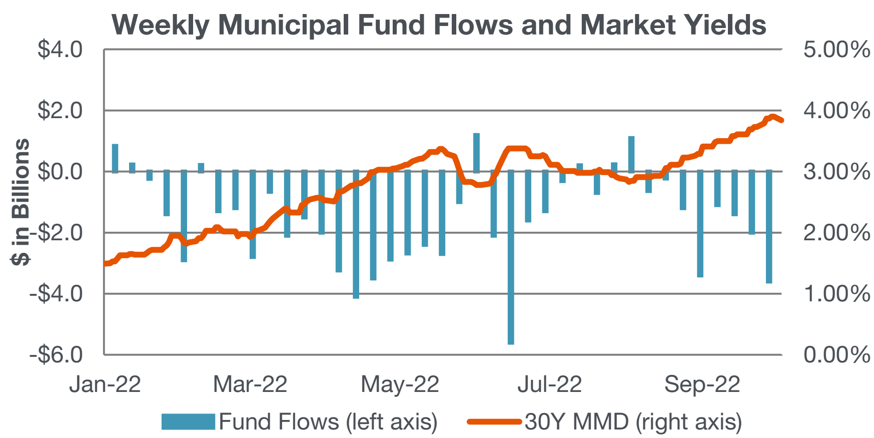
Charter School Market Update

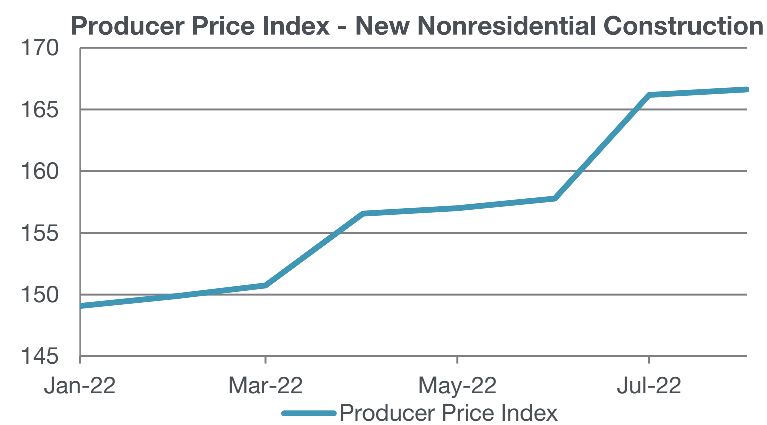
Market Update

The municipal capital markets have continued to experience rising interest rates and outflows to the municipal bond funds through the third quarter of 2022. These conditions coupled with rising construction costs have caused an increase to the overall facility cost for charter school financings.

Given these conditions, market participants have used the following strategies to mitigate the impact of rising interest rates:

- **Longer Final Maturity:** Financings beyond 35-years became more common in 2021 while the market conditions were favorable, allowing borrowers to extend their final maturity beyond historically accepted terms. Throughout 2022, we have seen a significantly higher number of transactions extend beyond 35-years (Approx. 24%). This has helped lessen the debt service burden of facility financings.
- **Balloon Maturity:** There has been an increase in the number of shorter-term financings with balloon maturities. This has allowed borrowers to achieve a lower interest rate by moving slightly up the yield curve and more importantly, allow them to refund earlier than the market typically allows for in longer-term financings.
- **Short Call Provisions:** Historically the standard call feature for municipal bonds is 10-years. The majority of recent financings have included shorter call provisions, typically with a premium, to allow the school to refinance early when market conditions improve.
- **Phased Projects:** Rising construction and borrowing costs have led to an increased number of schools choosing to do a phased financing as opposed to borrowing for an entire project all at once.



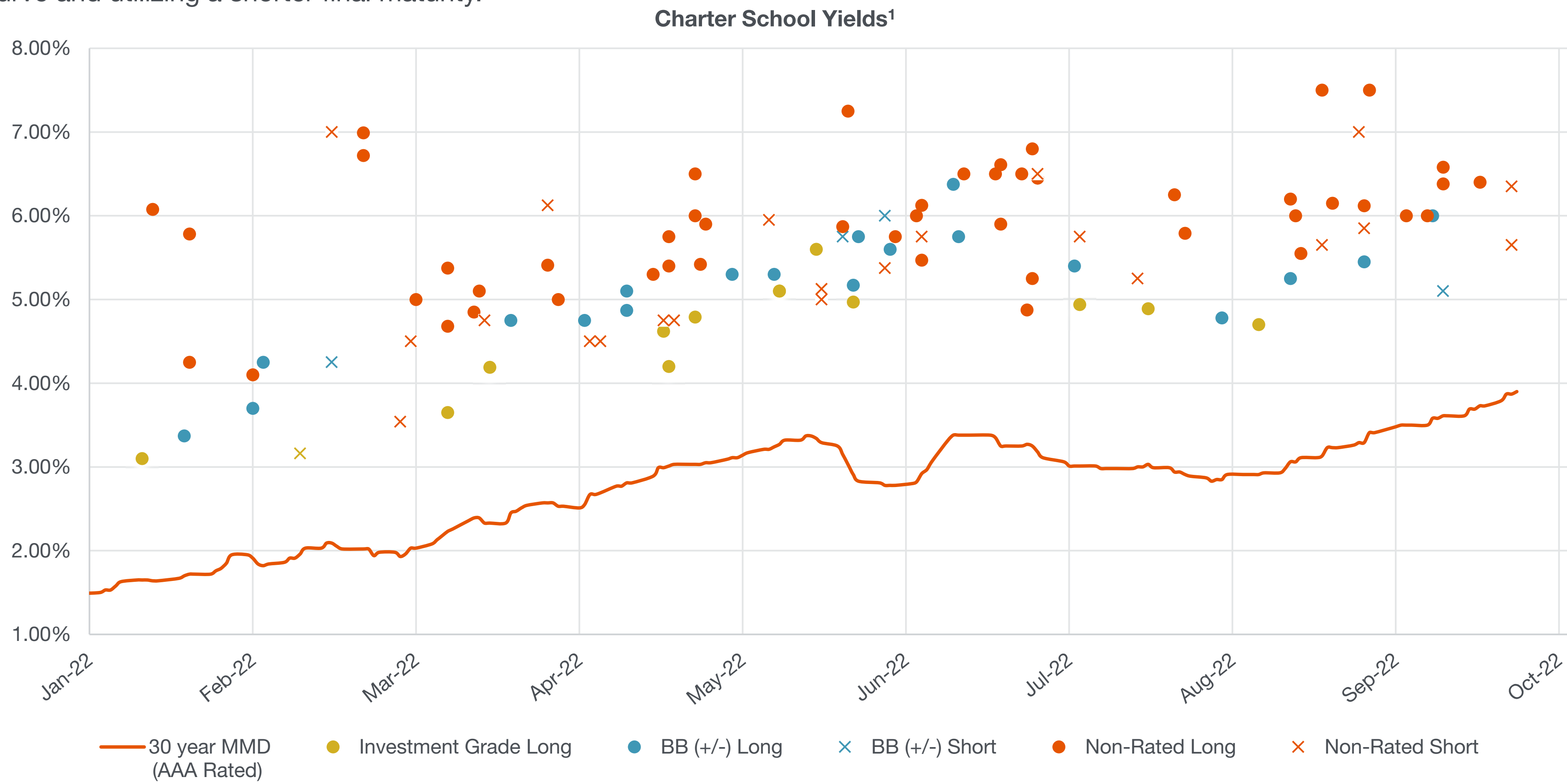


Sources: Bloomberg, TM3, EPFR, Refinitiv, St. Louis FRED, Piper Sandler Research

Charter School Market Update

Market Data

The chart below shows interest rates on charter school transactions broken down by both rating and term of financing. Interest rates have risen across all rating categories and maturities. Borrowers have achieved slightly better interest rates by moving up the yield curve and utilizing a shorter final maturity.



Sources: Refinitiv, TM3, Bloomberg, Piper Sandler Research

(1) Unenhanced Charter School Transactions since January 2022. Yield on Longest Maturity. Short is transactions with final maturity less than 29 years and long is transactions 29 years or longer.

Charter School Market Update

Market Outlook

On September 21st, the FOMC raised its Fed Funds target by 75 bp in the range of 3.00% to 3.25%, this vote was unanimous. The Fed's tone was slightly more upbeat on the economy, as instead of "have softened" it acknowledged that recent indicators "point to modest growth" in spending and production.

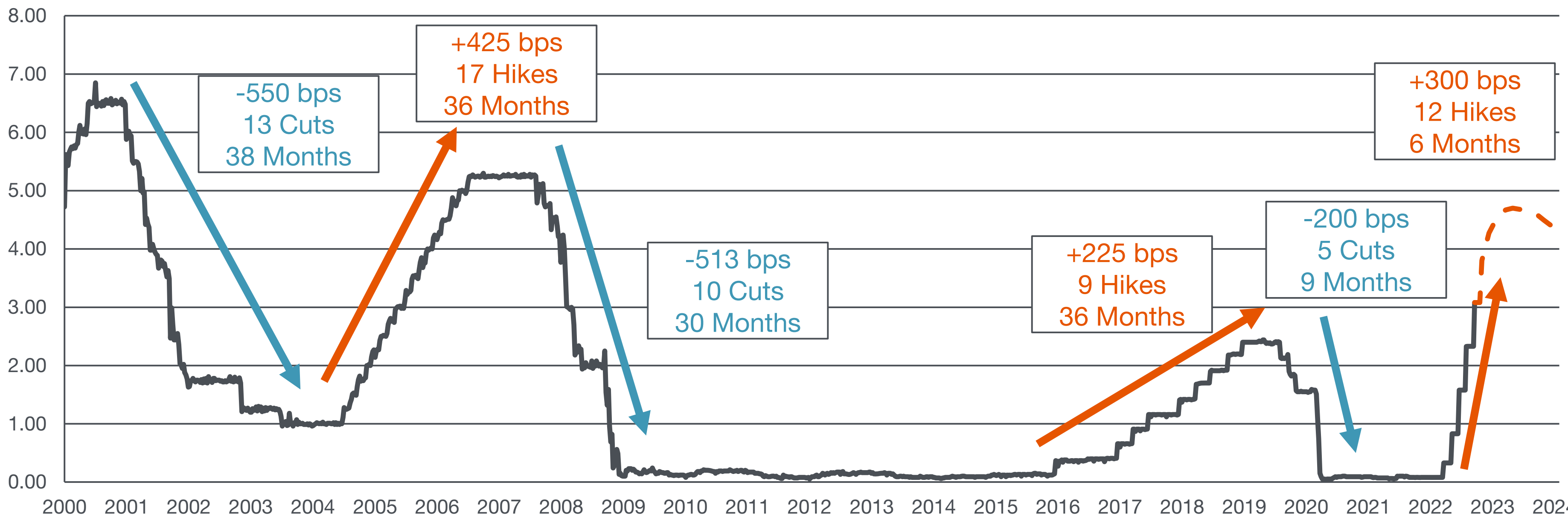
The Fed is expected to continue to raise interest rates through the first quarter of 2023. Following that, interest rates are expected to start declining.

In general, current market interest rates for charter school borrowers have factored in these expected Fed Fund rate hikes. **We would not expect charter school interest rates to further increase by the same amount the Fed Funds rate is expected to rise.**

Bloomberg Interest Rate Forecasts (%)[2,3]

	Fed Funds Range	2-Yr UST	10-Yr UST	30-Yr UST
Current	3.00-3.25	4.06	3.60	3.65
Q4 2022	3.92-4.15	3.68	3.32	3.45
Q1 2023	4.03-4.30	3.63	3.28	3.41
Q2 2023	3.95-4.20	3.51	3.24	3.36
Q3 2023	3.82-4.05	3.27	3.14	3.31

Historical Federal Funds Rate Movements[1]



Sources: (1) FRED. As of Q2 2022, (2) Bloomberg (Economics Calendar). As of 7/11/2022, (3) Estimates based on compilation of bond yields, current market research, and economists' consensus forecasts.

Disclosure

Piper Sandler is providing the information contained herein for discussion purposes only in anticipation of being engaged to serve as underwriter or placement agent on a future transaction and not as a financial advisor or municipal advisor. In providing the information contained herein, Piper Sandler is not recommending an action to you and the information provided herein is not intended to be and should not be construed as a "recommendation" or "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934. Piper Sandler is not acting as an advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act or under any state law to you with respect to the information and material contained in this communication. As an underwriter or placement agent, Piper Sandler's primary role is to purchase or arrange for the placement of securities with a view to distribution in an arm's-length commercial transaction, is acting for its own interests and has financial and other interests that differ from your interests. You should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

The information contained herein may include hypothetical interest rates or interest rate savings for a potential refunding. Interest rates used herein take into consideration conditions in today's market and other factual information such as credit rating, geographic location and market sector. Interest rates described herein should not be viewed as rates that Piper Sandler expects to achieve for you should we be selected to act as your underwriter or placement agent. Information about interest rates and terms for SLGs is based on current publically available information and treasury or agency rates for open-market escrows are based on current market interest rates for these types of credits and should not be seen as costs or rates that Piper Sandler could achieve for you should we be selected to act as your underwriter or placement agent. More particularized information and analysis may be provided after you have engaged Piper Sandler as an underwriter or placement agent or under certain other exceptions as describe in the Section 15B of the Exchange Act.

Piper Sandler Companies (NYSE: PIPR) is a leading investment bank and institutional securities firm driven to help clients Realize the Power of Partnership®. Securities brokerage and investment banking services are offered in the U.S. through Piper Sandler & Co., member SIPC and FINRA; in Europe through Piper Sandler Ltd., authorized and regulated by the U.K. Financial Conduct Authority; and in Hong Kong through Piper Sandler Hong Kong Ltd., authorized and regulated by the Securities and Futures Commission. Asset management products and services are offered through separate investment advisory affiliates.