



Bonds and Blackboards: A Guide to Bond Financing for Charter Schools

California Charter Schools Conference
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Introductions



Local Initiatives Support Corporation

LISC Charter School Financing supports education facilities improvements, construction, and development. LISC has invested over \$292 million in loans, tax credit allocations, guarantees, and grants in 200 charter schools across the country. CSF also conducts research on facility financing best practices, state policies and federal policies and disseminates this information through [SchoolBuild](#).



Sorbello Strategic Finance

Sara Sorbello

Sorbello Strategic Finance helps non-profit, mission-driven lenders deploy capital to high-impact charter school facilities projects nationwide. Sara previously served as Vice President, LISC Charter School Financing. She is the author of LISC's *Charter School Bond Issuance: A Complete History, Volume 4* (forthcoming April 2023).



Equitable Facilities Fund

Wendy Berry

The Equitable Facilities Fund (EFF) is a nonprofit social impact fund for high-performing charter schools that offers low-cost, long-term financing for a variety of projects. EFF combines philanthropic funds with private capital to provide schools with long-term, fixed-rate loans at the best terms available outside of government-enhanced programs. To date, EFF has committed over \$1 billion in high-impact funding to schools serving ~80,000 students across 20 states.



Orrick, Herrington & Sutcliffe LLP

Eugene H. Clark-Herrera

Orrick is an international law firm that advises on transactions, litigations, litigation and regulatory matters for venture-backed companies, public companies, E&I funds, financial institutions and government. The Charter School Public Finance Team has assisted charter schools in developing innovative school bond financings and public finance transactions, including an increased number of tax-exempt, tax-credit and taxable financings.



Rocketship Public Schools

Ben Carson

Rocketship Public Schools is national network of high-performing elementary schools in underserved communities. Rocketship Public Schools serves 27,508 students nationwide, 77% of which are socioeconomically disadvantaged, and all of the schools are in the top 10% of public elementary school districts serving similar students. Rocketship Public Schools offers parents the choice of an excellent public education in the Bay Area, Milwaukee, Nashville and Washington D.C.



Who is in the Audience?

School Staff or Board Members

- **Planning a bond issuance or other financing?**

Authorizers

Underwriters

Financial Advisors

Real Estate Developers

Others?

Overview of Facility Financing Options



School Facilities & Financing Lifecycle

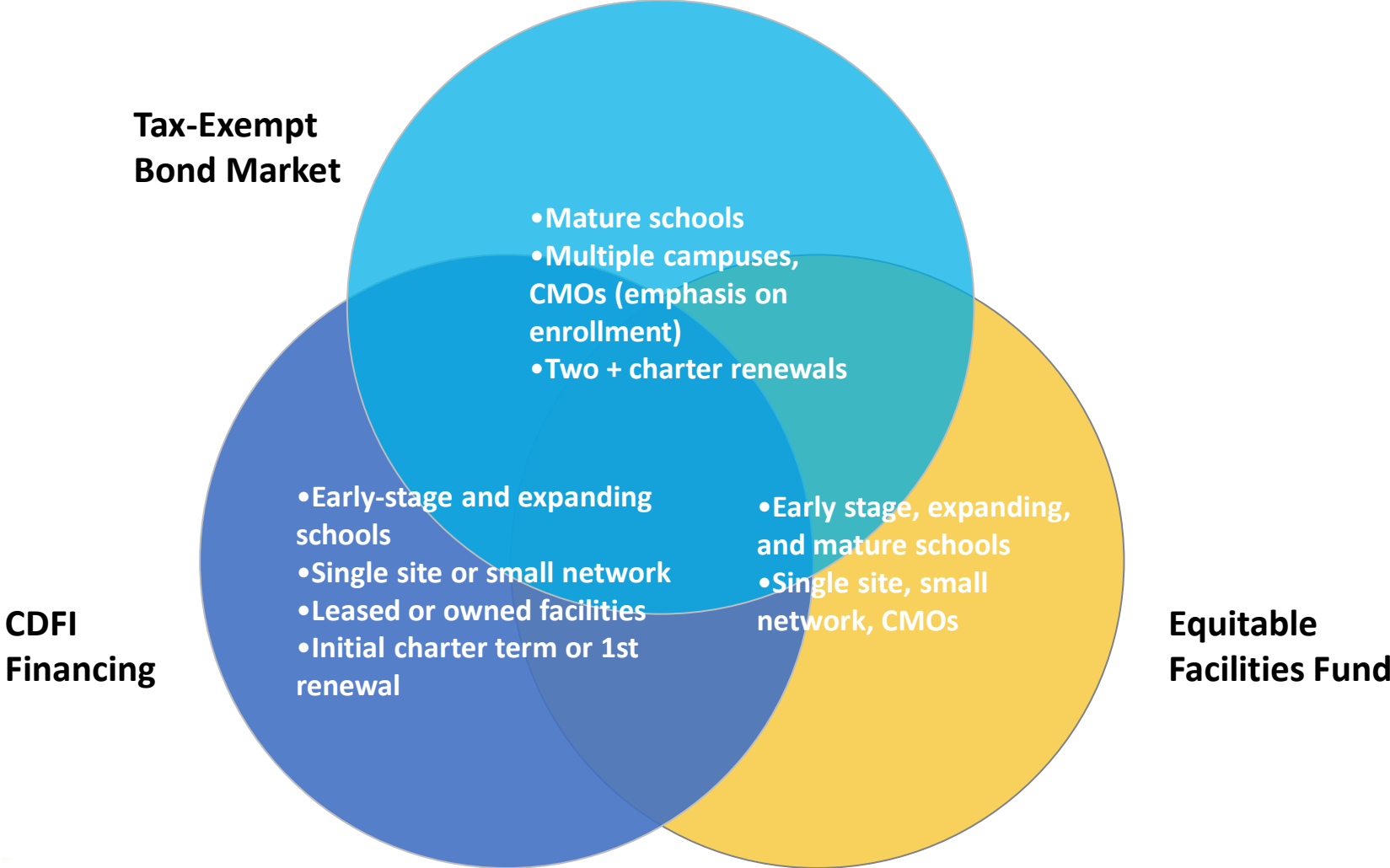
Start-Up, Growth Years

Stabilization

Replication

- Lease space that can grow with you
 - Secure short-term interim financing (leasehold improvements)
 - Nonprofit lenders: Community Development Financial Institutions (CDFIs) and philanthropically-backed loan funds (Facilities Investment Fund and Equitable Facilities Fund)
- Move to ownership of property with longer-term financing
 - CDFIs; philanthropically-backed loan funds (Facilities Investment Fund, Equitable Facilities Fund); banks in some markets
- Charter renewed, larger enrollments
 - Consolidate financing, develop larger, additional properties
 - Tax-exempt bond market; Equitable Facilities Fund

School Facilities and Financing Lifecycle



Comparing Long-Term Financing Options: Credit Criteria

	Tax-Exempt Bond Market	Charter-Specific Bond Fund: Equitable Facilities Fund	CDFI Long-Term Loans (eg, Bond Guarantee Program)
Typical* Credit Criteria			
School Age, Charter History	5+ years in operation, charter renewed	Case-specific	Case-specific and varies by CDFI
Demand	Larger enrollments; history of meeting enrollment targets; waitlist exceeding available seats	History of meeting enrollment targets; high student retention; typically underwriting projected enrollment growth	History of meeting enrollment targets; high student retention; typically underwriting projected enrollment growth
Academic Criteria	None, pricing may vary based on academic performance	Outperformance of district in proficiency and/or growth	Varies by CDFI but generally outperformance of district
Governance	Diverse board with relevant experience and appropriate, effective committees	Diverse board with relevant experience and appropriate, effective committees	Diverse board with relevant experience and appropriate, effective committees
Debt Service Coverage	Typically $\geq 1.20x$; factor in pricing	$\geq 1.10x$	$\geq 1.10x$
Debt Service Burden	Factor in pricing	$\leq 20\%$	$\leq 20\%$
Borrower Equity Requirement	No equity required	Typically, no equity required	10-20%; credit enhancement may be available to reduce equity requirement
Elements of Strong Borrower Profile	<ul style="list-style-type: none"> - Current enrollment of 1000+; often multiple campuses - 10+ years in operation - At least two charter renewals - Strong historical financial performance (coverage and 120+ days cash on hand) 	<ul style="list-style-type: none"> - Serves a high free/reduced-price lunch student population - Strong academic performance - Strong historical financial performance; tolerance for smaller balance sheets (60 days cash on hand) 	<ul style="list-style-type: none"> - Serves a high free/reduced-price lunch student population - Strong academic performance - Strong historical financial performance; tolerance for smaller balance sheets (60 days cash on hand)

* Typical criteria and terms are provided for illustrative purposes only and are subject to change.

Case Study Part 1: Credit Profile



Case Study Instructions

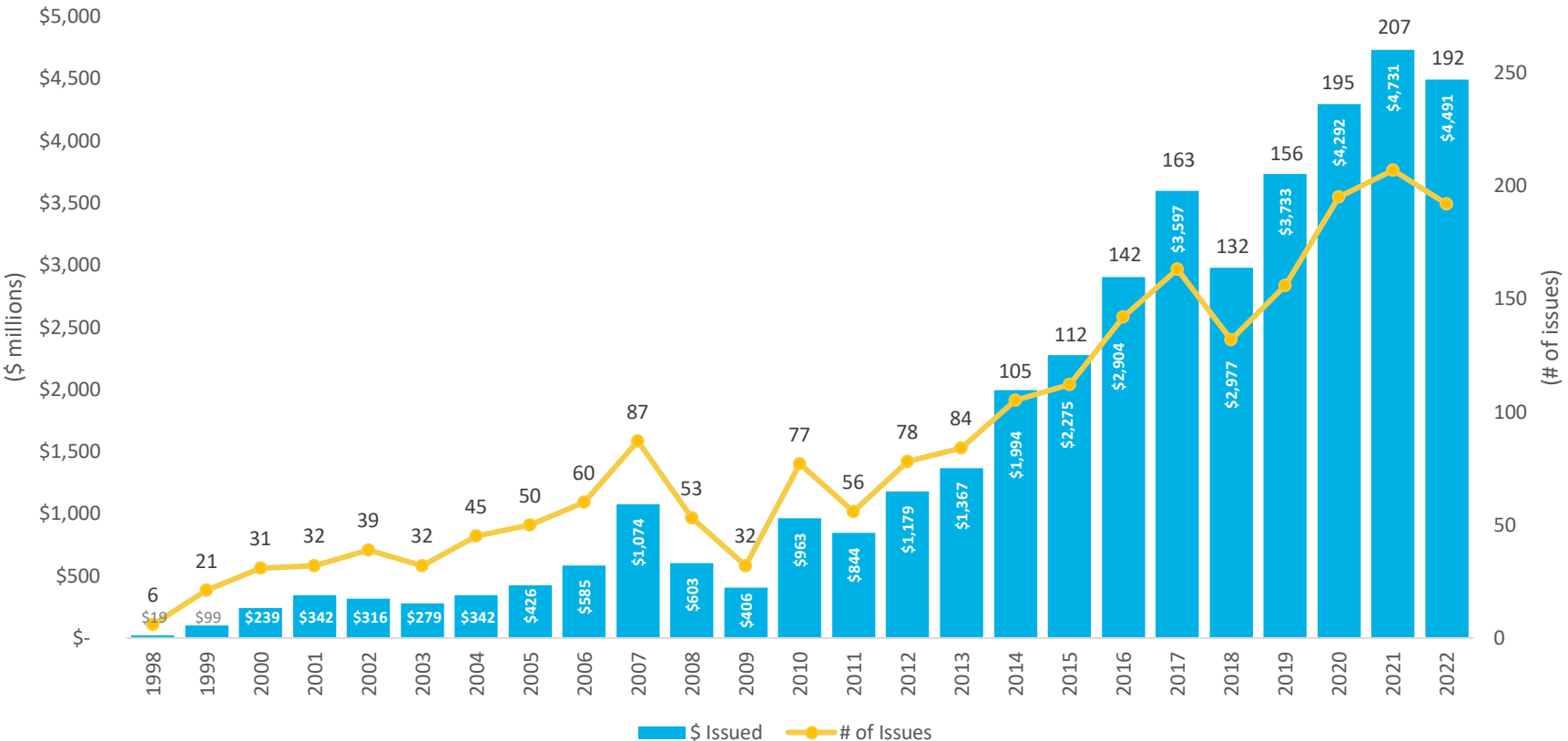
1. Break into small groups. Each group will evaluate one hypothetical school for potential investment.
2. You are an investment committee considering the **credit strength** of Charter School A, B, C or D.
3. Would you invest in this school? Why or why not?

Charter School Bond Market Overview



Overview of the Charter School Bond Market

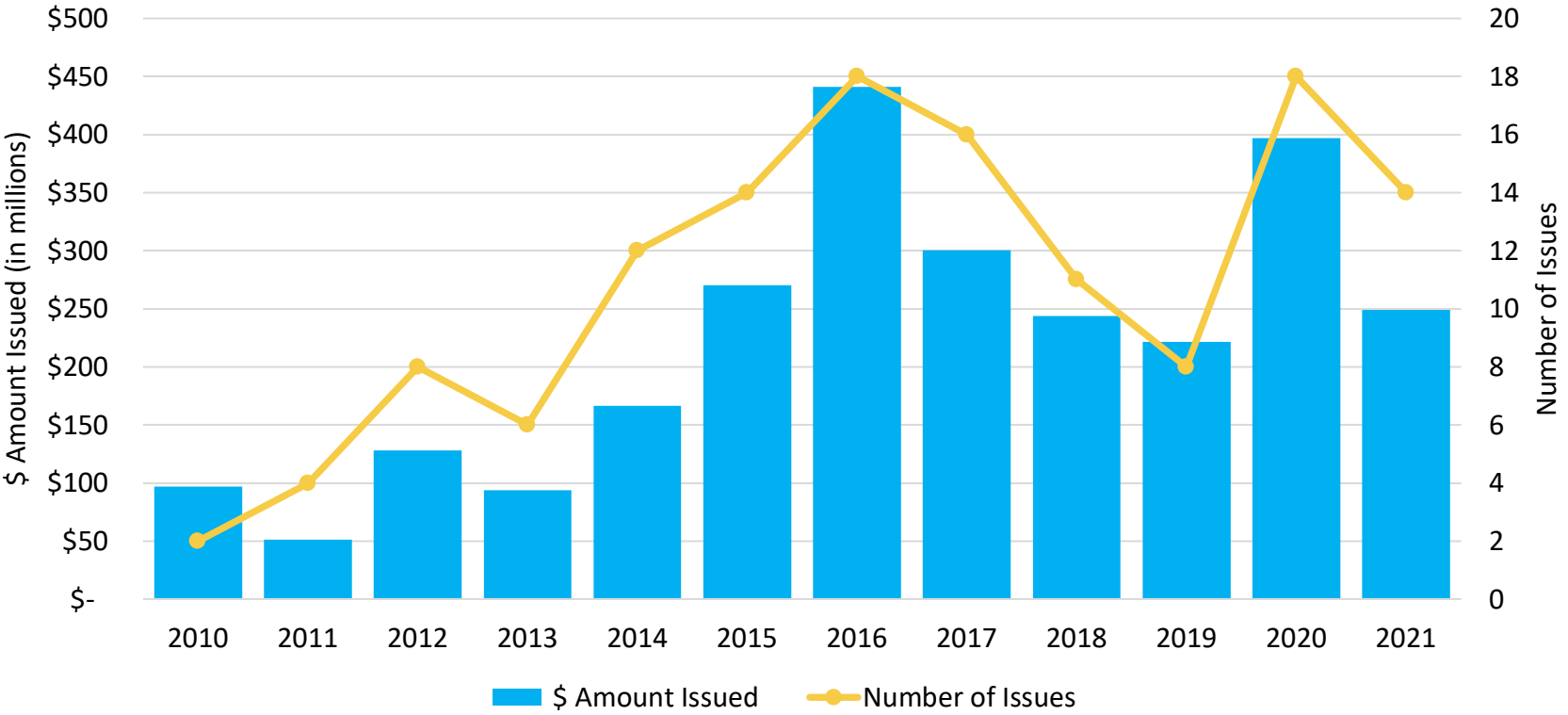
Annual Charter Bond Issuance: 1998-2022



- Historically, the lowest cost of long-term, fixed-rate borrowing
- Significant flexibility for schools
- \$40 billion of charter school bonds issued, representing over 2,200 transactions
- Considered a "high yield" sector due to few investment grade rated transactions and unique risks

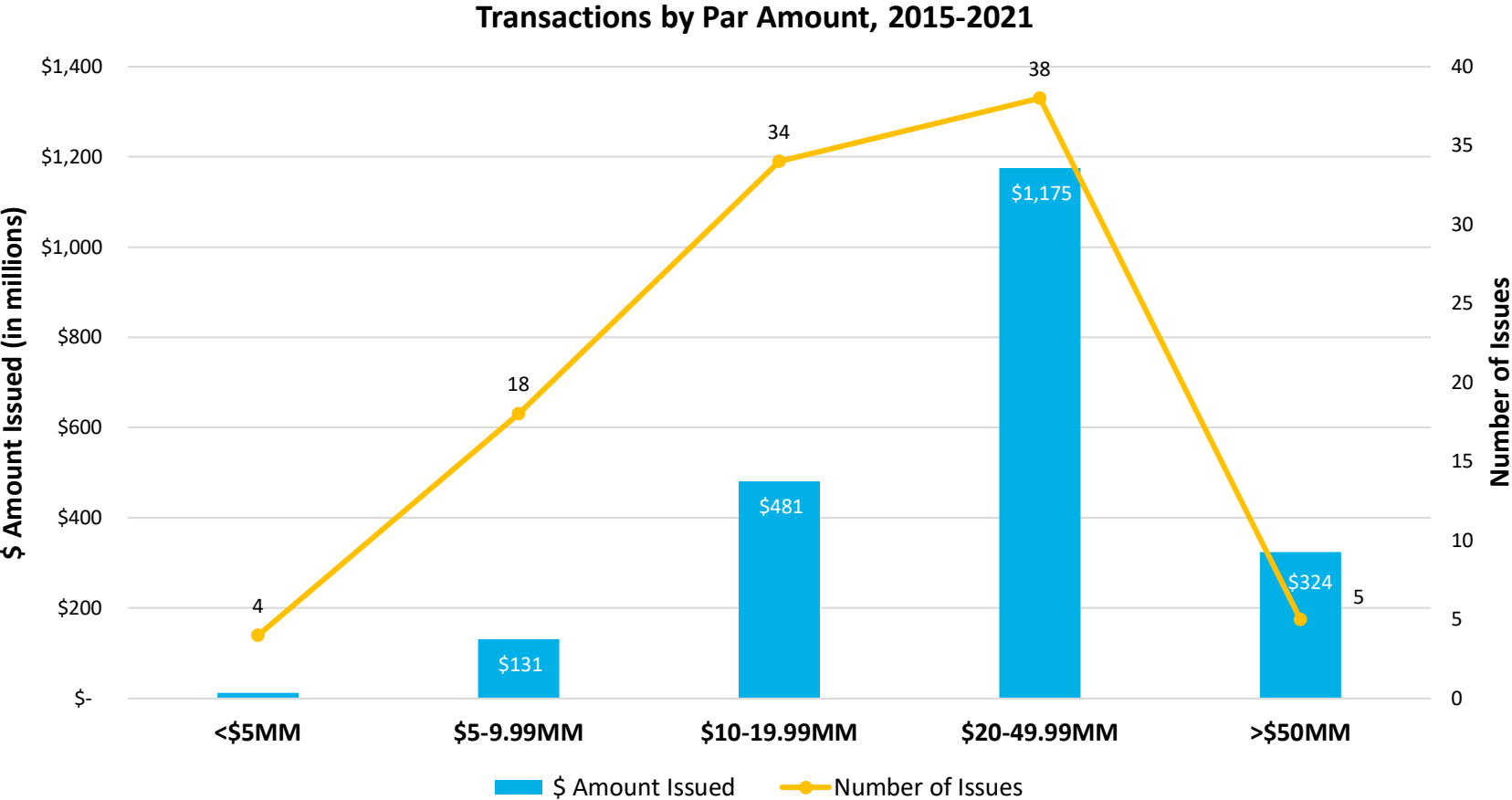
CA Charter School Bond Market

Annual California Charter School Bond Issuance

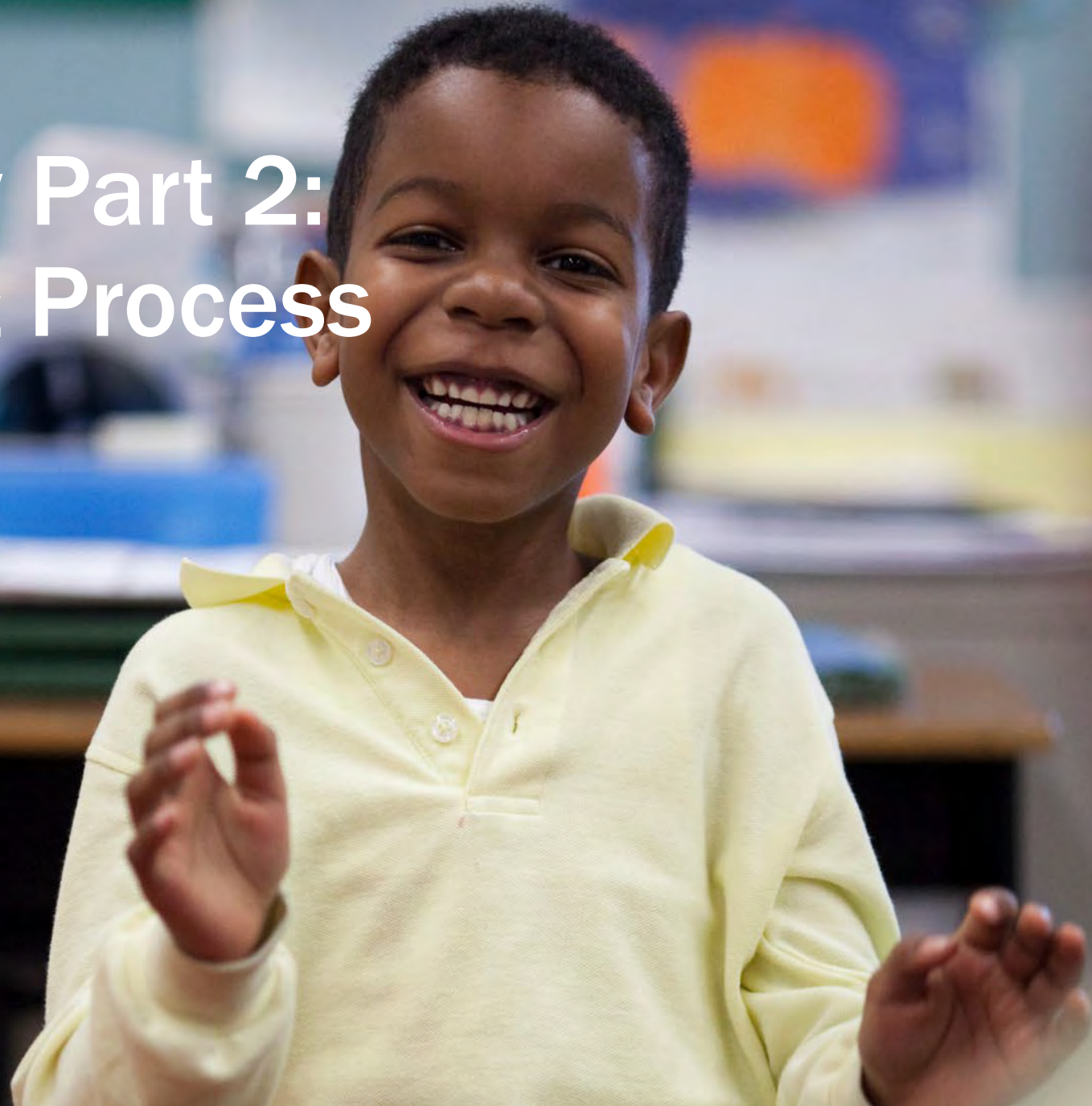


- **\$2.8 billion of bonds issued between 2001-2021 representing more than 140 transactions**
- **California is consistently among the top five states in annual charter school bond issuance (and overall municipal bond issuance)**
- **Single site schools, small networks and large CMOs have used tax exempt bonds to finance their facility projects**

CA Charter School Bond Market: Transaction Size Distribution



Case Study Part 2: Products & Process



Comparing Long-Term Financing Options: Product Terms

	Tax-Exempt Bond Market	Charter-Specific Bond Fund: Equitable Facilities Fund	CDFI Long-Term Loans (e.g., Bond Guarantee Program)
Typical* Product Terms			
Typical Transaction Size	\$10MM - \$100MM+	\$5MM - \$30MM+	\$2MM - \$20MM+
Use of Proceeds	Acquisition, Construction, Renovations; Refinancing	Acquisition, Construction, Renovations; Refinancing; Advance Refunding	Acquisition, Construction, Renovations; Leasehold Improvements; Refinancing
Term	Up to 35 years +	Up to 35 years +	20-25 years
Interest Rates	Market-based and risk-adjusted based on school credit profile	Below-market due to philanthropic component	Depends on product; ~5.50-6.50%
Average Costs of Issuance/Closing Costs	3.5 - 4.5%	2% - 3.5%	1.5% - 3%
Debt Service Reserve Requirement	12-month funded debt service reserve	Varies	Varies; typically not required
Financing Amount	100% + loan-to-value	100% + loan-to-value	Typically 80-90% loan-to-value for long- term loan
Optional Redemption/Prepayment	Generally at 10 years	Generally at 10 years	- Generally prohibited for Bond Guarantee Program loans - Other products offered
Other Requirements	Prevailing wage requirement (CA)		

* Typical criteria and terms are provided for illustrative purposes only and are subject to change.

Comparing Long-Term Financing Options: Complexity


	Tax-Exempt Bond Market	Charter-Specific Bond Fund: Equitable Facilities Fund	CDFI Long-Term Loans (eg, Bond Guarantee Program)
Complexity*			
Overall	High	Medium - High	Low
Third Parties Involved:			
Underwriter/Placement Agent	✓		
Conduit Issuer	✓		
Rating Agency	Optional	✓ (streamlined)	
Municipal Advisor or Financial Advisor	Optional	Optional	Optional
Legal Counsel	✓ (+ bond counsel)	✓	✓
Public Hearing	✓	✓	
Timeline to Close (+/-)	90 - 180 days +	120 - 180 days	90 - 120 days

* For illustrative purposes only and are subject to change.

Case Study Instructions

1. Break into small groups. Each group will evaluate one hypothetical school for potential investment.
2. You are an **investor** considering an investment in a tax-exempt bond issuance by Charter School A, B, C or D.
3. Would you buy this bond? Why or why not?

Accessing the Tax-Exempt Bond Market: Process, Team, Timeline

A group of diverse people, including children in yellow shirts, listening attentively in a classroom or meeting setting. The background is slightly blurred, focusing attention on the text.

Overview of the Bond Financing Team

Bond Investor

The lender, provides a loan to the issuer of a bond by investing, and expects to receive the original principal along with interest over the life of the loan.

Issuer

An individual or entity that raises and borrows money from bond investors with the promise of periodic interest payments and repayment of the principal amount upon maturity.

Trustee

A financial institution with trust powers (e.g., commercial bank) that has trust powers and is responsible for ensuring that bond interest payments and principal repayments are made as scheduled and protects the interests of the bondholders if the issuer defaults.

Underwriter

The underwriters acts as intermediaries between bond issuers and investors. This is a firm or group of firms that purchases bonds from issuers and resells to investors.

Financial/Municipal Advisor

An individual or entity that provides financial advice or guidance to charter schools for compensation. Financial advisors can help train school boards, leadership teams and financial staff with their financial oversight, management and implementation. Financial advisors must carry their series 65 license to conduct business with clients.



Overview of Legal Counsel

Bond Investor

Issuer

Trustee

Underwriter

Financial/Municipal Advisor

Investor's Counsel

Bond Counsel

Trustee Counsel

Underwriter's Counsel

Borrower's Counsel

Not required (unless single-investor financing where bond investor act like a bank)

Approves the legal structure, drafts the legal documents and conducts tax due diligence

Limited role reviewing trust documents on behalf of trustee

Drafts the public market disclosure document and conducts finance and operations due diligence (as disclosure counsel) and drafts sale documents

Reviews and negotiates provisions of all documents to which the charter school is a party

Provides an opinion on the validity and tax exemption of the Bonds

Provides an opinion on the trustee's powers to hold funds in trust

OR

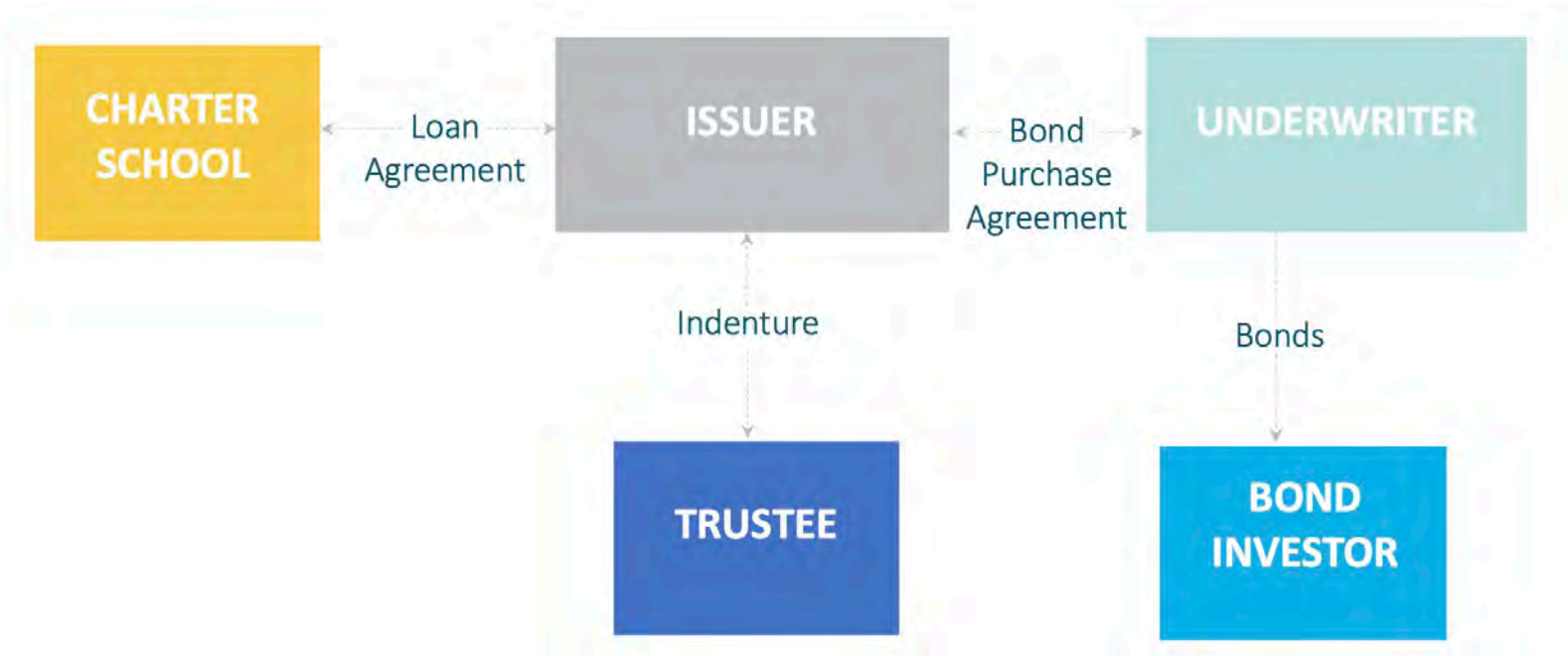
Reviews disclosure for underwriter and drafts sale documents

Advises school on preparation of disclosure

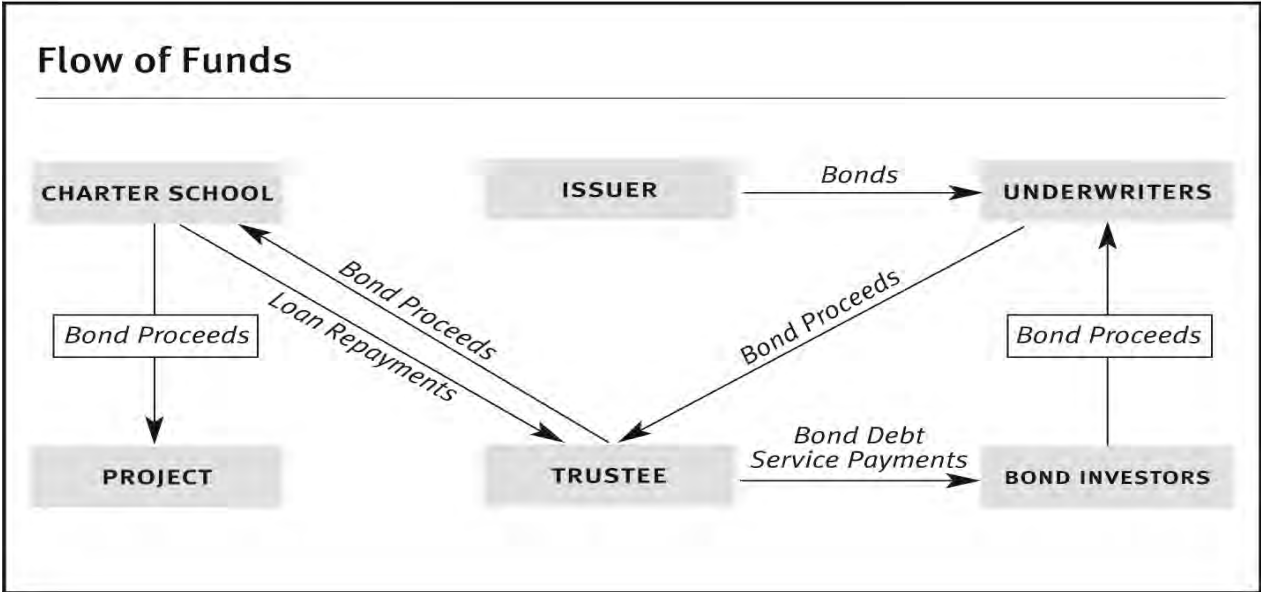
Provides an opinion regarding the tax-exempt status of the charter school, the validity of the actions it has taken to approve the financing, and its good standing under state law, among other matters



Overview of the Charter School Bond Financing Process: Participants



Overview of the Charter School Bond Financing Process: Flow of Funds



Key Questions & Considerations

Have we established board-level capacity to undertake the project?

- Recruit new directors, establish board committees, engage volunteers with expertise

Have we selected highest quality team of consultants?

- Obtain referrals from trusted networks (state associations, peer organizations with experience, authorizers)

Have we allowed sufficient lead time?

- Rushing leads to mistakes; plan for 4-6 months to complete financing alone

Sample Charter School Bond Financing Timeline

Date	Item / Milestone
Week of 3/6	<input type="checkbox"/> Kick-Off Call
	<input type="checkbox"/> Documents Distributed
	<input type="checkbox"/> Due Diligence Request Sent
	<input type="checkbox"/> Submit Rating Application
Week of 3/13	<input type="checkbox"/> Comments Due for Documents
	<input type="checkbox"/> PLOM and Appendix A Distributed
Week of 3/20	<input type="checkbox"/> Underwriter Credit Committee
	<input type="checkbox"/> Finalize Due Diligence Process
Week of 3/27	<input type="checkbox"/> Near-Final Documents, PLOM and Appendix A Distributed
Thurs., 3/30	<input type="checkbox"/> CSFA Board Authorizing Meeting (includes TEFRA hearing)
Week of 4/3	<input type="checkbox"/> Execute Due Diligence Questionnaire
	<input type="checkbox"/> Rating Received
	<input type="checkbox"/> Final Comments Due on Bond Documents, PLOM and Appendix A
Wed., 4/5	<input type="checkbox"/> Print PLOM
Week of 4/10	<input type="checkbox"/> Investor Presentation
Tues., 4/18	<input type="checkbox"/> Pre-Pricing Call
Wed., 4/19	<input type="checkbox"/> Price Bonds
Mon., 5/1	<input type="checkbox"/> Pre-Closing
Wed., 5/3	<input type="checkbox"/> Closing



Join Our Upcoming Sessions!

Session Title:

Demystifying Financial Statements

Who:

Dorothy Lee, Kelly Theofanis, and Tracy Bondi

When:

Wednesday, March 15, 2:00pm – 3:15pm

Where:

A2, Sacramento Convention Center

Description:

Do you dread the part of the board meeting when it's time to review and discuss the financial statements? Does it seem as if everyone is speaking another language? We will demystify the fundamentals of accounting and budgeting so you are prepared to effectively engage in financial discussions. We will also review what lenders focus on. Through group exercises, you will acquire the language, analytical tools, and insights needed to confidently evaluate your organization's fiscal health in today's uncertain times.

Session Title:

Facilities Funding Self-Assessment: Does Your School Have What It Takes to Take on Debt?

Who:

Eugene Clark-Herrera, Caprice Young, and Patrick Ontiveros

When:

Wednesday, March 15, 9:00am – 10:15am

Where:

A7, Sacramento Convention Center

Description:

Facilities funding experts with more than \$1 billion in financing experience between them will present the critical success factors for various funding strategies and then guide you in completing a self-assessment you can use with your team and board to develop a readiness strategy. Experts include experienced charter leaders and financing experts who know where the land mines are, so you don't need to step on them.

Scan the QR Code to Receive Charter School Bond Issuance: A Complete History, Volume 4

Charter School Bond Issuance: A Complete History Volume 4 will provide the charter school sector and capital market professionals with comprehensive data and analysis, updated information on charter school bond issuances, and trends evident in the charter school bond sector. This research is designed to provide greater transparency and information that can help creditworthy charter schools access the tax-exempt bond market at affordable rates.

Next Steps:

Scan the QR code to be one of the first to receive our groundbreaking and sector defining research!



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