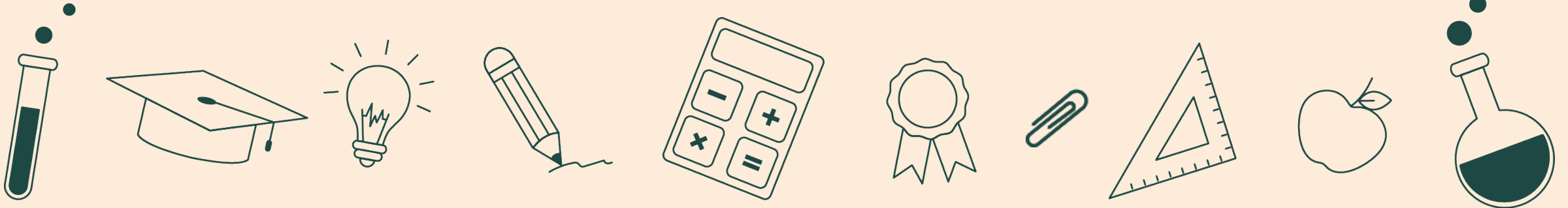




Facilities Financing: Landscape & Strategy

Cameron Quick
GCSA Facility Resource Center



Rank The Food – You Pick How! (1 Minute)



Now rank by antibiotic policies (1 Minute)



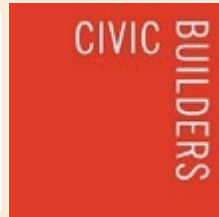
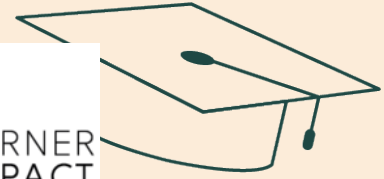
2017 Scorecard on Antibiotics Policies & Practices

A	 				
B+		B		B-	 
C+		C			
D+	 	D	   		
F	     				
	    				

Now Rank Your Lender (1 Minute)



How did you rank your lender and why?



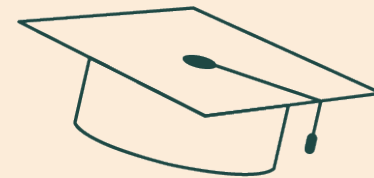
Goals of the Presentation



Participants will:

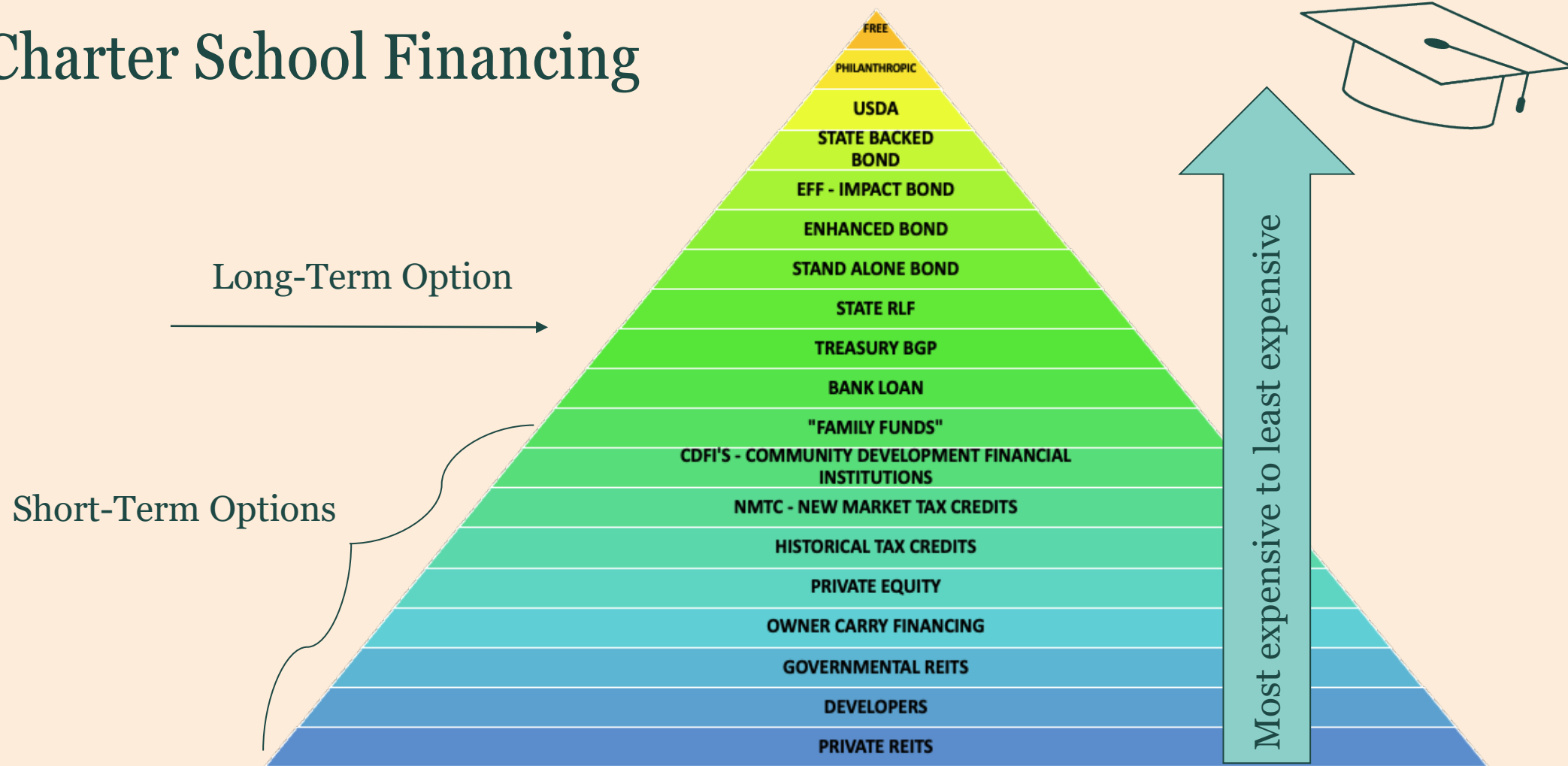
- Understand the various capital markets charter schools have access to
- Understand the the pathways to lending as it relates to their specific situation
- Leave with questions to ask their lenders
- Leave with questions to consider for developing a facility strategy (for financing)



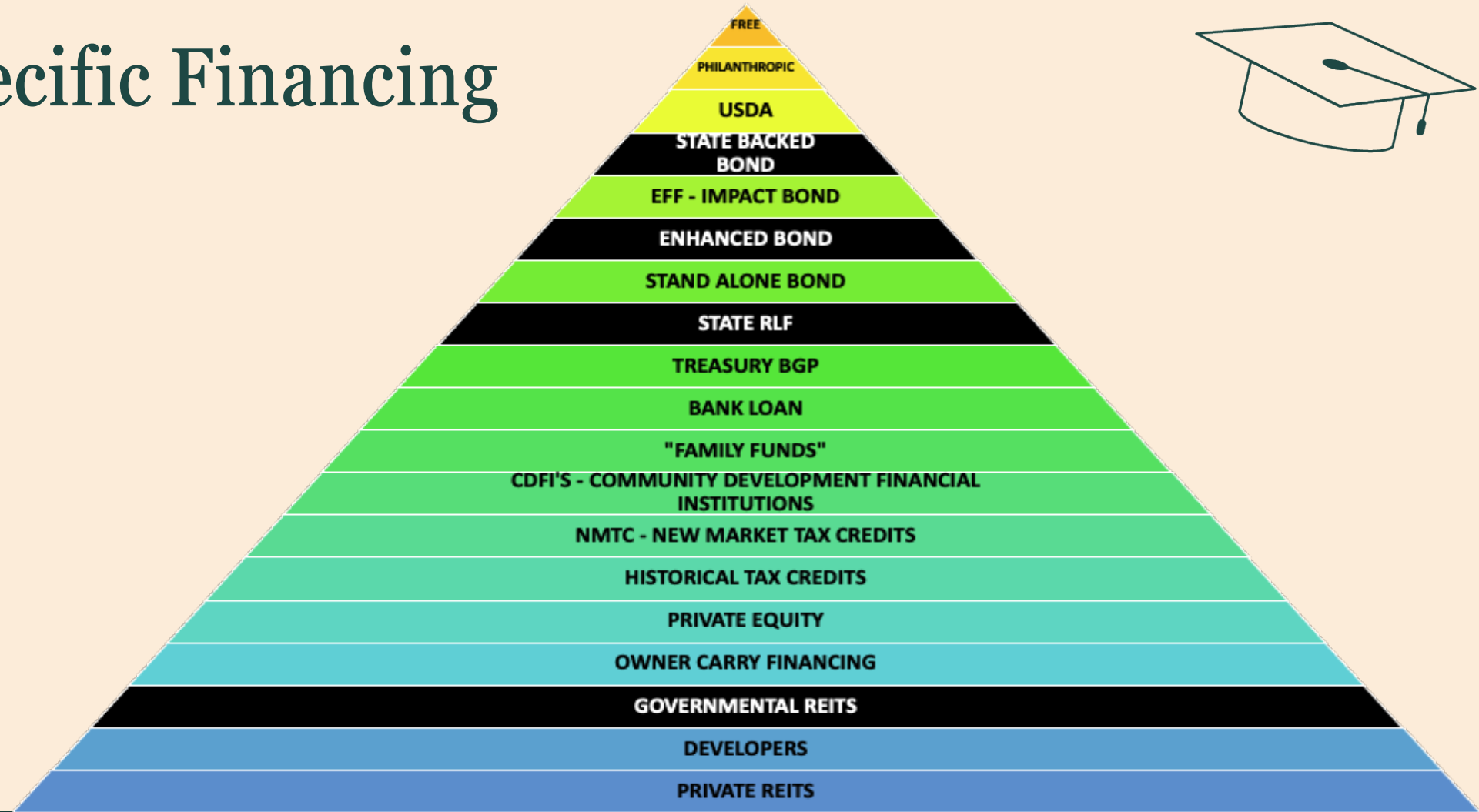
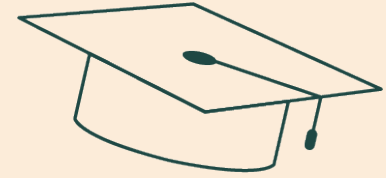


What are some of the financing options for state charter schools? How do they compare?

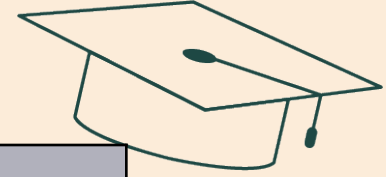
Types of Charter School Financing



Georgia Specific Financing



Common Types Of Charter Loans



	Developer	NMTC	Bank Loan	USDA	Bonds
Term	3-7 years	7 years	5-7 years	40 years	30-40 years
Estimated Rate Range	8%-12%	4%-8%	3%-6.5%	2%-3%	3.95%-6%
Rate Change	yes	upon refi	yes/refi	no	no
Prepayment	no	no	yes	yes	yes
Fees	20%-25%	2%-3%	1%-2%	1%-2%	4%-5%

Developer Financing

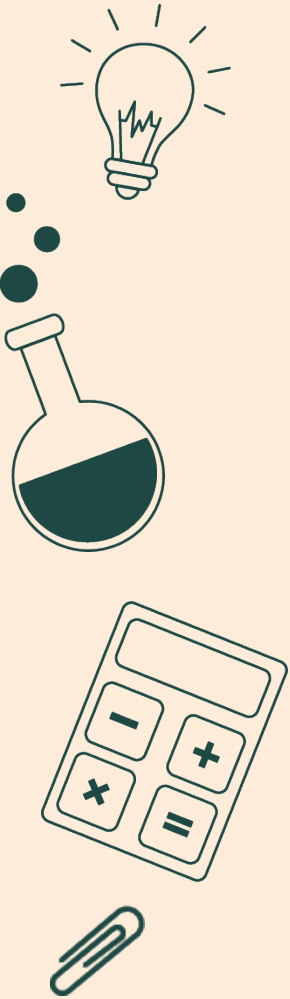
- **Significant up-front expenses**
 - Developer fee of 2-10%
 - GC fee up to 10%
 - Annual escalators of 3-12%
 - Subject to “right-sizing” and “growth strategy”
- **Typical covenants:**
 - DSCR of 1.05 to 1.20x and minimum days cash on hand 30-75
- **Ownership:**
 - Acquisition can be preset with a “bullet” or defined maturity date
 - Acquisition at any time
 - Acquisition within a window (3-5 years) if not sold off to reit
 - Acquisition with decreasing purchase price (year 5 @120%, year 7 @115%, etc.)
 - Acquisition with an increasing purchase price (Year 2 @ 115%, year 3 @ 117%, etc.)
- **Risks:**
 - Project control is owned by developer
 - High up-front and hidden fees
 - Quality of building
 - Acquisition challenges



CDFI Financing

Community Development Financial Institution - Traditionally a non-profit lender with a mission and focus aligned with that of their clients (i.e. charters)

- Traditionally leverage federal credit enhancements to offset risk.
- Will loan to year 0 charters
- Terms are structured to support borrower:
 - LTV 100% or 120%
 - DSCR of 1.05x to 1.20x
 - Subordinate lender or Senior Lender
 - Unsecured Loans for Tenant Improvements
 - Longer interest only periods
 - Longer amortization periods
- Risks:
 - Higher interest rates than other lenders
 - First right of refusal in covenants
 - Prepayment penalties
 - Academic underwriting - much more focused on credit risk as a school



NMTC Financing

New Market Tax Credits - Treasury Department sets an annual limit on tax credits for use.

- Only ~300 charter schools in history have ever received since inception of the charter law
- Traditionally structured to allow for about a 15% equity to be reverted to the school at the end of the term
- Has a “bullet” single maturity of 7 years (market rate risk)
- Covenants are structured to protect the credit investor
- Will require a lender to cover about 80% of the total project
- Risks:
 - Timelines for construction
 - No equity at the end
 - High transaction costs - legal fees, consultants etc.
 - 7 year refinancing rate risk



Bank Loan Financing

- Local bank may be very different than a national bank - relationships matter
- Typical term is 5-7 years with a 20-25 year amortization period
- School will typically need to refinance every 5-7 years
- Typically require minimal reporting
- Traditionally only cover about 75%-80% of the loan
- Risks:
 - Rate changes when it comes to refinance
 - Prepayment penalties
 - Require significant equity contribution from the borrower or a guarantee



USDA Financing

U.S. Department of Agriculture - schools residing in rural communities serving students can access direct lending program.

- Must be in an area that qualifies for USDA (less than 20,000 residents)
- Average rate 3.64% (averaged from 2011 to 2019)
- Current rate is about 2%
- Amortized over 40 years
- Risks:
 - Process is long and takes a long time to complete
 - If there is a government shutdown, the process is paused
 - Significant expertise required to successfully receive
 - Must be operational for 5 years



Financing through Municipal Bonds

Non-profit charter schools can issue tax exempt bonds in the state of GA.

HOWEVER: Default rate in GA is over 36% and the national average is under 5%

- Bonds are issued with an average term of 30-40 years
- Not all bonds are equal - ask underwriter how they are pricing and for recent comps
- Some allow for a build up period (which is financed with the bonds)
- An underwriter's fiduciary is that of the investor - not the school
- Risks:
 - High transaction costs
 - Limited flexibility with optimal redemption (call) features
 - Covenants geared towards protecting the investor
 - Can prohibit additional/future growth



That's quite a few options! Do you have a favorite
and if so, why?

It Depends...Each type of financing plays a role in the greater picture and at times will be the best option given each circumstance.

What is your timeline to close on financing?

- 1 month
- 6 months
- 2 years

What is the goal for the school?

- Growth/Stabilization
- Construction
- Refinancing

What would it take to access a cheaper source of capital?

- Enrollment
- Performance
- Finances
- Operating history

Does the “age” of the school matter? Is there a
“right” time to pursue financing?

Credit Risks As Classified by Charter Maturity

Year 0-3

- Limited days cash on hand
- Newly operating entity
- Academic performance - not measured/nominal measurement
- Financial performance - not measured/nominal measurement
- Enrollment and Product Demand - unproven

Year 4-5

- 3 years of audited financial statements
- Built up days cash on hand
- Some academic performance measurement
- Growing enrollment - application/anticipated enrollment: actual enrollment
- Waitlisted students by grade level



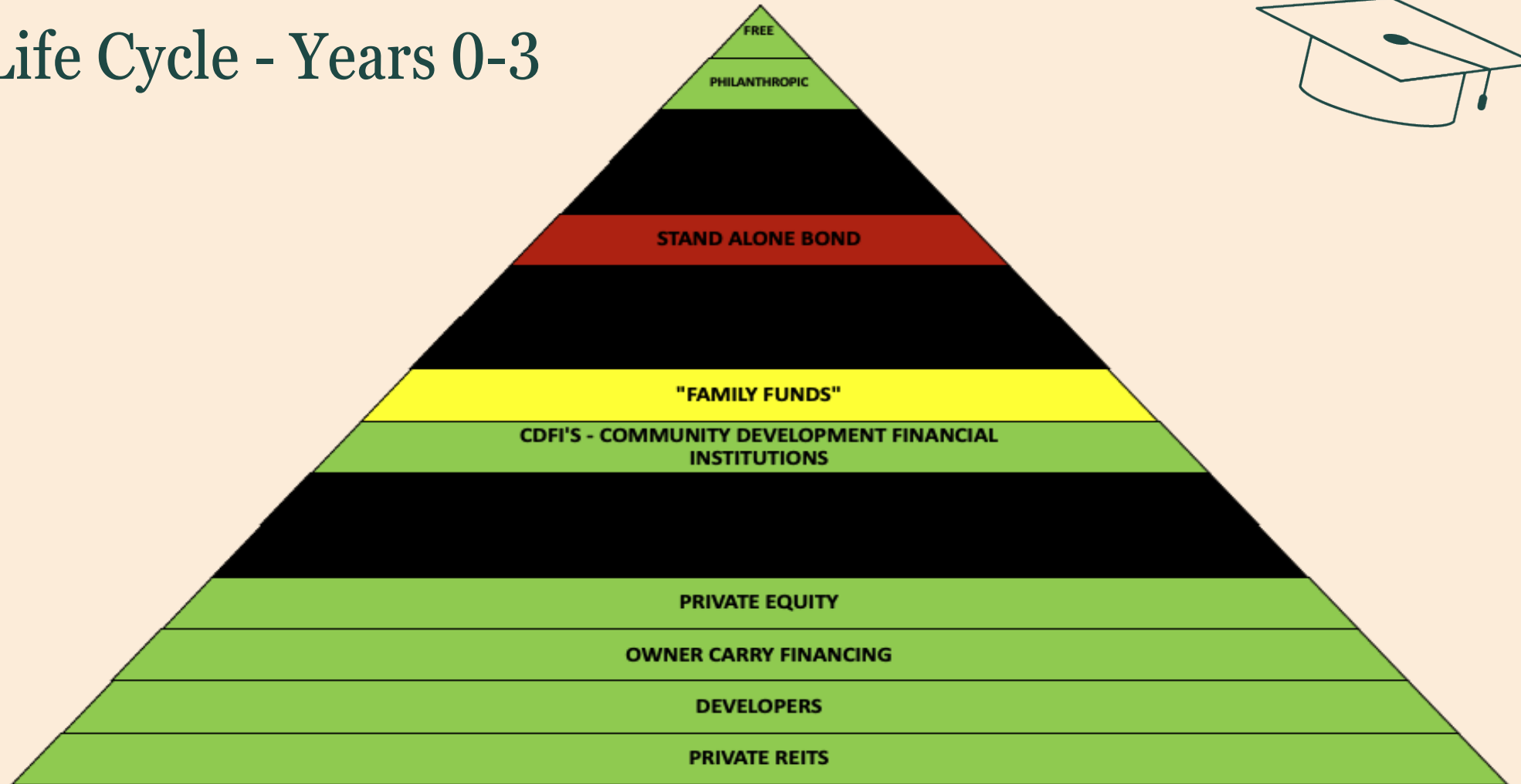
Credit Risks As Classified by Charter Maturity (continued)

Years 5+

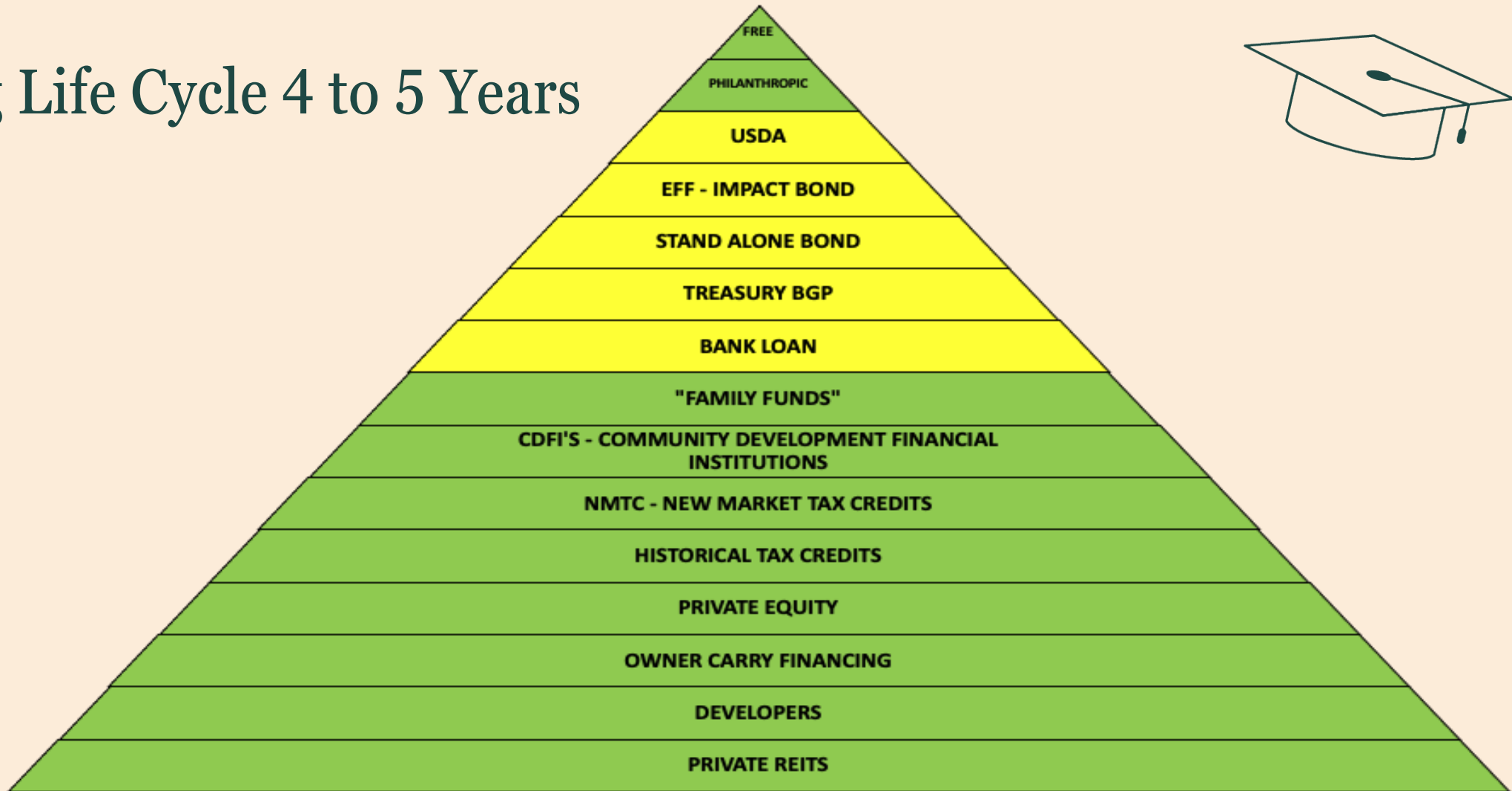
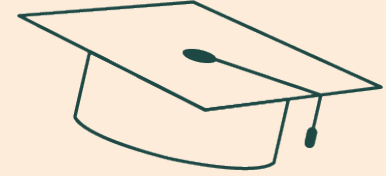
- Balanced budget/stable days cash on hand
- Maybe fully enrolled or still growing
- Waitlists
- Academic consistency



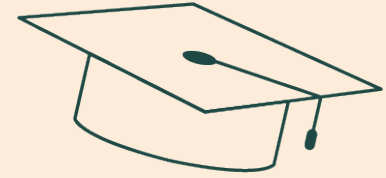
Lending Life Cycle - Years 0-3



Lending Life Cycle 4 to 5 Years



Lending Life Cycle Years 5+



How should we go about selecting a lender?



Questions to Ask Lenders

3 Phases of Financing: **Beginning**, **During**, and **After**

- What is the origination fee or total anticipated cost of issuance?
 - I.e., how much will it cost me to borrow money?
- What are the covenants and conditions attached to the debt/issuance?
 - Prepayment penalties, first right of refusal, “bullet” single maturity date, additional debt?
- What are the costs/fees and reporting requirements during the term of the loan/issuance?
 - Annual investor calls, enrollment reporting, academic reporting, monthly financials, etc.
- How much does it cost to exit this market?
 - Prepayment penalties, annual escalators, first right of refusal

Financing Strategy

- How will the debt/issuance I use today impact my tomorrow?
- What does my debt look like in 5, 10, 15, 20, 30, 40 years?
- What is the long-term solution for my facility?
- If I needed to add grade levels or replicate my school does my debt allow that?
- Should I refinance my debt or stabilize my debt burden to be long term?
 - When can I refinance?
- What are my maturity dates, call dates?
- As I grow will I need to take on an additional lease to accommodate growth or finance a new project?



What if my school already has facility financing and things aren't going well? What are our options?

Considerations to Analyze a Bad Finance Situation



How much debt do I owe?

Are there prepayment penalties?

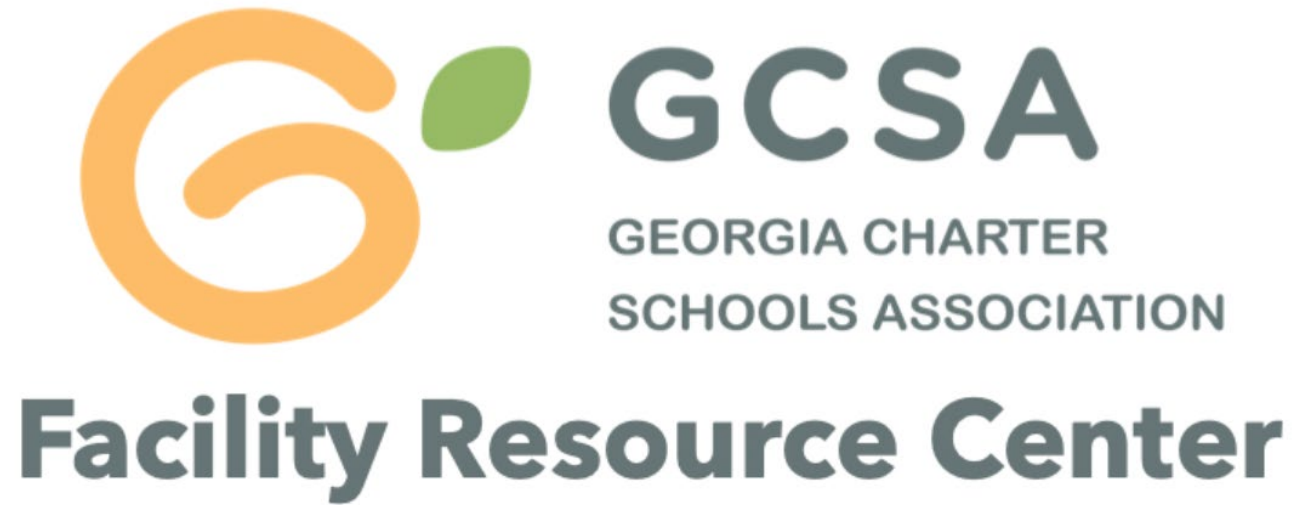
When is the call date (bond)?

What is the credit risk of our school?

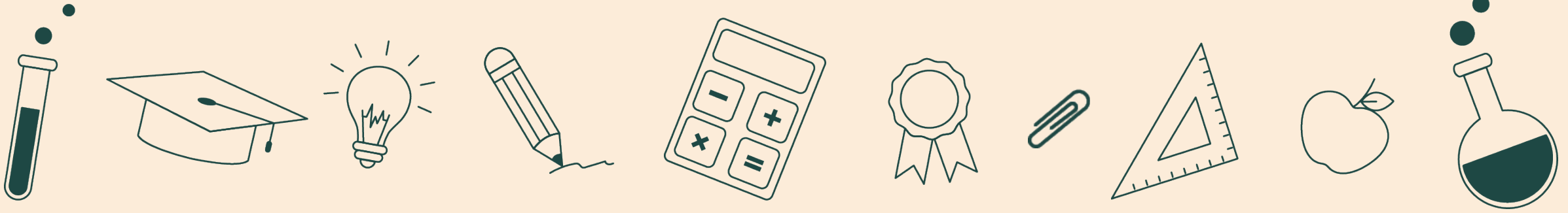
Who can and will refinance the school?

What will be leveraged to secure the loan?





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