Funding Strategies for Charter School Facilities

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Dial 888-437-3195 for the webinar audio
Per Pupil or Direct Funding

- 10 States and DC provide direct funding on a per pupil or other basis
- All funding mechanisms are imbedded in statute (formula driven or fixed amounts – subject to annual appropriations)
- Funding range – less than $100 (CO) to 2,800 (DC)
- Types of funding: direct per pupil; lease aid, assistance, and reimbursement
- 9 of 11 top-ranked states by National Alliance of Public Charter Schools have direct funding mechanisms*
Facilities Grants and Incentive Funds

- CO: Building Excellent Schools Today (BEST) – matching grants for construction and improvements – separate statute*
- NY: Charter School Stimulus Fund – discretionary grants – per charter authorizing statute; and Charter School Facilities Matching Grant Program (NYC only, NYC DOE capital budget)
- OK: Charter Schools Incentive Fund – one-time only grants – separate statute, administered by state DOE
Direct Loan Assistance

- All statutorily established
- CA and IL: Charter School Revolving Loan Funds
- Indianapolis Local Public Improvement Bond Bank (established in conjunction with legislation creating mayoral chartering authority)
- Louisiana: Charter School Start-up Fund*
- Some, but limited impact, often due to discontinuance of state capitalization
Loan Guarantees and Credit Enhancements

- OH: Community Schools Classroom Facilities Guaranteed Loan Program
- CA, CO, and TX: Credit Enhancement Programs
- CO: State Moral Obligation
- TX: Permanent School Fund Bond Guarantee
- Statutorily established
- Impact – Increased access to capital but not necessarily impacted cost of capital
- Policy pros and cons*
State or Public Bond Issuances

- 23 states allow charter schools access to some form of tax-exempt bond financing

- Examples:
  - AZ: City and County Industrial Development Authorities (IDAs)*
  - CO: Colorado Educational and Cultural Facility Authority (“CECFA”) – Backed by Debt Reserve Fund
  - TX: The Texas Public Finance Authority / Charter School Finance Corporation**
  - TX: Higher Education Finance Corporation Conduits

- Impact: High, though much more difficult now for early state operators to qualify/access than originally and there have been some hiccups – MN, for example
Federal Q Programs

- State administered
- Eligibility determined by statute or regulation
- Qualified School Construction Bonds (NJ, NY, TX, DC,
- Qualified Zone Academy Bonds (AZ, CA, LA, MA, MI, MO, TX,
  WI, DC)
- Impact – has varied state-by-state
Access to Public Space

- 15 states have enacted legislation to provide charter schools with access to public school facilities
- Effectiveness varies: laws in LA, CA, NM, C, DC, HA, GA, and AK considered the strongest
- Most effective programs are municipal: NYC (until recently), Chicago, Denver, Philadelphia, Minneapolis, Newark
The Potential of Public-Private Revolving Loan Funds and Initiatives

- CEE-Trust (National)
- Choose to Succeed (San Antonio)
- New Schools for Baton Rouge
- Nashville Public Schools Office of Innovation
- Gates Foundation Facilities Compact Initiative (CPS, NSNO, INCS, IFF)
- Philanthropic rather than publicly established or funded
- Vehicles to attract private capital
The Facilities Challenge in a Nutshell

- Facilities accessibility and affordability are arguably the greatest challenge facing school operators.
- Lenders and capital providers are becoming more risk adverse; it is almost impossible for new and relatively unseasoned operators to obtain facilities financing (except at high interest rates and/or onerous covenants).
- The cost of capital (and transaction fees) remains high (including credit enhancements); fully amortizing loans over a three-to-seven year period create a major burden for schools carrying any significantly sized debt.
- Tax-exempt and other bond financing opportunities and costs have been very sporadic last two years – even for seasoned operators.
The Facilities Challenge in a Nutshell

- Debt costs for facilities – even when affordable – drain significant revenues annually (10% to 20% or more) and over the long-term from academic mission.
- Debt covenants – lock boxes, restricted reserves, requirements such as insurance policies for key leadership and management officials or prior lender approval for incurrence of additional debt – inhibit growth on the part of proven operators in markets where demand is high for quality seats by creating cash shortages or limiting cash management.
- Balance sheets overleveraged in real estate debt make the ability and cost of borrowing more challenging (and sometimes impossible)*
- Capital providers are increasingly requiring “exit strategies” before providing financing, which increases capital costs and/or restricts the availability of capital**
Questions?

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