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Creative state programs help charter schools shift millions of dollars to core education needs as they build and expand, says new national study

NEW YORK (July 22, 2015)— A handful of states are helping charter schools direct more money into classrooms and less into operational costs by improving their access to the tax-exempt bond market, according to a new study released today.

State officials in Colorado, Utah and Texas have developed programs that allow strong charter operators to attain enhanced credit ratings on bonds issued to finance new or expanded school facilities. That means schools pay a lower interest rate and save millions of dollars that can then be redirected to science labs, reading specialists, arts programs and other primary activities that so often face cuts, according to [Charter School Bond Issuance: A Complete History, Volume 3](#).

The report is a joint analysis from the Local Initiatives Support Corporation (LISC), the largest nonprofit in the country focused on revitalizing distressed communities, and Charter School Advisors (CSA), a financial advisor to schools. Both are based in New York.

The impact of innovative state programs on the charter school bond sector is among the findings of the report, the third in a series looking at how charter schools have accessed the bond market and how the bonds have performed over time. The study includes a thorough look at all charter school bonds issued from 1998-2014, with extensive analysis of pricing, underwriting and ratings. It also examines which transactions are outstanding, have matured or been refunded, or have defaulted.

The results indicate a track record of success that should help other jurisdictions find ways to make sure quality school operators can raise the capital they need to expand, said Reena Abraham, LISC vice president for education. In Utah, for example, eight schools have gained access to the state's credit enhancement program over the last two years, giving them the chance to access the municipal market with higher rated bonds. Those eight schools are saving an estimated \$38 million over the life of their bonds, according to David Damschen, chief deputy in the Utah State Treasurer's Office.

"We've been studying data from this sector for years, and it's clear that good schools have proven to be good investments," Abraham stressed. "Now, the market is beginning to look closely at academic results as a key driver of performance. States can help by allowing qualified charters access to higher credit ratings so they can borrow affordably and expand to meet the needs of more families."

The new study looks at all 818 bonds issued over 16 years ending in 2014, raising \$10.4 billion to finance school facilities. But it also finds that there remains significant demand

due to the increase in the number of new charter schools and those looking to expand, particularly among large charter management organizations.

“There are still many market participants who don’t fully understand how to evaluate charter school borrowers,” said Wendy Berry, managing director of CSA, who authored the report. “By analyzing significant market data, the report series helps clarify what constitutes a high-quality school and also makes recommendations to strengthen current underwriting standards,” she said. “Having strong and consistent underwriting criteria will allow quality schools to continue to access the tax-exempt bond market at affordable rates and help the sector achieve a scale commensurate with the growing importance of charter schools within the nation’s public education system.”

Record issuance on behalf of charter operators over the last three years has helped meet the increased demand for affordable facility financing, with \$1.9 billion raised in 2014 alone. But the study also found a material uptick in defaults—much of it related to a concentration of failed deals in Michigan, where there are few controls on how charter schools are authorized. A more standardized approach to underwriting would help avoid those kinds of issues, Berry and Abraham both stressed. In fact, nearly three-quarters of the market’s 41 defaults over the last two decades were directly tied to subpar academics.

“This is a unique niche of the tax-exempt bond market that deserves increased attention,” LISC’s Abraham said. “With robust issuance from top charter schools, we can get more kids into classrooms that offer a rich educational experience.”

The 76-page report is available at:

<http://www.lisc.org/section/ourwork/national/education/publications/bondhistory>

About LISC

LISC combines corporate, government and philanthropic resources to help nonprofit community development corporations revitalize distressed neighborhoods. Since 1980, LISC has invested \$14.7 billion to build or rehab 330,000 affordable homes and apartments and develop 53 million square feet of retail, community and educational space.

LISC’s national education efforts include \$165 million in grants, loans and guarantees for 183 charter schools focused primarily on the needs of low-income children. LISC’s charter school work is supported by the Bill & Melinda Gates Foundation, the JPMorgan Chase Foundation, the U.S. Department of Education and the Walton Family Foundation. For more, visit www.lisc.org.

About Charter School Advisors

Charter School Advisors (CSA) supports and assists charter schools by providing hands-on, solution-oriented advice on each school’s best facility finance options. These may include tax-exempt bonds, the Community Development Financial Institution Bond Guarantee Program, New Markets Tax Credits, Qualified School Construction Bonds, Qualified Zone Academy Bonds, the U.S. Department of Agriculture Guarantee Program and commercial bank loans. CSA is a registered Municipal Advisor with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. For more, visit www.csadvisors.org.