

Taking the Long Term View: Permanent Financing for Charter School Facilities

*ACE Charter Schools Network
Alliance College Ready Public Schools
Low Income Investment Fund
Capital Impact Partners*

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2015 CCSA Mobile Conference App

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- Open the app and enter event code: 2015

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- Once you’ve completed the steps above, select “My Account” button to log into the app
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Note: Directions are listed on the logistics button of the app.

Thank You!



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ACE Charter Schools

- Greg Lippman, Executive Director, ACE Charter Schools
- ACE operates 4 schools (3 middle / 1 high) in San Jose that target academically underserved students in high-need communities
- 3 schools are in Prop 39 facilities and 1 is in a permanent facility financed with a CDFI construction/mini-perm loan



Alliance College-Ready Public Schools

- David Hyun, CFO/COO, Alliance College-Ready Public Schools
- Alliance operates 26 small high-performing charter high schools and middle schools serving 11,000 low income students
- Majority of schools are in permanent facilities
- Financing includes: CDFI and bank loans, NMTCs, QZABs, QSCABs, State funds, and tax-exempt bonds



Low Income Investment Fund (LIIF)

- Community Development Financial Institution (CDFI)
 - 501c3 / Non-profit lender
- **\$406 million** invested in over **150 high performing schools**
- **72,000 student spaces** created or improved
- **\$2 billion** generated in increased income potential for low income youth

Programs

HOUSING



CHILD CARE



EDUCATION



HEALTH



TOD



Capital Impact Partners (CIP)



OUR GROWING IMPACT

WE HAVE DEPLOYED OVER **\$2 BILLION** TO SERVE NEARLY **5 MILLION** PEOPLE AND CREATE MORE THAN **32,000** JOBS IN SECTORS CRITICAL TO VIBRANT COMMUNITIES, INCLUDING:



Short Term Financing Options

- Acquisition loans
 - *Interest-only, 6–36 month terms*
- Construction loans
 - *Interest-only, 6–18 month terms*
 - *Can convert to amortizing mini-permanent loan upon construction completion*
- Mini-Permanent loans
 - *Longer term (up to 7 years), fully amortizing or with balloon payment*
- New Market Tax Credits (NMTC)
 - *Better for larger deal sizes, more complex structures*
 - *Interest-only, refinance at 7 years*

What Then?

- Short term financing usually has a balloon at end of term and requires refinance
- Several long-term financing options are available to charter schools:
 - *Tax-exempt bond issuance*
 - *CDFI permanent loan through Bond Guaranty Program*

Tax-Exempt Bond Financing

Typical Terms

- Bond proceeds can be used for acquisition or construction of a facility or project
- Funds may be used to refinance prior debt
 - *Can repay bank/CDFI construction financing, New Markets Tax Credit financings, etc.*
- Interest rate can be fixed or variable; pricing reflects credit rating and credit enhancement (if applicable)
- Term up to 35 years
- LTV up to 100%
- Borrower must be non-profit, but no restrictions on population served

Tax-Exempt Bond Financing

Strengths & Challenges

Strengths

- Long-term financing (30+years)
- Single transaction for life of project; no need for refi
- Rates reflect credit rating and credit enhancement (if applicable)

Challenges

- High transaction costs
- Complex, requires multiple parties; can be lengthy closing process
- Rates can be volatile and market timing can be an issue
- Minimum size threshold

CDFI Permanent Loan Product

- In 2014 CDFIs gained access to permanent capital through the federal CDFI Bond Guaranty Program
- For the first time, enables CDFIs to provide long-term, fully-amortizing fixed rate loans
- Structured like a mortgage with typical real estate loan closing costs
- Best suited to operators and/or schools with several years of operating history

CDFI Permanent Loan Terms

Typical Terms

- Interest rate fixed at closing, indexed to applicable U.S. Treasury rate
- Loan term of 15-25 years (longer on case-by-case basis)
- Fully amortizing level payments
- 1st position lien requirement on underlying real estate collateral
- LTV of 80% (90% may be possible on case-by-case basis)
- Projects must primarily serve persons earning 80% or less of the Area Median Income or be located in low or moderate income census tracts.

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CDFI Permanent Financing

Strengths & Challenges

Strengths

- Long-term financing (25+years)
- Flexible loan size / low minimum threshold
- Low transaction costs (typical of standard real estate transaction)
- Low complexity; straightforward execution

Challenges

- Best suited to operators and/or schools with several years of operating history
- More limited LTV (80-90%)
- Construction project requires interim financing
- Currently fixed amount of funding available; subject to additional appropriation

Comparison: Permanent Financing Options

	CDFI Permanent Loan	Tax Exempt Bonds
Loan Amount	Minimum: Typically \$2 million Maximum: \$20 million (higher on case-by-case basis)	Minimum: Typically \$5 million Maximum: No maximum
Loan Structure	Typically 25 years; longer in some cases, fully amortizing	Up to 35 years, fully amortizing
Loan-to-Value	80% - 90%	100%
Interest Rates	Fixed at closing; indexed to underlying U.S. Treasury Rate	Fixed or variable; based on factors such as credit strength, rating, market conditions, etc.
Fees (include legal fee & closing costs)	1.5% – 2.0% of loan amount	4%-6% of bond amount

Considerations: What's best for your school

- Timing
 - *What stage is your school's facility project in*
 - *If you have existing debt, when does it mature (start the process early!)*
- Size of transaction / financing need
- Future facilities plans
- Available equity / fundraising plans