

Presentation on:

Tax-Exempt Bond Financing for Charter Schools



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INTRODUCTION



Key Financing Objectives

- Maintain financial stability and integrity of institution
- Verify
 - the feasibility of a financing of the proposed project,
 - the costs and options with respect to such financing and
 - The appropriate internal review/approval process for the financing
- Develop a Finance Plan which ties effectively to the School's overall project development plan
- Secure financing on the best possible terms and price consistent with the School's finances and stated goals and policies
- Deploy gifts/donations/grants in the Finance Plan to the School's maximum advantage in the financing
- Complete the financing on the School's preferred schedule and within budget

Sources of Funds

- Government Grants
 - Federal, State & Local sources
- Foundation Grants
 - National
 - State & Local focus
- Corporate Grants
- Individual Donations
- Capital Campaign Proceeds
- Loans (Construction, Leasehold Improvements, Working Capital, Permanent)
 - Commercial Banks (National, Regional, Local/Community)
 - Community Development Financial Institutions (CDFIs)
 - Government Loan Pools (eg. USDA Rural Development Program)
 - Private Finance Companies

Why Borrow?

- Why should a charter school borrow money to fund a project? And why sooner rather than later?
 - Lack of any funding alternative
 - Waiting until alternative funding is available has opportunity costs:
 - cost escalation in project cost
 - loss of a suitable site opportunity
 - deprivation of use of subject facility
- But what if the school has an endowment and/or large fundraising capabilities?
 - Sophisticated financial strategies can optimize the combined use of
 - Endowment
 - Fundraising
 - Operating Cash Management
 - Debt

to produce a more cost-effective financial solution
- Generally, debt represents the lowest cost funding solution and affords optimal financial flexibility in the deployment of other funds

Lower Cost of Capital

- Why does debt offer a lower cost of capital than raising and spending endowment funds?
- The lost “opportunity” of endowment funds or other “equity” spent in lieu of borrowed funds can be significant
 - lost earnings
 - missed market cycles
 - compounded returns achievable from balanced account investment
- Over the long run, endowment returns should outperform the annual cost of tax-exempt debt, and even taxable debt.

Benefits of Debt

- Depending on spending policies and priorities, a school can realize the following benefits with debt
 - larger annual transfers to operations to better meet the school's mission
 - larger endowment corpus over time
 - application of cost of financing over useful life of assets
 - locked-in project cost in an environment of escalating construction costs
 - more disciplined operations in terms of revenue generation, expense management and budgetary processes

What Kinds of Debt Are There?

- Taxable

- bank loan
- bonds
- *or*

- Tax-Exempt

- bank loan or bonds
- interest rate is usually 1-2% lower than taxable debt

- Short-term – 5 years or less

- *or*

- Long-term – usually 15 years or longer

- Fixed

- a function of credit quality, term of transaction and borrower's risk tolerance
- *or*

- Variable

- indexed to US Treasury or LIBOR rates (taxable) or driven by general market demand (tax-exempt)
- adjusts daily, weekly, monthly, annually

Three Basic Financing Options

- **Bank Loan:** Taxable, usually floating at a spread off of Prime or LIBOR; usually callable in 5-7 year increments*
- **Variable Rate Demand Bonds (VRDBs):** Tax-Exempt, always floating, secured by bank letter of credit (with 3 to 10 year LOC term)
- **Fixed Rate Bonds:** Tax-Exempt, fixed amortization, 20 to 30 year term**

* May amortize over 20-30 years but subject to call by bank

** Usually not prepayable for first 10 years. Amortization possible beyond 30 years.

What is a Tax-Exempt Bond

- A bond, issued by a municipal, county or state government, whose interest payments are not subject to taxation from federal, state or local authorities
- Provides long-term, below-market interest rate financing for construction, acquisition or renovation projects
- For charter schools, known as “Charter School Revenue Bonds”
- Tax-exempt rates result in lower borrowing cost
- Can typically finance 100% of project-related costs
- Minimal upfront equity cash requirement (if any)
- Higher “costs of issuance” as compared to conventional bank loan financings

Who is a Candidate for a Tax-Exempt Bond Financing?

- Fairly established charter schools with good academic, operational and financial track record
- Difficulties in obtaining tax-exempt financing
 - For start-up charter schools (less than 3 years of operational history)
 - Lack of enrollment and trend data
 - Unproven operating experience
 - Inadequate Balance Sheet
 - Extension of Charter Contract questionable
 - For established charter schools
 - Financial and operational history
 - Balance Sheet
 - Term of Charter Contract
 - Strength of Management and Board of Directors
 - Uncertainty with state charter school legislation and per pupil funding

Factors Which Determine Choice of Debt Structure

- Amount of borrowing
- Use of proceeds
- Creditworthiness and financial position of school
- Security
- Debt capacity
- Sources of repayment
- Risk profile
- In general, any borrowing over \$3 million will have a lower overall cost if done on a tax-exempt basis

What Can Be Financed?

- Activity being financed cannot be an activity creating unrelated business income to the 501(c)(3) organization. For example, in certain instances the rental of office space to 501(c)(3) organizations the purposes of which are unrelated to the schools mission may be unrelated business income
- With some limited exceptions (i.e. management contracts, short term arrangements, etc.), space being financed cannot be used by a private business. For example, leasing of space to a for-profit to run a bookstore or certain food service contracts would be private business use
- Bond proceeds may be used to finance, refinance and reimburse eligible schools for costs of:
 - Acquisition of land (limited to an amount related to the needs of the school)
 - Construction of a new facility
 - Acquisition of an existing building
 - Rehabilitation of an existing building
 - Expansion of an existing facility
 - Acquisition of new equipment
 - Acquisition of used equipment

What Can Be Financed? (cont'd)

- 501(c)(3) organizations may also finance working capital. In general working capital is limited to 5% of the bond proceeds and must be related to the capital project.
- Interest on bond issue for up to 3 years from the date of issuance
- Reserve Fund equal to lesser of 10% of bonds, 125% average annual debt service or maximum annual debt service
- Costs of issuance up to 2% of principal amount of bonds
- Reimbursement of prior capital costs can be financed if there is a “declaration of intent” to reimburse by the borrower’s Board
- Refinancing taxable debt incurred for capital expenditures available for Charter School Revenue Bonds

Financing Options – Comparison of Basic Financing Alternatives

	Bank Loan	Bank Letter of Credit (VRDBs)	Fixed Rate Bonds
Security	<ul style="list-style-type: none"> General Obligation of Borrower Gross/Net Revenue Pledge First Mortgage on campus and improvements Negative pledge on financial assets 	<ul style="list-style-type: none"> General Obligation of Borrower Gross/Net Revenue Pledge First Mortgage on land and improvements Negative pledge on financial assets 	<ul style="list-style-type: none"> General Obligation of Borrower Net Revenue Pledge First Mortgage on land and improvements (possibly avoidable if investment grade) Possible negative pledge on financial assets
Term	<ul style="list-style-type: none"> Nominal term of up to 20 years Usually subject to lender call provisions every 5 years with extension subject to credit and possible extension fees 	<ul style="list-style-type: none"> VRDB term up to 30 years LOC expiration from 3 to 5 years, usually renewable subject to credit and possible revision of LOC fees Duration of LOC typically in reference to Borrower’s charter Upon LOC renewal, Borrower can install a replacement LOC w/o disrupting VRDBs 	<ul style="list-style-type: none"> Up to 30 years
Early Prepayment	<ul style="list-style-type: none"> Usually possible but sometimes subject to early prepayment fee or “make whole” provision 	<ul style="list-style-type: none"> Usually possible but sometimes subject to early prepayment fee or “make whole” provision in LOC 	<ul style="list-style-type: none"> Usually 10 year call protection with possible prepayment penalty in years 11 and 12 Debt can be defeased to call date

Financing Options – Comparison of Basic Financing Alternatives

	Bank Loan	Bank Letter of Credit (VRDBs)	Fixed Rate Bonds
Financial Covenants:			
<ul style="list-style-type: none"> ■ Net Revenue/Rate Covenant 	<ul style="list-style-type: none"> ■ 1.2x or more 	<ul style="list-style-type: none"> ■ 1.2x or more 	<ul style="list-style-type: none"> ■ 1.1x or more (have seen as low as 1.0x coverage requirements)
<ul style="list-style-type: none"> ■ Liquidity Covenant 	<ul style="list-style-type: none"> ■ Various “cash on hand” tests <ul style="list-style-type: none"> □ Fixed dollar amount □ % of operating expenses □ # of days 	<ul style="list-style-type: none"> ■ Various “cash on hand” tests <ul style="list-style-type: none"> □ Fixed dollar amount □ % of operating expenses □ # of days 	<ul style="list-style-type: none"> ■ Various “cash on hand” tests <ul style="list-style-type: none"> □ Fixed dollar amount □ % of operating expenses □ # of days
<ul style="list-style-type: none"> ■ Reserve Requirement 	<ul style="list-style-type: none"> ■ Negotiable depending on liquidity covenant 	<ul style="list-style-type: none"> ■ None likely 	<ul style="list-style-type: none"> ■ Approximately 12 months of debt service (usually not negotiable)
<ul style="list-style-type: none"> ■ Additional Indebtedness 	<ul style="list-style-type: none"> ■ Likely subject to bank approval 	<ul style="list-style-type: none"> ■ Likely subject to bank approval 	<ul style="list-style-type: none"> ■ “Additional bonds” test – provision would allow additional borrowing based upon some combination of demonstrated historical and pro-forma coverage (1.25x coverage typically required for additional bonds)
<ul style="list-style-type: none"> ■ Hedging Requirement 	<ul style="list-style-type: none"> ■ Bank may require hedge of some or all of variable rate exposure 	<ul style="list-style-type: none"> ■ Bank may require hedge of some or all of variable rate exposure 	<ul style="list-style-type: none"> ■ None required

Financing Options – Comparison of Basic Financing Alternatives

	Bank Loan	Bank Letter of Credit (VRDBs)	Fixed Rate Bonds
General Comments	<ul style="list-style-type: none"> ■ Banks typically not permanent financing lenders ■ Interest rate is usually taxable/floating based upon LIBOR or Prime ■ Likely lowest cost of issuance, but highest interest cost and strictest terms and covenants ■ Bank may require depository and general banking relationship as condition of loan 	<ul style="list-style-type: none"> ■ LOC must be from investment grade rated bank ■ Interest rate on VRDBs will be reflective of SIFMA Index ■ Cost of LOC and remarketing must be added in calculating ongoing borrowing cost ■ Costs of issuance likely higher than bank loan/lower than fixed rate bonds ■ LOC terms will be similar to bank loan, but VRDB structure can readily accommodate replacement of LOC bank 	<ul style="list-style-type: none"> ■ Fixed rate bonds have the most liberal financial covenants but less flexibility to refinance/restructure ■ In a technical or actual financial defaults, bond trustee/investors almost always seek a workout/forbearance rather than foreclosure and/or forced repayment likely to occur with a Bank Loan or Bank LOC

Financing Options – Comparison of Financing Costs

	Bank Loan	Bank Letter of Credit (VRDBs)	Fixed Rate Bonds
Interest Rate Basis	<ul style="list-style-type: none"> ■ Floating: Prime or LIBOR based ■ Fixed: Unlikely for more than 3-5 years ■ Likely taxable (rarely tax-exempt) 	<ul style="list-style-type: none"> ■ Capital Markets Based (SIFMA Index) ■ Tax-Exempt 	<ul style="list-style-type: none"> ■ Capital Markets Based (Revenue Bond Index) ■ Tax-Exempt
Interest Cost Range	<ul style="list-style-type: none"> ■ Current Floating Rates: <ul style="list-style-type: none"> □ Prime: 7.75% □ LIBOR (30 day): 5.06% ■ Estimated Spread: <ul style="list-style-type: none"> □ Prime: .5-1.0% □ LIBOR (30 day): 1.25-2.5% ■ Total Estimated Borrowing Cost¹ for Bank Loan: 6.31-7.56% (LIBOR) 	<ul style="list-style-type: none"> ■ Current Variable Rates: <ul style="list-style-type: none"> □ SIFMA Index: 3.55% □ 10 year average: 2.68% ■ LOC: .5-1.25% ■ Remarketing: .1-.125% ■ Total Estimated Borrowing Cost¹ for VRDB Transaction: 4.15-4.925% (SIFMA) 	<ul style="list-style-type: none"> ■ Current Fixed Rates: <ul style="list-style-type: none"> □ Revenue Bond Index: 4.78% □ 2007 range: 4.38-4.89% □ Non-Rated: 5.90-6.50% □ Low Investment Grade-Rated: 5.45-5.85% ■ Total Estimated Borrowing Cost^{1,2} for Fixed Rate Transaction: 5.90-6.50% (Non-Rated)

1. Does not include costs of issuance.
2. Representative of 30-year fixed rates.

How Do I Choose Between Fixed and Variable Rate?

Schools choose between fixed and variable rate bonds based on their own unique needs and attitudes and philosophies towards risk

Traditional Fixed Rate

- Probably higher capital cost
- Committed for 30 years
- Least rigorous financial covenants
- Can be prepaid in year 10, often with no or 1% penalty at year 10 then without penalty in year 11
- No interest rate risk
- No bank or credit enhancement risk

LOC-Backed Variable Rate

- Probably lower capital cost and flexible fixed interest rate period
- LOC commitment generally 3-10 years (renewal risk)
- More rigorous financial covenants (debt service coverage, liquidity to debt, etc...) subject to negotiation with bank
- Can be prepaid with 30 days notice
- Interest rate risk can be mitigated with interest rate swap
- Bank and/or credit enhancement risk is prevalent

Parties to a Tax-Exempt Financing

BORROWER

Issuer

- Conduit*

Attorneys

- Bond Counsel*
- Borrower's Counsel
- Underwriter's Counsel*
- Trustee's Counsel*
- Bank Counsel (Loan or Letter of Credit)

Financial Intermediary

- Underwriter (Public or Private Sale)*
- Bank (Loan)
- Remarketing Agent* (VRDBs)

Others

- Accountants
- Bond Trustee*
- Credit Enhancers
 - Bond Insurer*
 - Bank (Letter of Credit Provider)*
- Financial Advisor
- Rating Agencies**

Parties to a Tax-Exempt Financing (cont'd)

- **Borrower:** Finances project(s) through a loan funded by the issuance of tax-exempt bonds and repays debt service
- **Issuer:** Conduit authority or government entity through which tax-exempt bonds are issued on behalf of Borrower. Governmental entity can issue on its own behalf
- **Financial Advisor:** Represents financial interests of the Borrower in connection with the financing; assists in negotiation with underwriter(s) or bank of structure and terms of transaction and amount of fees
- **Borrower's Counsel:** Represents Borrower and its legal interests
- **Bond Counsel:** Represents Issuer and provides tax opinion on bonds
- **Underwriter(s):** Structures transaction and sells bonds to investors
- **Underwriter's Counsel:** Represents Underwriter(s) and oversees drafting of offering documents

Parties to a Tax-Exempt Financing (cont'd)

- **Trustee:** Custodian Bank of certain funds on behalf of bondholders; obligated to collect debt service and protect bondholders' interests
- **Trustee's Counsel:** Represents interests of Trustee Bank
- **Investors:** Purchase, own and trade bond securities.
 - **Retail:** Individuals, usually purchasing through brokerage firms
 - **Institutional:** Mutual funds, insurance companies, investment advisors, and (sometimes) banks
- **Credit Enhancer:** Provides investment grade quality to bonds by guaranteeing Borrower's obligation, making bonds easier to sell and at a lower interest rate
 - **Bond Insurer:** Provides bond insurance to ensure payment of principal and interest on the bonds (usually for fixed rate bonds)
 - **Bank:** Provides letter of credit (usually for variable rate bonds)
- **Remarketing Agent:** Bank or investment bank which maintains secondary market in variable rate bonds
- **Rating Agency:** Institutions which rate relative creditworthiness of borrowers (Standard & Poor's Corporation, Moody's Investor Services, Fitch Investor Service)

How Much Time Should be Budgeted for a Financing?

- Planning for the transaction: 2-3 months or longer, in preparation
- Typical time requirement for processing a transaction: 3-4 months from organization meeting to closing

What will the Financing Cost?

- Professional Firms
 - Attorneys: hourly rate
 - Accountants: hourly rate

- Financial Firms/Institutions
 - Financial Advisor: hourly rate (sometimes as fixed percentage of transaction size/success based)
 - Underwriter: fixed percentage of transaction size (success based)
 - Bank: origination fee, usually a percentage of transaction size, plus interest on loan
 - Issuer: fixed initial fee, ongoing variable fee, or both, based on transaction size
 - Bond Insurance: fixed percentage of total calculated debt service, (Fixed Rate) payable as a one-time premium at closing

What will the Financing Cost? (cont'd)

- Financial Firms/Institutions (cont'd)

- Letter of Credit Provider: combination of initial fee plus annual fee based upon (Variable Rate) percentage of outstanding principal
- Remarketing Agent: annual fee based upon percentage of outstanding (Variable Rate) principal
- Bond Trustee: fixed annual fee; sometimes a set-up charge

- General Observations

- Depending on size, structure and complexity of financing, total costs of financing can range from 2 to 6 percent of transaction amount
- In a tax-exempt financing, U.S. tax laws allow up to 2 percent of the bond amount to be applied to costs of issuance; the balance has to be paid by the borrower from other funds

MARKET CONDITIONS



Interest Rate Comparison – Relevant Current Rates

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	This Week	Last Week	Change	2007	
				High	Low
20 Bond Index	4.48	4.42	.06	4.81	4.08
11 Bond Index	4.42	4.36	.06	4.75	4.03
Revenue Bond Index	4.78	4.72	.06	4.89	4.38

Date	7-Day T/E VRDB	Prime Rate	LIBOR (30-Day)	30-Year T/E Bonds (A-AAA)
10/12/2007	3.56	7.75	5.06	5.10 - 4.76
10/05/2007	3.57	7.75	5.12	5.05 - 4.46
09/28/2007	3.86	7.75	5.12	5.13 - 4.73
09/21/2007	3.76	7.75	5.13	5.10 - 4.70
09/14/2007	3.73	8.25	5.61	5.10 - 4.70
09/07/2007	3.85	8.25	5.82	5.10 - 4.70
08/31/2007	3.98	8.25	5.72	5.40 - 4.95
08/24/2007	3.88	8.25	5.50	5.51 - 5.05
08/17/2007	3.69	8.25	5.51	5.58 - 5.03
08/10/2007	3.51	8.25	5.62	5.30 - 4.78
08/03/2007	3.51	8.25	5.33	5.07 - 4.68
07/27/2007	3.61	8.25	5.32	5.02 - 4.68
07/20/2007	3.61	8.25	5.32	5.02 - 4.73
07/13/2007	3.58	8.25	5.32	5.07 - 4.80
07/06/2007	3.62	8.25	5.32	5.10 - 4.82
06/29/2007	3.73	8.25	5.32	5.05 - 4.78

Date	7-Day T/E VRDB	Prime Rate	LIBOR (30-Day)	30-Year T/E Bonds (A-AAA)
06/22/2007	3.73	8.25	5.32	5.10 - 4.83
06/15/2007	3.71	8.25	5.32	5.13 - 4.80
06/08/2007	3.61	8.25	5.32	5.04 - 4.70
06/01/2007	3.75	8.25	5.32	4.90 - 4.56
05/25/2007	3.84	8.25	5.32	4.84 - 4.51
05/18/2007	3.85	8.25	5.32	4.78 - 4.45
05/11/2007	3.91	8.25	5.32	4.75 - 4.46
05/04/2007	3.93	8.25	5.32	4.77 - 4.44
04/27/2007	3.95	8.25	5.32	4.75 - 4.45
04/20/2007	3.78	8.25	5.32	4.80 - 4.45
04/06/2007	3.61	8.25	5.32	4.65 - 4.42
03/02/2007	3.52	8.25	5.32	4.51 - 4.25

Interest Rate Comparison – Relevant Current Rates

**Comparative Yields (30 Year)
Fixed Rate Tax-Exempt Revenue Bonds**

Date	NR**	NR*	BBB	A	AAA
10/12/2007	5.90	5.75	5.44	5.10	4.76
10/05/2007	5.90	5.75	5.40	5.05	4.46
09/28/2007	5.90	5.75	5.40	5.05	4.46
09/21/2007	5.90	5.75	5.45	5.10	5.70
09/14/2007	5.90	6.00	5.45	5.10	4.70
09/07/2007	5.95	6.00	5.45	5.10	4.70
08/31/2007	6.15	6.00	5.70	5.40	4.95
08/24/2007	6.25	6.00	5.88	5.51	5.05
08/17/2007	6.20	6.00	5.88	5.58	5.03
08/10/2007	6.00	5.90	5.50	5.30	4.78
08/03/2007	5.58	5.75	5.25	5.07	4.68
07/27/2007	5.58	5.50	5.20	5.02	4.68
07/20/2007	5.58	5.60	5.20	5.02	4.73
07/13/2007	5.65	5.65	5.25	5.07	4.80
07/06/2007	5.70	5.65	5.27	5.10	4.82
06/15/2007	5.64	5.50	5.25	5.13	4.80
06/08/2007	5.59	5.25	5.15	5.04	4.70
05/25/2007	5.25	5.25	4.95	4.85	4.51
05/18/2007	5.30	5.25	4.89	4.78	4.45
05/11/2007	5.30	5.25	4.91	4.75	4.46
05/04/2007	5.30	5.25	4.93	4.77	4.44
04/27/2007	5.25	5.25	4.90	4.75	4.45

**Comparative Yields (30 Year)
Fixed Rate Tax-Exempt Revenue Bonds**

Date	NR**	NR*	BBB	A	AAA
04/20/2007	5.25	5.25	4.90	4.80	4.45
04/13/2007	5.25	5.20	4.80	4.65	4.42
04/06/2007	5.20	5.25	4.80	4.65	4.42
03/23/2007	5.35	5.35	4.72	4.58	4.33
03/16/2007	5.30	5.30	4.67	4.53	4.28
03/09/2007	5.30	5.30	4.67	4.53	4.28
03/02/2007	5.25	5.35	4.64	4.51	4.25
02/23/2007	5.30	5.35	4.72	4.59	4.35
02/16/2007	5.35	5.35	4.74	4.57	4.34
02/02/2007	5.40	5.35	4.83	4.67	4.42
01/26/2007	5.40	5.35	4.85	4.70	4.45
01/19/2007	5.30	5.35	4.75	4.60	4.40
01/12/2007	5.35	5.35	4.75	4.60	4.40
01/05/2007	5.30	5.35	4.65	4.55	4.35
12/15/2006	5.25	5.45	4.60	4.45	4.30
12/08/2006	5.20	5.45	4.55	4.40	4.25
12/01/2006	5.20	5.45	4.55	4.40	4.20

Average Non-Rated (1 Yr)

5.51

Average AAA (1 Yr)

4.54

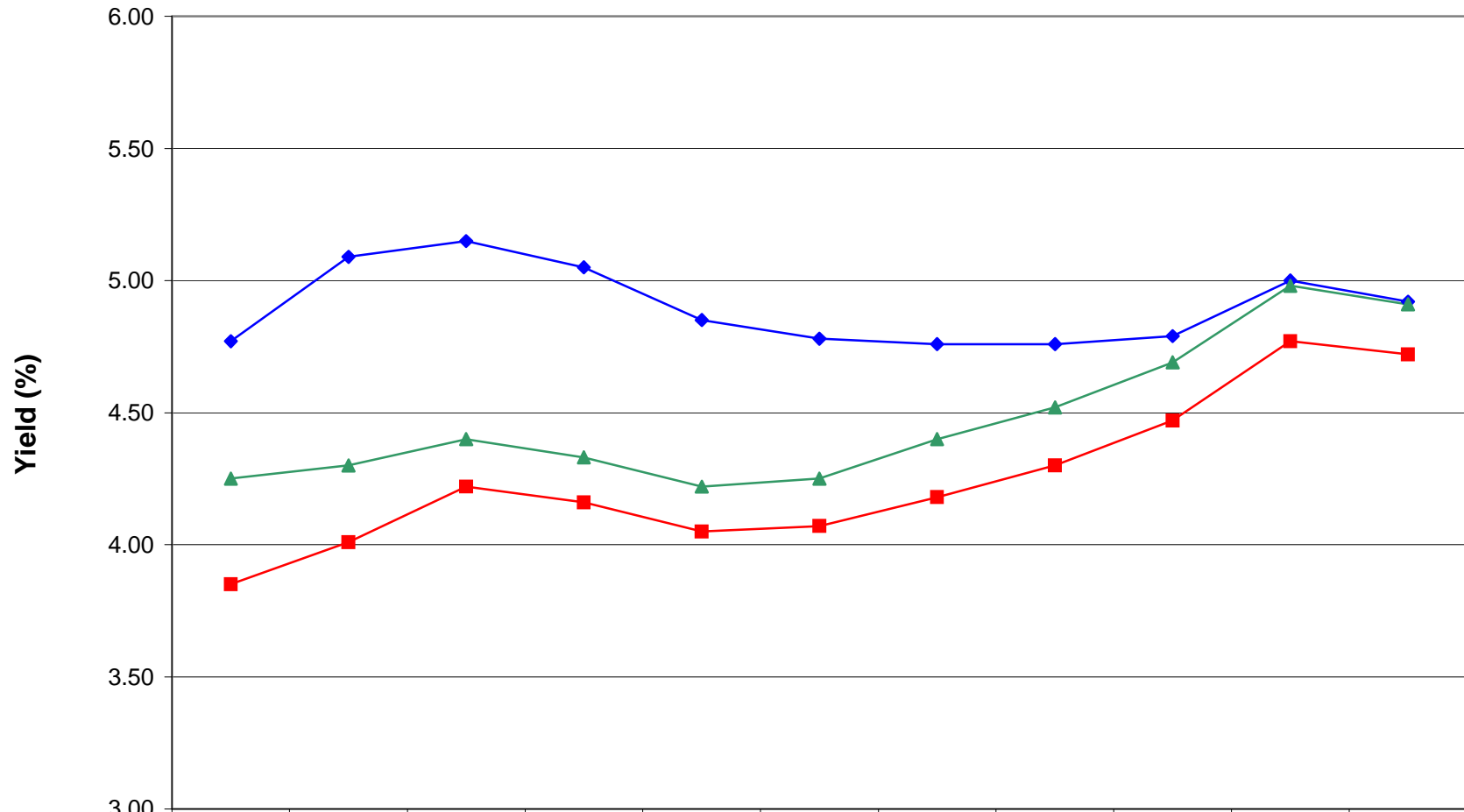
Spread

0.96

* Public offering (including retail sales)

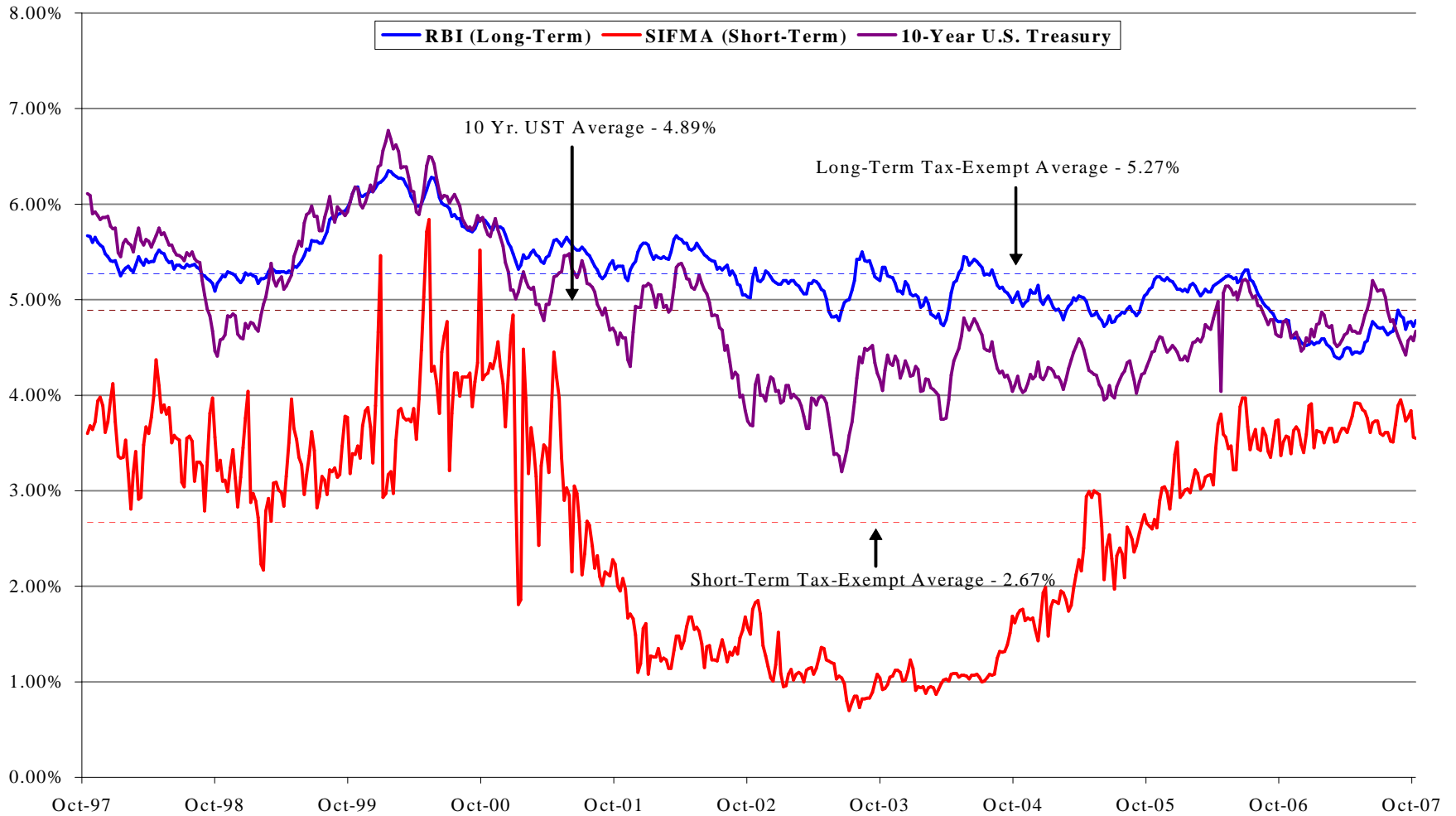
** Limited institutional offering

U.S. Treasury Yield Curve Data



	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr	30 yr
◆ One Year Ago	4.77	5.09	5.15	5.05	4.85	4.78	4.76	4.76	4.79	5.00	4.92
■ One Month Ago	3.85	4.01	4.22	4.16	4.05	4.07	4.18	4.30	4.47	4.77	4.72
▲ Current	4.25	4.30	4.40	4.33	4.22	4.25	4.40	4.52	4.69	4.98	4.91

Relevant Historic Rates – 10 years



- (1) The Revenue Bond Index (RBI) is an estimate of the yield on long term fixed rate bonds compiled by The Bond Buyer using an index of revenue bonds maturing in 30 years, with a rating equivalent of Moody's A1 and Standard & Poor's A-plus. The RBI is widely used as a benchmark for long-term revenue bonds.
- (2) The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index is a 7-day high grade market index comprised of tax-exempt VRDBs.

Indicative Swap & Cap Rates

- BMA Fixed-Payor Swaps:

Term	Rate
1-year	3.51%
2-year	3.41%
3-year	3.44%
5-year	3.55%
7-year	3.67%
10-year	3.82%
20-year	4.09%
30-year	4.18%

- BMA Interest Rate Caps:

(issuer pays in upfront BPs)

Term	6.00%	7.00%	8.00%
3 Years	41	27	25
5 Years	97	45	31
7 Years	186	84	48
10 Years	352	170	94

Note: All quotes are for investment grade borrowers as of mid-October, 2007.

THE FINANCING PROCESS



Key Financing Considerations

- **Timing and Logistics**

- **Predevelopment Planning**

- **Project Definition**

- Project design
 - Hard & soft cost estimates

- **Project Logistics**

- Civil Engineering
 - Plans & Specifications
 - Construction Documents and Guaranteed Maximum Price (GMP) Construction Agreement

- **Pre-Financing Planning**

- Information gathering
 - Preliminary financial modeling, analysis of financing options and feasibility assessment
 - Development of preliminary Finance Plan
 - Review and approval of Finance Plan by School management and Board

- **Execution of Financing(s)**

- Procurement
 - Negotiation/Structuring
 - Implementation

Key Financing Considerations (cont'd)

- Timing and Logistics (cont'd)
 - Project Development
 - Site work
 - Construction
 - F, F&E acquisition

- School Finances
 - Enrollment and per pupil funding
 - Gifts/donations/grants
 - Balance sheet
 - Future capital expenditures and facility needs

- Important Performance Metrics
 - Market position vs. competing schools
 - Relevant test scores
 - Middle school, high school & college placement (as applicable)
 - Academic & extracurricular programs

Proposed Financing Process

- Key Process Steps for Charter School Financings:
 - To best achieve financing objective, the Financing Process is crucial
 - **First**, verify the School's debt capacity based on existing & projected finances
 - **Second**, examine all appropriate financing options and establishing a preferred structure
 - **Third**, develop a Preliminary Finance Plan for review and approval by the School's Board and Management
 - **Fourth**, implement the financing on time and on best possible terms
 - Price
 - Flexibility
 - School's financial stability post-financing

Proposed Financing Process (cont'd)

■ Planning – Next Steps:

- Secure Board/Management preliminary input
 - Key concerns
 - Risk management
- Review/evaluate the School's financial projections
- Develop Preliminary Finance Plan
 - Integrate the School's financial projections
 - Develop proposed Financing Timetable synchronized with Project Development Timetable
 - Define/analyze financing options
- Review Preliminary Finance Plan with School Board/Management, secure input, establish preferred financing structure(s) and secure and authorization to proceed to procurement

■ Competitive Solicitation

- Develop proposed Request For Proposals
 - Variable Rate Demand Bonds (VRDBs)
 - Letter of credit (LOC)
 - Remarketing
 - Underwriting
 - or-
 - Fixed Rate Bonds – Underwriters

Proposed Financing Process (cont'd)

- Competitive Solicitation (cont'd)
 - Key RFP Issues
 - Comments/advice regarding the School's Finance Plan
 - Proposed financing structure
 - Price
 - Key terms, financial covenants, etc.
 - Firm and lead banker credentials
 - Proposal Review & Analysis
 - Conduct Interviews
 - Determine the School's preferred Finance Plan (after review and analysis of financing proposals)
 - Negotiate key finance terms
 - VRDBs
 - LOC terms
 - LOC bank fees
 - Underwriting/remarketing fees
 - Need for and/or benefit of an interest rate hedge (swap, cap, etc.)

Proposed Financing Process (cont'd)

- **Competitive Solicitation (cont'd)**
 - Negotiate key finance terms (cont'd)
 - **Fixed Rate Bonds**
 - Underwriting requirements
 - Estimated range of interest cost
 - Fee range
 - Management
 - Takedown
 - Expenses
 - Select best source of financing for the School's preferred Finance Plan
- **Execution**
 - Organize Finance Team
 - Briefing on status of Plans & Specifications and Construction Documents
 - Overview of legal, real estate, financing constraints
 - Review financing enhancements/techniques
 - Confirm Finance Plan
 - Project Development Timetable
 - Finance Timetable
 - Negotiate final bond issue terms/structure

Proposed Financing Process (cont'd)

- Execution (cont'd)
 - Initiate legal document process
 - Coordinate financing with
 - Land use/permitting requirements
 - Construction bid/award process
 - District of Columbia
 - Assist the School to negotiate and manage all financial terms
 - Interest rates
 - Financing fees and expenses
 - Professional fees
 - Sale and issuance of bonds
 - Closing
 - Investment of proceeds of financing

Key Issues for Each Constituency

- **School Board & Management**

- Insight & Control
- Feasibility
- Affordability
- Flexibility
- Cost of Capital

- **Underwriters – Fixed Rate Bond Issue**

- An “investment grade” credit rating can help the School reduce substantially its borrowing cost
 - Financial statements
 - Amount of proposed debt
 - Other key performance metrics
- Can be sold
 - based on underlying credit ratings provided by rating agency (S&P, Moody’s, etc.),
 - as fixed rate bonds with bond insurance (from bond insurance company like ACA), or
 - as non-rated fixed rate bonds

Key Issues for Each Constituency (cont'd)

- Underwriters – Fixed Rate Bond Issue (cont'd)
 - Qualitative
 - History, Management, Success/Performance Indicators
 - Location, Market, Competition
 - Quantitative
 - Historic Financial Performance
 - Financial Projections
 - Programmed Growth/Improvement in
 - Revenues
 - Net Operating Income
 - Gifts/Donations/Grants
 - Balance Sheet/Liquidity
 - Debt Service Coverage
 - By operating income
 - By operating income, working capital and reserves

- Letter of Credit Bank - VRDBs
 - Same quantitative criteria as for non-rated issue, plus
 - Bank-specific criteria:
 - Loan to value considerations
 - Seniority as to security (net revenues, real estate, FF&E)
 - Liquidity ratios (eg. days cash on hand)

CREDIT RATINGS & METHODOLOGY



Credit Quality and Relevance to Financing

- Rating Agency Criteria
 - Ratings represent “relative” not absolute assessment of credit quality
 - Explore possibility of securing bond insurance
 - Even on a non-rated basis, Charter Schools can borrow relatively inexpensively with long term, tax-exempt, fixed rate bonds

- Bank Letter of Credit Issues
 - A necessity for any Variable Rate Demand Bond financing
 - School’s Finances
 - Balance sheet/liquidity
 - Gifts/Donations/Grants in hand and projected
 - Project Financing
 - Loan to value
 - Proforma debt service coverage
 - Metrics/ratios tend to drive evaluation process and cost

Credit Quality and Relevance to Financing (cont'd)

- Capital Markets Concerns
 - As a “non-rated” credit
 - Quality issues can mitigate financial concerns
 - School’s reputation and good market position
 - Charter Contract
 - Quality of Board and Management
 - Fundraising
 - Objectives
 - Historical fundraising success
 - Quality of annual giving programs and execution to date
 - Finance Plan and Financial Projections

Rating Agencies and Rating Definitions

- Top 3 Rating Agencies

- Moody's Investors Service
- Standard & Poor's Corporation
- Fitch Investors Service

	Moody's	S&P	Fitch
Investment Grade	Aaa	AAA	AAA
	Aa	AA	AA
	A	A	A
	Baa	BBB	BBB
Speculative Grade	Ba	BB	BB
	B	B	B
	Caa	CCC	CCC
	Ca	CC	CC
	C	C	C
In Default		D	DDD
			DD
			D

Key Credit Rating Factors for Charter Schools

- Most Charter Schools do not qualify for investment-grade credit ratings
- Qualitative and Quantitative assessment of the following key rating factors:
 - Market Position
 - Enrollment Trends and Projections
 - Competition and Educational Alternatives
 - School Size
 - Governance and Management
 - Institutionalized Management
 - Composition and Role of Board of Directors
 - Use of Private Management Companies
 - Financial Position and Performance
 - Operating Performance/Debt Service Coverage
 - Budgeting
 - Financial Reserves/Balance Sheet Flexibility
 - Extent of Leveraging
 - Covenants and Legal Framework
 - Additional Bonds Test
 - Debt Service and other reserves
 - Mortgage Lien
 - Flow of Funds
 - Coverage-Related Covenants
 - Charter and State-Specific Credit Factors
 - Quality of Charter School Oversight
 - Charter Renewal Risk

CLOSING REMARKS

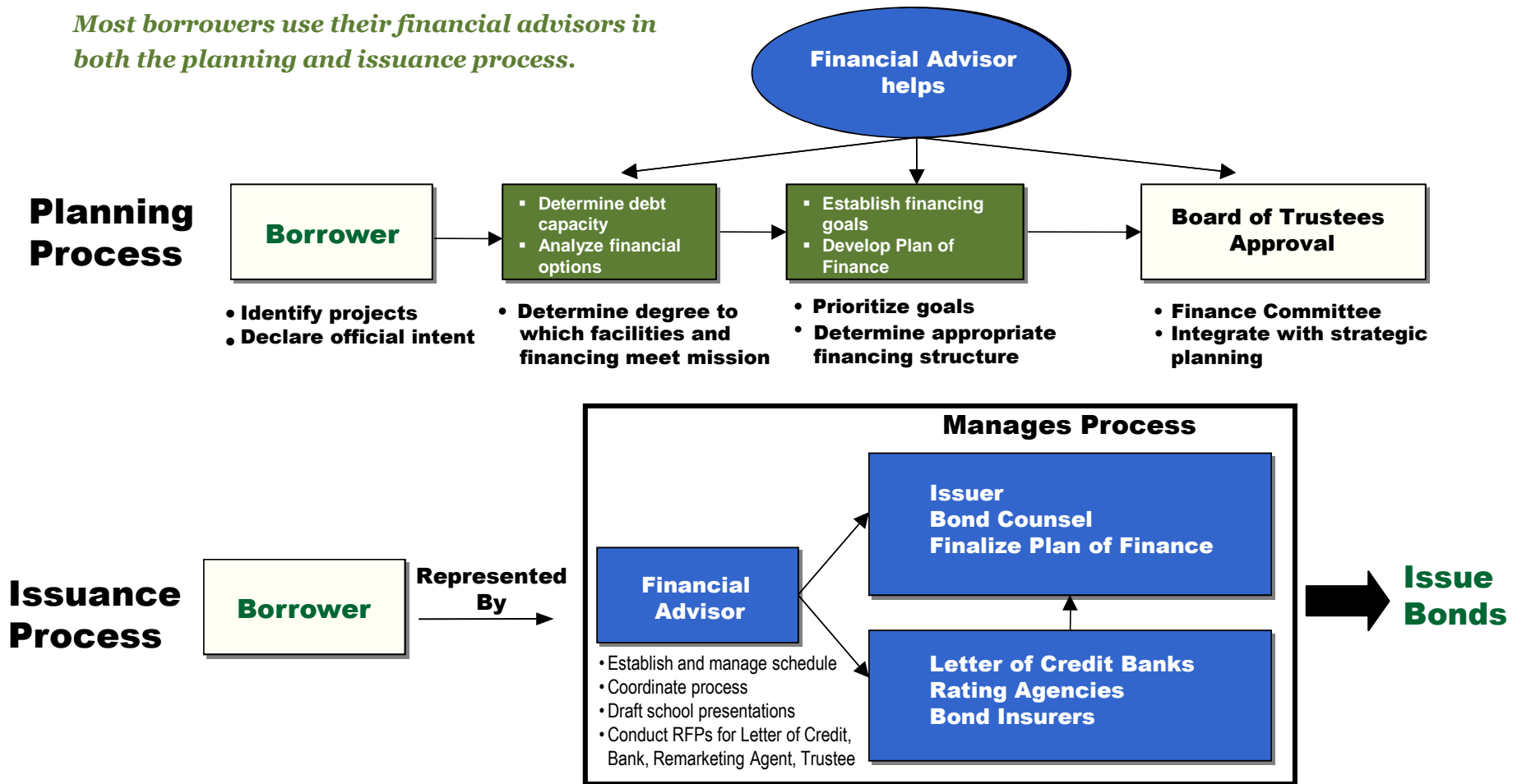


Summary

- Thorough planning & analysis is crucial to the successful financing of any Charter School
- Execute your School's financing with the support of qualified professional services firms who do these types of financings every day. Don't try to do it alone.
- Demand
 - First class service
 - Timely and timetable-driven project management
 - Exhaustive analysis of creative, cost saving financing techniques
 - Patient, respectful support and stewardship
 - High competitive financial and legal terms in your transaction
 - Competitively priced service

What is the Role of the Financial Advisor?

Most borrowers use their financial advisors in both the planning and issuance process.



This presentation is available online at:
www.wyeriver.net/files/CharterSchoolBondFinancing.pdf



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