

**CHARTER SCHOOL FACILITY FINANCING CONFERENCE
NOTES FROM FINAL WRAP-UP**

A. TWO DATA QUESTIONS:

1. Size of the market

- What's the size of the market, including both current and future demand?
- Annie did a "back-of-the-envelope" calculation of \$2B, but it needs to be refined
- It's especially important in the context of innovation in the bond market
- Need to take number of states, the number of schools, and if they grow __ %, then . . .
- But someone needs to survey the schools and figure out the real estate costs
- Someone did another "back-of-the-envelope" calculation for the entire K-12 market (\$40-60 billion/year) and if charter schools are 3% of that, then it's \$1.2 - \$1.8 billion, which confirms Annie's calculation
- But using 4 – 5 different reference points and assumptions, and with some funding, it should be relatively straightforward to refine this estimate

2. National performance data on loans

- There is no national performance data on loans (vs. AYP, etc.), and while we'll never get all of it because it's in different niche markets, it's still possible to pull together sufficient data to be relevant
- Kauffman did some analysis in this area, but they looked at real estate losses, not loan performance; however, this would be a platform to start from
- While performance is generally thought to be good on these loans, some investors have gone through some loan restructurings already
- Moreover, trustees and small bondholder groups have done restructurings privately, so there won't be data on this; however, the study should be able to take this into account
- The Kauffman report linked the real estate default rate with the failure of schools, but they're different; in addition, their report is stale
- The trustees may be the place to look for the data; it should be possible to get the data, depending on who's asking and how the data is to be used
- As a subset to this question, we need to gather school closure information: why it closed, who initiated it; such data is probably more attainable; it's certainly available by state and probably just needs to be aggregated
- Another sub-issue is the realization rate: how much money is recouped if the real estate is resold or put to alternate use, i.e., did the investor lose money (even though it's still an immature market)?
- It would also be interesting to see if there's a correlation between loan performance and the support from intermediaries, though this is probably one level up from the loan performance data, i.e., could be added to the basic study

B. FINANCIAL INITIATIVES

1. Annie's Charter Academy Bonds (CABs)

- What would be the next steps in implementing such a program?
- Ultimately a bill would need to be introduced, but the idea would certainly have to be fleshed out more
- Would have to do “policy wonk” work, e.g., figuring out how to set the rate, would we use the same methodology as QZABs, etc.
- Should probably create a coalition, decide who on the Hill would introduce it, get Frank Riggs to help with it
- The Charter Coalition would be an important component of this group
- A key question is looking at the turmoil in the LIHTC market; any new vehicle will have to face the current investment climate
- Another issue is that even NMTCs haven't yet reached maturity, and we don't know what will happen in the out years yet
- With CABs, we're not only developing a financing vehicle, but also a product
- Perhaps the best approach is to raise some limited funds for exploring the idea, specifically convene a group and put some resources behind it

2. Questions related to No Child Left Behind

- Will the program stay?; Might it be enhanced?; Should we advocate for it?
- The National Alliance is working with the Charter Coalition to incorporate the CDFIs' recommendations, so the program will be reauthorized whenever NCLB is
- The funding should still be there, but we'd look to expand it, make it broader and more impactful
- Most of the Alliance's work is related to the schools themselves, but the real estate questions are certainly a component of their work
- The CDFIs confirmed that the Alliance has worked very hard on their behalf, but perhaps the CDFIs should put even more energy into working with the Alliance
- The CDFIs could also play a role with the data piece as they have voluntarily collected data in this area already

3. Role of philanthropy

- They might create an enhanced pool for early stage financing
- Or they might pursue Mary Tingerthal's idea of creating an insurance pool for reserves
- Generally they want to pursue a systems role more than a specific transaction role
- However, if they do boutique transactions, then move to some systems work, and then address the issue of accessing the capital markets

- Part of the conversation among the philanthropic community the following day would be to ensure that they're focusing the right resources, making the transition to the systems part
- However, there's a range of philanthropic focuses in this field, and one goal is to catalogue these interests
- There's not necessarily a prescribed outcome; want to look at the marketplace that's close to bond finance, but also look long term at what's needed – there are funders at every step
- The ratings agencies and the marketplace seem to be overcompensating for things they don't know, so we need to have a very specific dialogue with the agencies and investment banks to find out what they're protecting against – we need to find the inefficiencies and then work through them
- The philanthropic community wants to gather all innovative ideas, figure out the best way to employ PRIs, etc.
- Investors do point out that what's happened in the pricing of credit risk recently is no anomaly; the spreads today are akin to where they were in '02 and '03; in '05 and '06, deals with ACA or un-enhanced that were priced at 6% or less were driven by excess liquidity and isn't likely to be seen again; we're readjusting back to where prices make more sense, especially since many of these are start-ups and consequently are more like venture capital (though the charter school community disagrees, based on “wisdom without data”)

C. OTHER ISSUES

- Need to address the facilities utilization issue (raised in the meeting by the Illinois Facilities Fund), though not clear if it's a federal or a state issue; even if it's a local issue, there's a role for federal incentives in this area
 - The Alliance is developing a group to look at such issues
 - In the end, it's really a community development issue related to building communities and using a charter school as an anchor
 - Should partner with organizations such as the National Abandoned Housing Corporation (or did they mean the National Vacant Property Campaign?)
 - There are a huge number of such schools – would be great to know the number of abandoned schools; it's potentially scandalous
- A long term policy objective has to be to ensure that charter schools receive their fair (equal) funding relative to other public schools
 - Utah and New Jersey have made great strides in this area
 - The Alliance will have their state policy person focus on this
- There's also the M&A issue
 - Tied to general issue of mergers of nonprofits
 - Will probably have to be a state issue
 - Where do you cross the line and explicitly authorize a merger?
 - In some cases, the original leader of a charter school leaves and then the school ends up joining a network