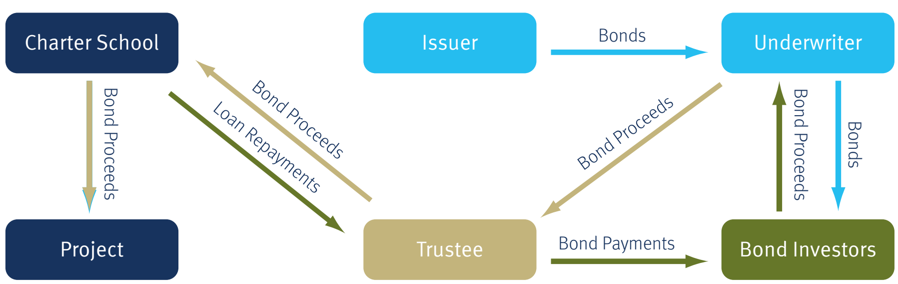
A Leader in U.S. Municipal Finance

Charter School Bond Finance

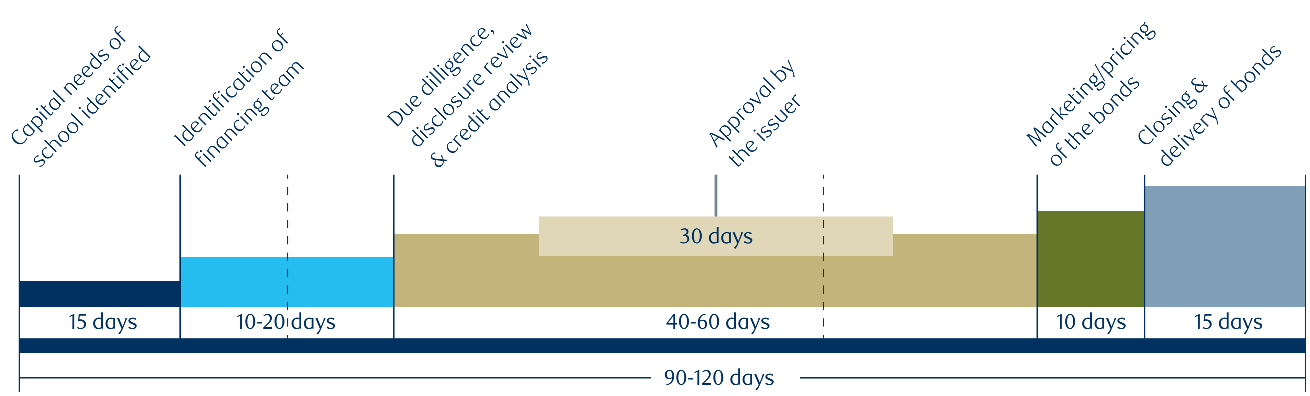
The ability to secure suitable facilities presents a major challenge for many charter schools. For a qualifying school, one avenue to that end is financing facilities through the issuance of bonds. As public schools, charters qualify for tax-exempt and taxable municipal bond financing. The sections below provide an overview of the bond financing process that the RBC Capital Markets' Charter School Finance Group has developed and utilized successfully over the past 20 years for our clients.

Bond Financing Process and Flow of Funds

The issuance of bonds involves a number of financing team parties. Most state laws require charter schools to access the bond market through a governmental entity called a "conduit" issuer. As shown in the chart below, the conduit issuer, generally a local industrial development authority or a state agency, issues bonds through an underwriter (such as RBC Capital Markets), who sells the bonds to investors. The conduit then loans the proceeds of the bond issue to the charter school borrower. The charter school makes loan payments to the issuer (via a trustee) and the trustee makes bond payments to the bond investors.



Typically the time period from inception of the bond financing process to closing and delivery of proceeds is 90 to 120 days. Variables that may affect timing include: the school's preparedness to begin the process and availability of required information concerning the school; local political approval requirements; completion of various real estate closing matters; project design and construction related contracts. The various steps and approximate time requirements are shown below.



Structure and Security for the Bonds

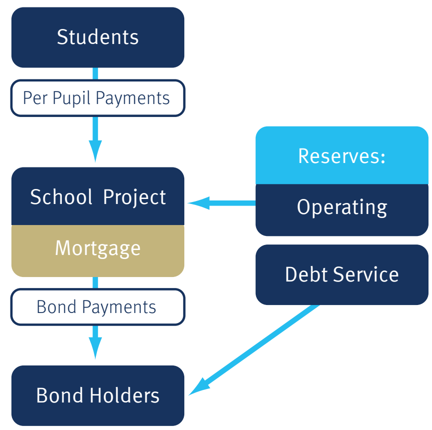
Charter school bonds are secured primarily by state or local per pupil payments along with other unrestricted revenues. In addition, investors also require a mortgage on the financed property and maintenance of certain debt service and/or operating reserves.

For the benefit of both the investors and the borrowers, covenants (additional terms) are drafted into the bond finance contract. They most often include:

(i) restrictions on additional debt

(ii) maintenance of certain financial ratios (debt payments/net revenues, net unrestricted/liquid assets, etc.)

Charter school bonds most commonly provide long-term, fixed rate financing (up to 35 years) with the option, in many cases, to reduce payments in years 1–3 by deferring principal and/or capitalizing interest payments. Depending on the organization, current market conditions and available programs, alternative structures may be created.



Interest Rates

The interest rates available to charter schools are a function of various factors, including the school's credit quality, the repayment term and the ability of the underwriter to access the market on behalf of the school. Credit quality is assessed by the underwriter and bond investors, often based on an unbiased third party credit review from a nationally recognized rating agency. The stronger the assigned or perceived credit of a school, the lower the relative interest rate (based on current market conditions). For information on current market interest rates, contact RBC Capital Markets' Charter School Finance Group.

Bond Eligibility and Due Diligence Review

Bond eligibility is determined by reviewing a number of factors related to a candidate charter school. Certain information is requested and collected, known as due diligence materials, to make that assessment. Those due diligence materials generally include, but are not limited to, the following types of information:

Student Information
- Educational Performance
- Student Counts
- Student Demand

Organizational Information
- Administration & Staff
- Charter Contract
- Governance
- Legal Structure

Financial Information
- Amount of Leverage
- Financial Results & Ratios
- Operating History & Audits

Project Information
- Costs
- Project Details
- Real Estate Matters

John Snider
Managing Director
Head, Charter School Finance Group
602.381.5361
john.snider@rbccm.com

855.rbc.bond (855.722.2663) | rbccm.com/charterschools