Facility Financing Best Practices, Options, and Considerations

From Start-Ups to Stabilized Operators

Prepared for the Charter School Development Center Conference

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Audience Participants

New schools?

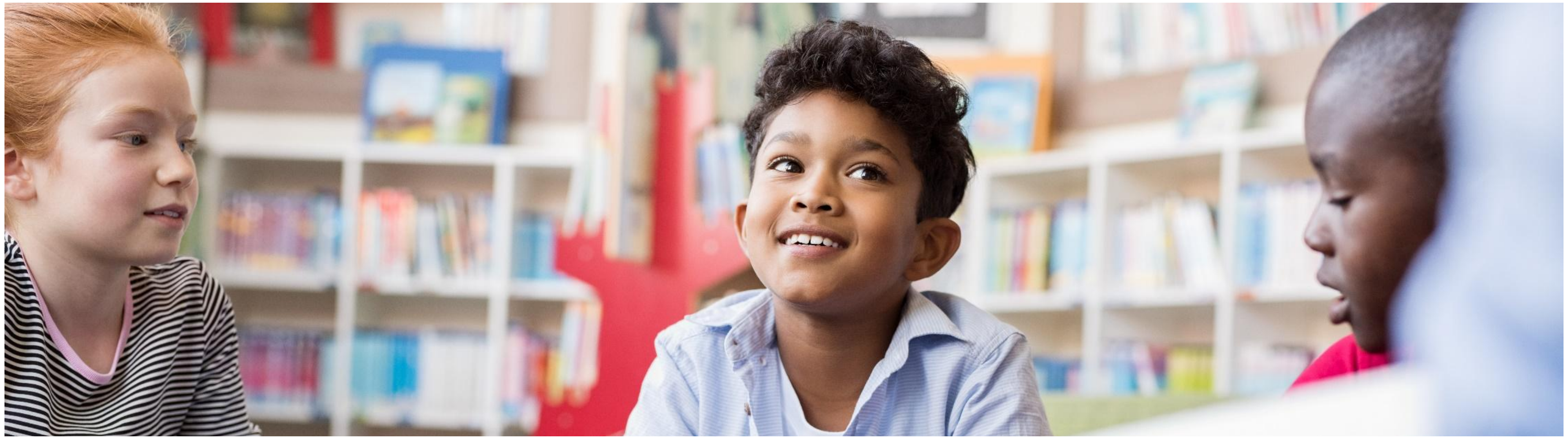
Schools currently leasing facilities?

Schools looking to expand enrollment or grades?

Schools looking to refinance existing debt and capital expenditures?

School partners?

Facility Finance 101



Own your facility from the beginning

- Tax-Exempt Bonds
- Private Placements

You can finance any capital expenditures and working capital (if needed)

- Land acquisition
- Building, construction, renovation, refinance
- Fixtures
- Athletic facility

Key Question
How Much Can you Afford?

Key Characteristics and Common Challenges

What Do We Consider?

- History & founding
- Historic enrollment
- Waitlist
- Educational program/academic performance
- Financial performance – liquidity, operating margin & debt service coverage
- Governance
- Administration
- Charter Contract
- Retention – students & teachers
- Student demographics (including free & reduced lunch)
- The Project
- Competition

Common Challenges

- Charter renewal/revocation risk
- Limited operating history compared to other sectors
- Slim margins/limited liquidity
- High debt burden
- Construction risk
- Significant increase in facility size
- Demonstrating demand

Long-Term Bonds vs Bank Placement

	Long-Term Bonds	Bank Placement
Term	Up to 40 years	5-15 years
Amortization	Up to 40 years	Up to 25 years
Reserve Fund	Required	Not required
Credit Rating	Recommended	Not required
Equity Requirement	None, Borrower's choice	25%-35% of appraised value
Up front costs	Higher	Lower
Refunding Eligibility	Between 5-10 years	Flexible
Balloon Risk	None	Typical
Reset Risk	None	Typical

Variety of Charter School Clients

Piper Sandler's underwriting and placement agent services offer significant market penetration and expertise in the charter school sector.

Piper Sandler supports charter schools throughout their lifecycle as highlighted below:

	Start-up Schools	Expanding Schools	Stabilized Schools
Typical Ratings	Non- Rated	"BB/Ba" or NR	"BBB/Baa" or Enhanced
Bond Market	Single Investor Deals (likely), Limited Offerings (with right story)	Limited/Public Offerings	Public Offerings, Enhancement Programs
Placement Market	Banks (with equity/sub debt)	Banks (with equity/sub debt)	Nationwide Loan Funds
Typical Credit Metrics	Management, Demand Profile, Affiliations/Philanthropy, Brand	Demonstrated financial/academic success, 40+ days cash, clear market penetration	Waitlists, stable enrollment, 100+ days cash, 1.5x coverage ratios, demonstrated academic performance, charter renewals

Financing Options Typically Used | Common Challenges of Financing Options

	Tax Exempt Bonds	Asset-Backed Loans (Bank Financings)	CDFI
Financing Options Typically Used	▪ Interest rates estimated at 5.50% – 7.50% ▪ 100% Financed (no LTV requirements) ▪ 35+ year amortization ▪ 35+ year term ▪ No Sub Debt/Equity required	▪ 4.50% to 7.00% depending on taxability/credit ▪ Typically 60% to 80% LTV ▪ 20 – 25 year amortization ▪ 5 -10 year term ▪ Typically requires equity or subordinated debt from CDFIs ▪ Traditional Bank Financings ▪ Tax-Exempt Bank Financings	▪ Interest rates 5-7% ▪ Up to 90% LTV & can go over 100% with Credit Enhancement ▪ Up to 30 year amortization ▪ 5 -7 year term ▪ Longer interest only periods ▪ Senior and Junior Financing ▪ Some longer term options are now available
Common Challenges of Financing Options	▪ Can we get approval from a MN Issuer? ▪ Can we accommodate a phased construction scenario? ▪ What interest rates can our project afford? ▪ Can we afford the transactional costs? ▪ Can we afford the carrying costs/capitalized interest? ▪ Can we deal with a uncertain and potentially volatile market?	▪ Do we have access to adequate senior debt at reasonable terms? ▪ Do we have access to adequate equity or subordinated debt? ▪ Does our property appraise for the needed value? ▪ How vulnerable are we to interest rate increases? ▪ Prefunded reserve requirements	▪ Do we meet the demographic requirement? ▪ Do we meet the geographic footprint?

Project Budget in Current Market Conditions

$10 million financing

$10,000,000	35

4.00%	$535,773
5.00%	$610,717
6.00%	$689,739
7.00%	$772,340

$1 million annual debt service

$1,000,000	35

4.00%	$18,664,613
5.00%	$16,374,194
6.00%	$14,498,246
7.00%	$12,947,672

We can further review your school's planning process by performing a debt capacity analysis. The analysis will highlight the following:

Affordability of contemplated project
Impact of estimated debt service on financials
Estimated rates based on the school's credit
Additional project fund capacity based on credit, enrollment levels

Debt Capacity Analysis

Piper Sandler can further review your school's planning process by performing a debt capacity analysis. The analysis will highlight the following:

- Affordability of contemplated project
- Impact of estimated debt service on financials
- Estimated rates based on the school's credit
- Additional project fund capacity based on credit and enrollment levels

The information needed to complete this analysis is listed below:

Historical and Projected Enrollment/Waitlist by grade	○
Audited Financials	○
Financial Projections	○
Any Estimated Project or Acquisition Costs (if available)	○
Academic results/authorizer reports	○

Governance and Administration Best Practices

- Engage Counsel
- Reimbursement Resolution
- Board & Administration/Management Involvement
  - At least one representative from each heavily involved
  - Board approved parameters & delegation rights
- Facilities Subcommittee
  - Board member involvement
  - Administration/management involvement
  - Attend regular meetings regarding facility and update Board
- Inform Authorizer
- Loop in financial service provider
- 501c3
- Communicate with Sponsor regarding facilities plans
- Develop the story and the "why" behind the facility
- If enrollment is expanding, have plan for additional staffing

Illustrative Timeline

● Pre-Marketing ● Marketing ● Price, Fund and Close

Activity	Month 1				Month 2				Month 3				Month 4			
	WK1	**WK2**	**WK3**	**WK4**	**WK5**	**WK6**	**WK7**	**WK8**	**WK9**	**WK10**	**WK11**	**WK12**	**WK13**	**WK14**	**WK15**	**WK16**
Organizational Meeting	●															
Conduct Detailed Due Diligence	●	●	●	●												
First Draft of Bond Documents		●	●	●												
Send Financial Model to Forecast Provider			●	●												
Discuss Bond Documents and 1st Draft of POS				●	●											
Submit Rating Presentation to Rating Agency					●	●	●									
Submit Application for Issuer Approval					●	●	●									
Receive First Draft Financial Forecast						●	●									
Receive Borrower Approval							●	●	●							
Receive Second Draft of Bond Documents and POS								●	●							
Rating Agency Site Visit								●	●							
Issuer Meeting to Approve Financing Resolution									●	●	●					
Receive Rating from Rating Agency										●	●					
Print and Distribute Preliminary Official Statement											●	●				
Distribute Investor Sales Presentation												●	●			
Investor Call												●	●			
Investor Site Visit (If Needed)												●	●	●		
Pre-Pricing Conference Call													●	●		
Price Bonds and Sign Bond Purchase Agreement														●		
Finalize Documents and Print Official Statement															●	
Fund and Close																●

Time Sensitive Items:
- Issuer application, preliminary hearing, final resolution
- Marketing of the bonds
- Closing of the bonds

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