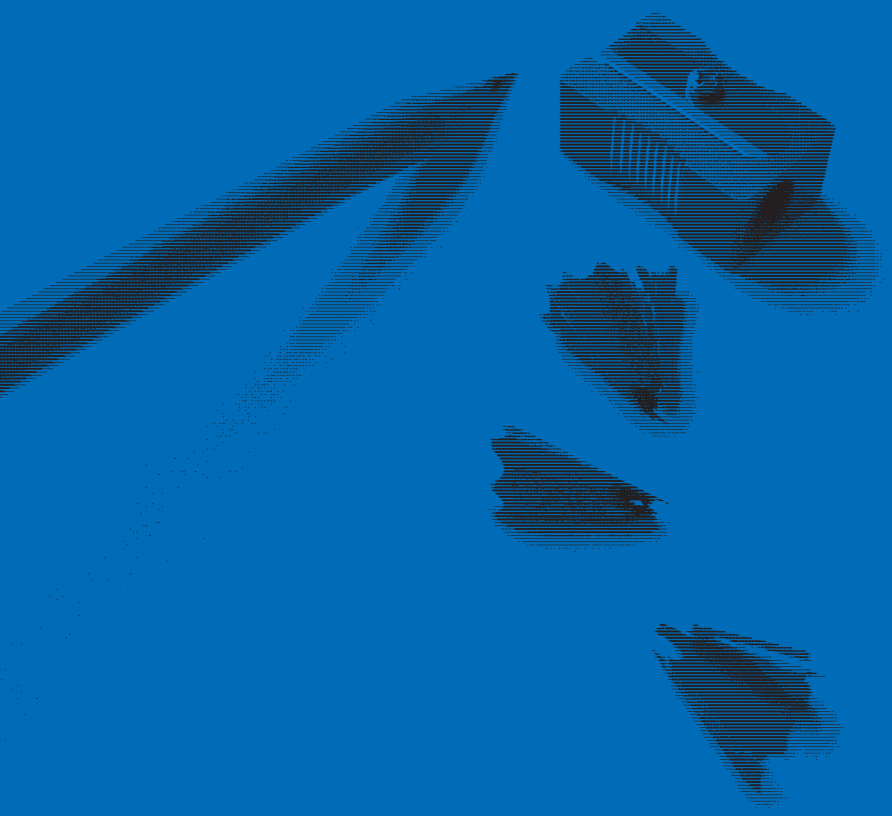
Local Initiatives Support Corporation

The Finance Gap: Charter Schools and their Facilities



January 2004

By the Institute for Education and Social Policy, Steinhardt School of Education
New York University

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The **Bill & Melinda Gates Foundation** is building upon the unprecedented opportunities of the 21st century to improve equity in global health and learning. Led by Bill Gates' father, William H. Gates Sr., and Patty Stonesifer, the Seattle-based foundation has an endowment of approximately $26 billion.

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New York University's Institute for Education and Social Policy, founded in 1995, conducts research, policy studies, evaluations, and strategic assistance that informs and supports the efforts of policymakers, educators, parents, and community groups to improve public schools so that all students, particularly those in low-income neighborhoods, achieve a more just and equitable education, and participate effectively in democratic institutions. **The Charter Schools Research Project**, initiated in 1998, examines the nascent charter schools movement, both locally and nationally.

THE FINANCE GAP: CHARTER SCHOOLS AND THEIR FACILITIES

Findings from a Nine-Month National Study

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Districts across the country are facing unmet needs for the renovation and construction of public school facilities, dwindling capital funding streams, and voter resistance to property tax increases. In this context, the decade-long experience of charter schools with private-sector involvement in facilities financing, and the use of instructional revenue for the repayment of debt, offers lessons to both charter schools and the wider public school community.

Our study focuses on fourteen states and the District of Columbia, jurisdictions which house 75 percent of the nation's charter schools and have a high need for public school facilities caused by student growth and/or facilities repair needs. Between January and September 2003, Institute for Education and Social Policy researchers conducted 100 interviews with representatives of public schools, including charter schools and charter school networks; federal, state, and local public education officials; representatives of public school advocacy groups, partners, and resource centers; and representatives of the real estate and finance communities.

Nationally, less than one-fifth of all charter schools lease facilities at minimal rates from their districts. Compared to the rest of the nation, our study jurisdictions support charter schools at a higher rate with public capital assistance or lease aid streams. Nevertheless, the charter schools in our study generally use a significant proportion of their per pupil (instructional) revenue to pay for leasing, renovation, construction, purchasing, and maintenance of their facilities.

The financial strain of facilities financing is grave for charter schools. Most startup charter schools in our study incur debt initially to make leasehold improvements on rented space, and later to finance the purchase of land and/or a facility, or to construct or renovate a building. While financiers generally agree that charter schools should not commit more than 12-15 percent of their per pupil revenue to debt service, the charter schools in our study spend an average of 20-25 percent of their instructional revenue on repaying loans and bonds.

Since charter schools are often in facilities not originally meant for schools, most charter schools begin by making modifications using grants, personal funds, or leasehold improvement loans. Renovations made to leased property contribute to the equity of the owner, but not to that of the charter school and cannot be taken when the school moves to a new location, as it generally must do to accommodate student growth.

The phrase "just-in-time-building," used by one of our interviewees, highlights the schools' need for appropriate space that is supported by current enrollment, and the resulting fact that space is generally added with each enrollment increase. Indeed, most charter schools change their facilities configurations or move several times during their first five years.

A school's ability to obtain a loan at a reasonable interest rate depends primarily on the perceived risk to the lender and the sources that the school can demonstrate as available for repayment. Since per pupil revenue is based on enrollment, and most charter schools have charters for five years, charter schools generally have not scored high marks according to standard loan investment measures. While three of our study states have lengthened charters to as long as 30 years to make schools more attractive to investors, this shift may work against the performance-based accountability ideals of the charter movement.

In addition to obtaining mortgages or issuing bonds to purchase their own buildings, startup charter schools with three or more years of operating history often refinance their debt with more affordable long-term loans and bonds. However, because charter schools must finance their borrowings through per pupil revenues, which are based on student enrollment, they are charged higher interest rates than public school districts, which are financed by less variable property taxes and backed by the district's "full faith and credit." Moreover, most charter schools have not been able to issue tax-exempt bonds, which would offer them lower interest rates.

After more than a decade, charter schools have become more attractive to the investment community. As financiers become savvier about charter schools, more products, such as loan pools and bond pools, are being developed to provide affordable financing while decreasing lending institutions' risk or exposure. To facilitate charter schools' financing, some states and private entities have also created credit enhancement programs.

However, even mature charter schools with larger enrollments and a good credit rating tend to be "over-collateralized." In addition to using their buildings as collateral, the schools in our study also generally had to obtain a credit enhancement, such as a loan guaranty or debt service reserve, to assure the financial institution that they will repay their debt. In some cases, even personal deposits have been taken as additional collateral.

Moreover, the finance community's criteria of an investment-worthy charter school are shaping important aspects of charter schools in ways that may not always be advantageous to the schools and their students. In fact, the finance community's ratings are creating a two-tiered system: those charter schools that are deemed investment worthy, and the larger portion of schools that are not considered "finance-able."

First, charter schools with enrollments of less than 300 students are generally not considered finance-able; most investors want school enrollment to be between 300 and 500, with promise of further growth. This requirement eliminates both charter schools in their early stages of development and those charter schools that, following current research on best practices, are intentionally small, including a growing number of charter schools whose mission is to serve at-risk students and special populations.

Second, investors want charter schools to maintain significant cash reserves. While this provides security to investors and represents sound business practice, without school leaders spending more time and effort on fundraising, maintenance of a cash reserve also translates into further cuts in instructional spending.

Third, charter schools are under pressure from the finance community to have board of trustee members who represent insurance, law, real estate, and finance. However, establishing well-connected, professional boards is clearly much more difficult for charter schools in exactly those low-income communities that most need charter schools.

Even if facilities financing can be improved with low-interest loans and tax-exempt bonds, the fact that these mechanisms are repaid largely with public per pupil funding streams results in decreased money for instruction. The charter school operators in our study worked hard to secure facilities that would attract and retain students, give teachers security, and symbolize success to the community. As a result, many charter schools use as much as one-quarter of their per pupil allocation on their facilities, creating an obvious impact on the quality of instruction they are able to provide their students.

While privatizing facilities financing may lead to greater efficiencies in producing public school facilities, the charter school experience suggests the dangers of using instructional streams for repayment. As charter school operators spend enormous time and resources on capital fundraising and on obtaining facilities financing, their students make do with severely curtailed instructional budgets. Thus, as a model, charter school financing needs to be rethought both by those concerned with the fate of charter school reform and by those contemplating its wider application to traditional public schools.

STUDY ADVISORY BOARD

ACKNOWLEDGMENTS

We are grateful to the charter school operators, public school officials, leaders of charter school resource centers and advocacy organizations, financiers, private developers, and dozens of other individuals involved in the renovation, construction, and purchase of charter and other public school facilities who gave of their time and insights to make this report possible. To those of you whose stories we featured, we thank you for your openness with your experiences; to those of you whose stories became part of the larger picture without being identified, we both apologize and affirm the importance of everyone's story to bringing this report to fruition.

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Judy Marks, Associate Director of the National Clearinghouse on Educational Facilities (NCEF), allowed us to draw heavily on NCEF's bibliographic resources and reviewed the bibliography included in this report. Bryan Hassel of Public Impact reviewed a draft of this report. We thank them both for their generosity and careful attention.

Our mechanism typology went through several drafts, during which it benefited from the financial expertise of Barbara Page; Elise Balboni, Deputy Director of the Educational Facilities Financing Center at LISC; and Dwight Denison, Associate Professor of Public and Nonprofit Finance at the Wagner School of Public Service of New York University.

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INTRODUCTION

This report is the result of a nine-month, national study of nontraditional funding and financing of facilities for charter and other public schools. Our qualitative research, based on fourteen study states and the District of Columbia, describes the growing range of private involvement in the acquisition, construction, and renovation of public school facilities and identifies new mechanisms through which both the public and private sectors are becoming involved in facilities financing. This report focuses largely on charter schools, which generally do not have access to the public capital funding streams available to traditional public schools. As a result, they rely heavily on nonprofit and for-profit institutions to obtain facilities funding and financing. In an era of limited public funds for facilities and increased pressure on public schools to produce high achievement, the lessons learned through the charter school experience with nontraditional financing may provide solutions and warnings for all public schools.

We were asked to conduct a study of nontraditional facilities financing, particularly in charter schools, by the Local Initiatives Support Corporation (LISC), a nonprofit community development financial institution, which was preparing to open its Educational Facilities Financing Center (EFFC) in late 2002. LISC wanted background information on the types of facilities funding and financing being used most effectively around the country. The Bill & Melinda Gates Foundation generously provided the funding for our research.

Our report answers five questions:

- What factors have challenged public schools, particularly charter schools, to seek nontraditional facilities financing?
- What funding and financing mechanisms are charter schools using to secure facilities?
- How does the finance community view the opportunities and risks of investing in charter schools?
- What effect has increased private involvement in facilities financing had on alleviating the facilities problem for charter schools?
- What are the effects of private involvement in facilities financing on the quality of instruction in charter schools?

Based on our answers to these questions, we provide recommendations to school personnel, public education officials, and for-profit and nonprofit private investors regarding quality funding and financing for charter and other public school facilities.

A note on language: This report uses "funding" to refer to all public and private sources of money given without the obligation of repayment; funding can be a one-time allocation or a continuous stream, and includes capital fund-raising. We use "financing" to refer to arrangements that involve a debt obligation; money must be repaid, typically with interest, and collateral is demanded of the borrower. By "nontraditional," we mean the funding and financing of public school facilities other than through such methods as voter-approved general obligation bonds or the use of public capital funding streams.

METHOD

We have conducted this study in several overlapping stages: 1) a review of the literature on capital financing for school facilities, particularly on private involvement in facilities financing and public initiatives to promote this involvement; 2) the designation of a sample of study states; 3) the conduct of interviews with representatives of charter and other public schools, education officials, and members of the financial community involved in financing school facilities through nontraditional means; and 4) the development of a typology of the mechanisms through which public schools, particularly charter schools, are funding and financing their facilities. We describe each of these research stages more fully below.

Literature Review

Since extensive private involvement in school facilities is relatively new, we began our study with a thorough search of local, regional, and national sources on nontraditional approaches to funding and financing public school facilities. The resulting summary of literature, contained in *Appendix A: School Facilities Funding-An Annotated Bibliography*, includes articles, books, monographs, newsletters, and other documents, as well as web sites, of interest to those involved in financing facilities for charter and other public schools. Because the overall field of school facilities is changing rapidly, we have included only those citations that were published within the last five years.

Development of Study Sample

In any national study conducted over a relatively short time span, researchers must create a subset that offers the most accurate and salient information. Because we were interested in states with a good deal of private involvement in public school facilities financing, especially in the financing of charter school facilities, we began by creating a filter using four key determinants of high need for increased facilities activity: 1) existence of charter law and the creation of a significant number of charter schools as of January 2003; 2) high public school enrollment growth from 1991 through 2001; 3) high projected school-age population growth from 1989 through 2009; and 4) high estimated costs of needed school building repair.

We hypothesized that low state and federal spending on capital costs and high facilities repair needs would result in the existence of local private involvement in facilities financing. For each state, we looked at total capital expenditures, spending per pupil, and the ratio of federal and state spending to local spending. Our analysis showed low public spending and high repair needs had no strong relationship with high

private involvement. This work is reflected in the chart reproduced in *Appendix B: State Pressure Filter*, which depicts enrollment and population growth, repair needs, and spending patterns across all fifty states.

The sampling method described above resulted in the following fourteen study states and the District of Columbia:

- Arizona
- California
- Colorado
- Florida
- Georgia
- Illinois
- Indiana
- Michigan
- Minnesota
- Nevada
- New York
- Ohio
- Texas
- Virginia

Since most of these states and Washington, DC host active charter school movements, our study sample accounts for 75 percent of all charter schools in the United States.

Data Collection

Once we had selected our study sample, we contacted state and district education officials, charter school authorizers, and charter school resource centers in each of these jurisdictions. Our aim in these initial contacts was both to obtain the latest information on nontraditional facilities financing, including public programs to assist charter schools in solving their facilities problems, and to develop an initial list of charter schools that were using private funding and investments to develop their facilities.

We conducted 100 interviews with participants in school facility finance in our fourteen study states and the District of Columbia. While most interviews were over the telephone, we also conducted face-to-face interviews as well as one focus group. Finally, as part of this study, we attended a national conference for private developers of public school facilities, as well as a regional conference on charter school facilities financing. In all, we spoke with 30 public and charter school administrators, officials, and school board members; 29 members of the nonprofit and for-profit business community; 18 public education and finance officials; 8 nonprofit and for-profit private partners of public school districts and charter schools; and 15 individuals working with advocacy groups and resource centers for charter and other public schools. (See *Appendix D: List of Interviewees*.)

It is important to reiterate that roughly 15 percent of charter schools are occupying space in former public school buildings and more are using simple lease arrangements for excess space in private school buildings, warehouses, offices, and churches. Since our interest was in innovative funding and financing, we interviewed only a small number of charter school operators with such facilities.

Development of Mechanism Typology

A critical aspect of our work has been to classify the funding and financing mechanisms we uncovered in the course of our interviews. The mechanism typology we developed (see *Appendix C*) groups similar or related financing and funding products, provides a basic description of these products, and highlights important characteristics of each. As our research elicited new stories from charter and other public school operators, as well as financiers, the typology was continually revised to reflect funding and financing options available to charter and other public schools.

OUTLINE OF REPORT

Section I: The Growing Facilities Problem in Public Education, Private Involvement as a Solution, and the Example of Charter Schools offers context for our study. We describe the increasing capital needs caused by aging facilities, school-age population growth, and new education reforms. We then set the stage for our analysis by portraying how charter schools are funded and by highlighting the paucity of public capital funding streams for charter schools.

Section II: Funding and Finance Mechanisms for Charter and Other Alternative Public Schools highlights the four major mechanisms used to obtain private sector involvement in facilities financing: leases, loans, credit enhancements, and bonds. In addition, we review several emerging mechanisms being created by the public sector to foster private sector involvement in facilities financing.

Section III: The Charter School Experience of Facilities Financing and the Desire for Building Ownership examines the financing mechanisms generally available to, and most often utilized by, a startup charter school during specific phases of its life. This section also discusses the general desire for facilities ownership by charter school operators and the advantages and disadvantages such ownership can entail.

Section IV: The "Finance-able" Charter School, the Emerging Finance Gap, and the Impact of Facilities Financing on Instruction discusses the business community's criteria for a "finance-able," or investment-worthy, charter school; the emerging finance gap between finance-able and non-finance-able charter schools as a result of these criteria; and the impact of the lack of public funding streams for charter school facilities and the resulting effects of facilities financing on the instruction available to charter school students.

Section V: Conclusions, Recommendations, and Issues for Further Research presents considerations for charter schools exploring facility options; policy recommendations for public and private institutions involved in facilities financing; and issues warranting future research.

SECTION I: THE GROWING FACILITIES PROBLEM IN PUBLIC EDUCATION, PRIVATE INVOLVEMENT AS A SOLUTION, AND THE EXAMPLE OF CHARTER SCHOOLS

INTRODUCTION

Deteriorating public school buildings, particularly in urban and rural areas; a steady rise in the school-age population in many regions of the country; and new research showing the benefits of small learning communities have all led to unprecedented demand for new and improved public school buildings. At the same time, state budget cuts have severely limited education funding and depleted money available for capital spending. While charter schools are recognized nationally as schools of choice that operate under decreased regulation in exchange for meeting promised student performance, less well understood outside the charter school community is the fact that, in most states, charter schools must pay for their facilities with their per pupil instructional revenue. Thus, in the context of stressed capital budgets and high competition for suitable school space, charter schools have been an experiment in nontraditional financing—that is, in obtaining school facilities with little or no public capital funding and in involving the private sector in facilities financing.

THE NEED FOR EDUCATIONAL FACILITIES

With 75 percent of the nation's school buildings judged inadequate for providing even a basic education,[1] projections of the financial support necessary to bring American public schools into good overall condition vary, with the General Accounting Office estimating a low of $112 billion,[2] and the National Education Association estimating a high of $268.2 billion, including the costs of deferred maintenance, new construction, and renovation.[3] Moreover, increased technology use throughout the K-12 curriculum is expected to generate the need for an additional $53.7 billion in capital expenditures.[4] Overall, the school construction costs for remedying overcrowded and outdated facilities and meeting mandated class size reductions has been estimated at $3,800 per student, or more than half the current average annual per pupil revenue.[5]

In 2000, the General Accounting Office estimated that 2,400 new public schools would be needed by 2003 to accommodate rising enrollments.[6] In twenty-eight out of fifty states, the school-age population grew by at least ten percent between 1991 and 2001, and Nevada, one of the highest growth states, increased its school enrollment by 69.2 percent during the ten-year period.[7] Major contributing factors to the growth in student enrollment across the country were the influx of new immigrant populations in urban areas, the redevelopment of many once depopulated urban and rural communities, and new real estate development in emerging suburban areas.

In the context of unmet school facilities needs, the latest education reforms are making additional financial demands on both instructional and capital budgets. The benefits of small schools and reduced class size—higher attendance, lower dropout rates, and fewer behavior problems—have been attributed to the increased internal accountability, low student-teacher ratio, and greater parent involvement made possible by small learning communities.[8] But small schools and classrooms have tremendous financial implications for facilities.

Charter schools, which have a median of 150 students,[9] have been one way to address the trend toward small learning communities. Another way to create small schools, especially in urban areas with large aging schools, has been to carve out several schools within one large building. These "schools-within-schools" do not require much new exterior construction, but major renovations and upgrading are nevertheless expensive. In New York City, New Visions for Public Schools, a nonprofit foundation, has been instrumental in working with the Department of Education to divide a number of large high schools into schools-within-schools. Costs of these efforts ranged from $500,000 to $6 million per school renovation. In September 2003, the Bill & Melinda Gates Foundation gave $51.2 million to create 67 small schools in New York City, the majority of which will be created by subdividing large high schools. New Visions will take the lead in this expanded effort.[10]

Stressed Public Capital Funding Streams

While fiscally dependent districts in major cities like Cleveland or New York City must rely on the often-stressed budgets of their municipalities for their own school budgets, independent school districts traditionally finance public school construction, renovation, and maintenance through the sale of general obligation bonds. By selling these tax-exempt bonds to the general public, local districts borrow dollars for capital investment with the promise of repayment at a low rate of interest. Because districts virtually never default, general obligation bonds are considered safe and attractive investment options.

[1] American Society of Civil Engineers. (2003, September). *Report Card for America's Infrastructure 2003 Progress Report*. www.asce.org/reportcard
[2] General Accounting Office. (1995). *School Facilities: Condition of America's Schools*. Washington, DC: United States General Accounting Office.
[3] National Education Association. (2000). *Modernizing our Schools: What Will It Cost?* Washington, DC: Author.
[4] National Education Association. (2000).
[5] American Society of Civil Engineers. (2003, September). Op cit.
[6] General Accounting Office. (2000, September). *Charter Schools: Limited Access to Facility Financing*. Washington, DC: United States General Accounting Office.
[7] Gurley, Richard. (2002, August). *School Capital Funding Study; Supplementary State Profiles*. Nashville, TN: Tennessee State Government, Office of Education Accountability.
[8] West Ed. (2001). *School Size Considerations for Safety & Learning. Policy Brief.* San Francisco: Author.
[9] General Accounting Office. (2000, September). *Charter Schools: Limited Access to Facility Financing*. Washington, DC: United States General Accounting Office.
[10] Herszenhorn, David M. (2003, Sept. 18). Gates Charity Gives $51 Million to City to Start 67 Schools. *New York Times*. Late Edition - Final, Section A, Page 1, Column 6.

Since districts levy local property taxes to repay both the principal and interest on the bonds, they are typically required to seek voter approval before issuing bonds. However, a sluggish economy has made voters resistant to the increased taxes needed to support renovating or building school facilities. For many voters, the immediacy of a tax hike outweighs the long-term benefit of a new school building. Moreover, since a growing number of voters in many communities do not have school-age children, they have little incentive to support the construction of new schools for "other people's children" with their property taxes. Thus, many districts have had difficulty generating voter approval for general obligation bonds.

Although voter approval is also required with most district-issued revenue bonds, funds for repayment come from a specific source, such as school impact fees or certificates of participation (COPs), rather than property taxes.[11] Thus, it may be easier to obtain voter approval for revenue bond initiatives. Moreover, revenue bonds allow districts to circumvent state restrictions on school district tax and debt. From the perspective of districts' capital budgets, however, since revenue bonds have higher interest rates than general obligation bonds, they are typically more expensive in the long run.[12]

Finally, a few school districts have formed partnerships with other public entities, which, in turn, have contributed money or property and taken on the burden of raising funds. Apple Valley, Minnesota is host to one such public-public partnership. In 1995-1996, after Apple Valley experienced substantial growth, the School of Environmental Studies, also known as "The Zoo School," a public, optional high school serving approximately 400 11th and 12th grade students, was funded through a partnership between the city, the district, and the state. While the state zoo donated 12 acres of land, the city of Apple Valley issued $8.5 million in 20-year revenue bonds to build the school. After the bonds have been repaid, the school will pay $1 a year to rent the facility.

Private-Sector Involvement in Public Facilities Financing

School districts in the United States, Canada, and Great Britain are also turning to private sources, both to compensate for the shortfalls in state and local budgets and to address the growing need for improved school buildings.

Involving the private sector in the financing of school facilities eliminates the red tape associated with state and federal funds, the painstaking negotiations with bureaucratic agencies, and the hard work of gaining voter approval. Private sector money can be given directly to a district or an individual school. Districts can also receive funding from foundations and other private nonprofits, as well as from for-profit institutions. Keeping the facilities project in the private sector throughout the construction or renovation period eliminates the involved rules and regulations that are part of spending government money.

In September 2002, Virginia passed the Public-Private Education Facilities and Infrastructure Act of 2002, which grants responsible public entities the authority to create public-private partnerships for the development of projects that are for public use, such as schools or public recreational facilities, if private involvement will result in timely or cost-effective completion. At the time of our research, public-private ventures were being considered by Fairfax County school officials to build a high school and by the Falls Church School Board to build a new middle school.[13]

One of the most common mechanisms used to secure private involvement in facilities financing has been a lease or a long-term lease-purchase agreement.[14] These financing mechanisms do not require voter approval. Moreover, while funds obtained through general obligation or revenue bonds must be repaid from separate funding streams, leases can be paid from the school system's instructional budget. A lease arrangement can be broken up and sold as COPs. In this way, voters are not asked to approve capital expenditures for public schools. However, using the instructional stream to make lease payments decreases money available for teachers, curriculum, and classroom supplies.

In 1997, for example, the Nova Scotia Department of Education and Culture undertook to build 55 new schools over seven years as a public-private partnership between the province, local school boards, and the private sector. New schools under these partnerships were to be designed, built, and financed by the private sector and leased to the province. While this program curtailed additional capital debt on the part of the province, it dramatically reduced the instructional revenues available to the schools. As a result of this drawback, as well as cost overruns associated with the program, the public-private partnership was cancelled in 2003.[15]

Some school districts in the United States have also entered into sale-leaseback arrangements with private developers (see Section II). The

[11] School impact fees are one-time payments from real estate developers to school districts used to build school improvements needed to accommodate new real estate development. Certificates of participation (COPs) are limited obligation bonds issued by a single agency for real estate purposes or to finance public projects. In the latter instance, investors buy certificates that entitle them to receive a participation, or share, in the lease payment from a particular project.

[12] Gamkhar, Shama & Koerner, Mona. (2002, Summer). Capital Financing of Schools: A Comparison of Lease Purchase Revenue Bonds and General Obligation Bonds. *Public Budgeting & Finance*, 22(2), 21-39.

[13] Cho, David. (2003, February 12). Falls Church Schools Giving Builder Control. *Washington Post*.

[14] See, for example, Brown, Daniel. (2001, January.) *The Public-Private Partnership that Built a "Traditional" School. A Case Study from British Columbia. SAEE Research Series No. 7.* British Columbia, CA: Society for the Advancement of Excellence in Education. 50p. Audit Scotland. (2002, June). Taking the Initiative: Using PFI Contracts to Renew Council Schools. Edinburgh, Scotland: Author.

[15] CUPE On the Frontline. http://www.cupe.ca/arp/04/6.asp See also: http://www.synnutcinnects.cin.artuckes_Cikynns.Synnut_Artuckes/2001/0301/0301_Sc

for-profit company buys the land and/or property from the district and develops it into a new public school facility. After development, the company leases the facility back to the district. Although not required, most of these arrangements have a purchase option at the end of the lease term, usually for a nominal fee, which enables the school building to return to district ownership. This is important because the asset eventually returns to the public sector.

In growing communities where private developers have been involved in significant real estate development, districts have also charged school impact fees to pay for needed school facilities. The assumption is that the existence of a nearby school with a good reputation increases real estate values. Although Arizona recently passed a law making school impact fees voluntary, the Higley Unified School District used such fees to build new facilities. Higley was a small, rural school district that grew by 928 students, or 41 percent, between 2001 and 2003. When 23,000 additional homes were approved, the district received enough in school impact fees to purchase five acres of land. Supplemented with state money, Higley acquired a larger plot of land and built a new high school.

Finally, Qualified Public Education Facility bonds, known as QPEFs, are tax-exempt "private activity" bonds whose proceeds can be used by private, for-profit companies to develop land and/or school buildings that are then leased back to the issuing municipality. When the bond matures, ownership transfers to the public sector. QPEF allocations first became available in 2002 as part of a new federal tax program to encourage private, for-profit involvement in constructing, rehabilitating, refurbishing, or equipping public school facilities. Although no QPEFs have been issued thus far, the Michigan Public Educational Facilities Authority has devoted substantial resources to advancing this emerging bond program.

PRIVATE FINANCING OF CHARTER SCHOOL FACILITIES

Charter schools are independent public schools of choice that make an autonomy-accountability exchange. Each charter school is governed by a board of trustees, which oversees the school's finances, management, and day-to-day operations. Relieved of many of the regulations under which traditional public schools operate, charter schools promise to provide a high-quality education much more efficiently.

As of July 2003, there were nearly 2,700 charter schools in 36 states, Puerto Rico, and the District of Columbia. (Four additional states have charter law, but no schools have opened.) Of the charter schools in operation, 24 percent had converted from either public or private schools, and 76 percent were startup charter schools.[16] Charter schools serve almost 700,000 students, or about 1.5 percent of all public school students nationwide.[17] While the race and socio-economic status of charter school students have varied widely across states, on average charter schools have enrolled a significantly lower percentage of white students (50 percent versus 63 percent) and a much larger percentage of black students (27 percent versus 17 percent) than all public schools.[18]

Initial charters are typically offered for three to five years, and the overwhelming majority of states offer charters of ten years or less. However, in an attempt to help charter schools secure facilities financing, three of our study states—Texas, Colorado, and Arizona—have recently granted charters for as long as thirty years. At the end of the term, the charter school authorizer—generally the state education department, a local school board, a university, or an independent entity—renews or revokes the school's charter depending on compliance with the authorizing terms, including student performance goals.

Charter schools are generally funded at a lower rate than traditional public schools in their area, with the per pupil allocation often as low as 75 percent of the comparable public school per pupil in their districts[19]. Moreover, most states do not offer funds to cover the cost of capital infrastructure needs, and thus, charter schools usually pay for their facilities out of their instructional revenue. In fact, in many rapidly growing districts, charter schools have been initiated in part as a way to solve school facilities needs without further burdening already strained capital funding streams. Thus, to a nation in need of solutions for building and maintaining public school facilities, charter schools offer an experiment in public schools that operate without capital funding streams and with private involvement in facilities financing.

The extent of the strain on instructional budgets becomes apparent when one realizes that the rated debt for charter school facilities was estimated at $285 million in 2002.[20] This did not include unrated bonds, loans, or credit enhancements assumed by charter schools, which would multiply the debt. Except in Colorado, individual charter schools do not have the authority of independent school districts to tax local residents. Therefore, even in those states where charter schools are allowed to issue their own bonds to finance their facilities, these bonds must be repaid from either the instructional stream or private revenue raised by the school.

[16] SRI International. (2002, November). *A Decade of Public Charter Schools: Evaluation of the Public Charter Schools Program, 2000-2001 Evaluation Report*. Report to the U.S. Department of Education. Sacramento, CA: Author.
[17] General Accounting Office. (2003, September). *Charter Schools: New Charter Schools Across the Country and in the District of Columbia Face Similar Start-Up Challenges*. Report to Congressional Requesters. Washington, DC: United States General Accounting Office.
[18] Office of Educational Research and Improvement. (2000, January). *The State of Charter Schools 2000-Fourth Year Report*. Washington, DC: US Department of Education.
[19] General Accounting Office. (2000, September). *Charter Schools: Limited Access to Facility Financing*. Washington, DC: United States General Accounting Office.
[20] Moody's Investment Service. (2002, June). *Moody's Methodology for Rating Charter Schools: An Evolving Sector. New York: Author, p1.*

According to recent estimates, 15-20 percent of all charter schools are in former district facilities.[21] Charter schools that have converted from traditional public schools generally remain in the public school facilities in which they were operating. Often they pay a nominal lease to their former district for their facilities or negotiate costs associated with the maintenance or operation of their facilities. In Arizona, California, Colorado, Florida, Nevada, New York, Virginia, and the District of Columbia, the school district in which new startup charter schools are located must also make available vacant or underutilized buildings, either at no cost or at market rates. However, except in Virginia, where all but two charter schools are located in traditional public school buildings, few charter operators in our study states found it easy to acquire public school facilities. Moreover, only eleven states and Washington, DC provide direct or indirect facilities funding assistance to charter schools.[22]

Six of our study jurisdictions offer some type of per pupil revenue stream for facilities to charter schools, a much higher rate than the national average of 29 percent.[23] Arizona, California, Colorado, Minnesota, and the District of Columbia all provide capital funds on a per pupil basis. Florida offered both capital outlay funds and school infrastructure trust funds on a per pupil basis through 1998-1999, but school infrastructure trust funds were discontinued and capital outlay funds had to be shared amongst a growing number of schools. In fact, of the states with designated annual facilities funding streams for charter schools, only Massachusetts is not in our study.

State initiatives to generate private involvement in facilities financing vary widely. Colorado, which offers per pupil revenue for charter school facilities, also makes available credit enhancements to charter schools attempting to finance their facilities, and districts in Colorado are required to ask charter schools whether they want to be included in attempts to win voter approval for general obligation bonds. Although few charter schools have been included in district obligation bonds thus far, Colorado can be considered at the high end of the spectrum in terms of state assistance with facilities.

CONCLUSION

Facilities funding and financing is an often-ignored aspect of support for public education. For many years, little attention was paid to public school facilities needs, school buildings in many cities deteriorated and became outdated, and new, rapidly developing suburbs were underserved by public school facilities.

Belated attempts to solve the public school facilities problem, in the context of voter resistance to increased taxes, have led to a range of experiments that both draw on the public school instructional stream and use private sector involvement in the financing of school facilities. Charter schools, which in most states receive little or no public funding for facilities, have been in the forefront of this development. Thus, in an attempt to understand the efficacy of this solution, the next section focuses largely on the funding and finance mechanisms in use by charter schools.

[21] Op cit. General Accounting Office. (2000, September). See also Charter Friends National Network (2001, April). *Charter School Facilities: Report from a National Survey of Charter Schools*. New York: Charter Friends National Network & Ksixteen LLC.
[22] General Accounting Office. (2003, September). Op cit.
[23] Ibid.

SECTION II: FUNDING & FINANCE MECHANISMS FOR CHARTER AND OTHER ALTERNATIVE PUBLIC SCHOOLS

INTRODUCTION

This section reviews the funding and finance mechanisms currently in use by charter schools to construct, renovate, and purchase facilities. In addition, we include some private mechanisms in use by traditional public schools and districts to finance their facilities. While the mechanisms in this section represent an accurate and comprehensive overview of those in use in our fourteen study states and the District of Columbia, our examples are meant to be illustrative, rather than exhaustive, of the ways in which these mechanisms are being used and of the experiences of schools and the financial community with these mechanisms.

We begin with funding mechanisms, under which we include per pupil allocations, capital funding programs, private fundraising, and facility grants. We then describe a range of financing mechanisms under four general categories: leases, loans, bonds, and credit enhancements. Finally, we review several emerging mechanisms.

For each mechanism, we offer a definition and description of how it works, along with school-level examples to demonstrate its application. As the stories accompanying our mechanisms should make clear, it is the terms of any mechanism (i.e., the upfront costs, interest rate, or repayment period), the stability of the school, and the money available for facilities that determine the relative attractiveness of a particular mechanism.

FUNDING

Charter schools rely on a combination of funding and financing to pay for their facilities. Funding includes public and private monies given without the obligation of repayment, such as a one-time donation, a continuous stream of payments, or a collection of monetary grants and gifts raised through a capital campaign.

All charter schools receive **per pupil allocations** from the state and/or local district. As we have noted, in many states charter schools receive less than traditional public schools, and their per pupil allocation can be as low as 75 percent of the per pupil in their area.[24] Since most charter schools are small, they have few opportunities to benefit from economies of scale. Finally, since the formula for arriving at per pupil allocations in most states does not address capital costs, most charter schools must use a significant portion of their instructional dollars for their facilities.

In addition to operating per pupil allocations, six states—Arizona, California, Colorado, Florida, Massachusetts, and Minnesota—and the District of Columbia provide charter schools with a designated annual revenue source to offset facilities expenses.[25] This may come in the form of lease aid (to be used only to rent or lease a facility), which Minnesota offers for $1,200 per pupil, or as a facilities allowance for any facility-related cost. While Massachusetts offers a low of approximately $120 per pupil for facilities, the District of Columbia offers a high of $1,981 per pupil for non-residential facilities and $5,349 per pupil for residential facilities.

To supplement any available public funding streams, charter schools turn to **public grants** to raise money for their facilities. Both the charter school operators and the foundation directors we interviewed confirmed the extreme competitiveness of federal and state facility grants. Some of the federal grant programs which charter schools have been able to access include the following:

- U.S. Dept. of Housing and Urban Development (HUD)—The Community Development Block Grant provides grants to states, counties, and cities to carry out a wide range of community development activities, including the construction of public facilities. Charter schools can access these funds for the construction of new classroom space.
- U.S. Dept. of Agriculture—The Rural Development Community Facilities Loans and Grants Program provides a small amount in grants (approximately $52,000 per state per year) for community facilities development in rural areas, which includes charter school facilities.
- U.S. Dept. of Health and Human Services—The Child Care and Development Fund, the primary federal program supporting child care, can be used to support minor remodeling of facilities and upgrades to comply with state and local child care standards.

Some schools have been creative in finding public funding for their facilities arrangement. Marble Charter School, a K-6 elementary school in Marble, Colorado, is located in a landmark building it shares with a museum. Thus, the charter school was able to apply for a grant from the county's historic preservation funding source.

Many charter school operators have been extremely persistent in their efforts to obtain **private grants**. One charter school director reported writing 80 grant applications in a single school year to raise money for her school. Every year, local and national foundations are bombarded with hundreds of requests from charter schools needing additional monies for their facilities.

Of the charter schools in our study, those that received grants of over $1 million had strong pre-existing relationships with large foundations. The Andre Agassi College Preparatory Academy in Nevada for grades 3-6, for example, received $1.5 million to purchase land and to start

[24] General Accounting Office. (2000, September). *Charter Schools: Limited Access to Facility Financing*. Washington, DC: United States General Accounting Office.
[25] General Accounting Office. (2003, September). *Charter Schools: New Charter Schools Across the Country and in the District of Columbia Face Similar Start-Up Challenges*. Washington DC: United States General Accounting Office.

construction from its namesake, the Andre Agassi Foundation. The Accelerated School, a K-8, district-sponsored, startup charter school in Los Angeles, received a $10 million grant from the Annenberg Foundation because of the school's personal relationship with foundation staff, its reputation in the community and its ability to secure public funds from two school construction bonds.

The SEED Public Charter School of Washington, DC, a boarding program for seventh to twelfth graders, received financial support from the SEED Foundation to decrease its overall facility costs. In the beginning stages, the school had sufficient capital to make major renovations to its old building. However, as it grew and required larger facilities, the foundation worked with the capital markets to issue bond debt and, through a capital campaign, raised $12 million to fund the SEED School's campus project.

As with the SEED School, charter schools across the country have engaged in **capital campaigns** to move their large facility projects forward. This fundraising strategy has enabled them to combine private funds (grants and individual donations), public grants, and financing mechanisms (loans and bond issuances) to reach their target fund-raising goal. KIPP Academy Charter in Houston, Texas, for example, conducted a fundraising campaign to complete its $7.9 million facility project. In addition to a loan from a local bank, the school raised $6.9 million in private donations to purchase land, move its modular buildings, and build a brand new building and gym.

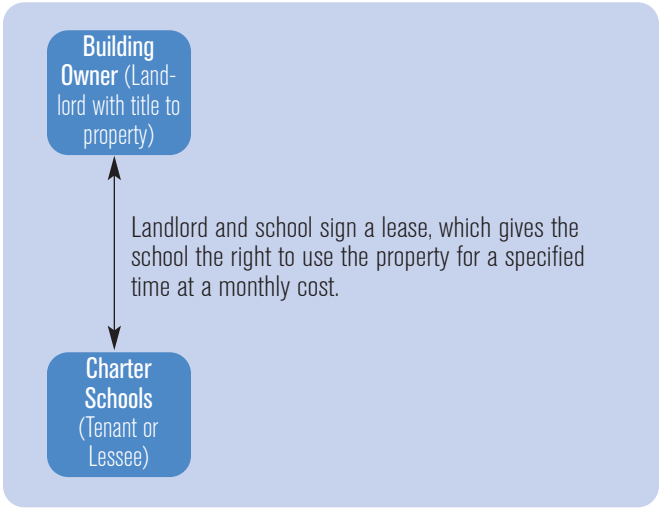
School impact fees, one-time payments from real estate developers to both charter and traditional public schools and school districts, have helped several schools in our study with land and building purchases, construction, and renovation. Typically, payments are based on the number of houses built within a development, and help fund the costs of accommodating new students in the area. In Brighton County, Colorado, The Community Education Center, Inc., negotiated with home developers for the construction of two new charter schools. Brighton County, a rapidly developing area, was amassing 2,000 new homes per year. The first school, Belle Creek Charter School, a K-8 school, received from the developer seven acres of land, a school building with a gymnasium, and dedicated fees for every new house built, for a total donation of $2.1 million. The school opened at half capacity, which will allow it to grow without needing a new facility. The second school, Bromley East Charter School, also a K-8 school, received its impact fees in the form of ten acres of land and building infrastructure, for a total donation of $800,000.

LEASES

Most charter schools lease their facilities at some point in their history. In the early years of a charter school's development, when enrollment and revenue are low, and the school knows that its facilities needs will soon grow, a lease may be the only viable option. In Minnesota, charter schools are legally prohibited from purchasing and owning their own facilities, and so most charter schools lease throughout their lives.

How It Works

Requiring less time and financial expertise to navigate than a loan or a bond, a lease may provide a charter school with space without requiring a long-term commitment or as significant upfront costs.



A lease obligates the school (the tenant or lessee) to pay a set amount each month to the owner (the landlord) for the use of the designated space. Lease payments are operating expenses. Since there is no associated debt with a lease agreement, it is not strictly speaking a financing mechanism. However, as with financing mechanisms, charter schools pay for lease costs with a portion of their per pupil allotment, private funds, or financing.

Approximately 15 percent of all charter schools are in former public school facilities, with 13 percent of all schools paying minimal rates for their facilities.[26] However, many districts are struggling to meet their own facility needs, and some districts are unwilling to share their underutilized or vacant buildings with charter schools.[27] Even those districts that lease buildings to charter schools generally make them responsible for maintenance and repairs. Although some charter school operators complain that being in a traditional public school building brings with it district oversight, they are also aware of the cost benefits. In Washington, DC, charter schools are allowed to bid on favorable terms when vacant schools go on the market. Complaining of district reluctance to release available public school buildings, operators are eager to relocate in these facilities.

Outside of traditional public school space, charter schools tend to lease space in a wide range of buildings, including former private schools, churches, offices, retail spaces, warehouses, and community buildings. As they grow, charter schools often add leased space on

[26] Charter Friends National Network. (2001, April). *Charter School Facilities: Report from a National Survey of Charter Schools*. St. Paul, MN: Charter Friends National Network and Ksixteen LLC.
[27] General Accounting Office. (2000). p11.

different floors of a building or in nearby (or not so nearby) buildings. Among the more unconventional spaces in which charter schools in our study were located were a former bar, a horse facility, and a museum.

Lease payments are typically calculated based on a cost per square foot and are paid monthly. The cost of leases varies widely depending on the supply of space available and whether or not the cost of improvements is included. While most school operators we interviewed knew their monthly payments, they were generally unable to give us their leases as a cost per square foot or as a percentage of their operating budget.

Church space is often affordable, since the church may continue to use the space after school hours and on the weekends. During its first year of operation, Rapoport Academy in Waco, Texas, began with sixteen children in a church basement. The church provided Rapoport with a lease agreement of $1,000 per month, all utilities included. In comparison to what other charter schools were experiencing, the rent was very inexpensive, approximately $1 per square foot. The rent provided a win-win for the community: funds to bolster a community church in a severely economically depressed neighborhood, and space for a fledging school to serve the neighborhood children. Churches also have the advantage of including open space that is easily configured into useable school space, as well as outside play areas. Yet churches come with their own challenges, as Old Brooklyn Montessori Charter School, a K-8 school in Cleveland, Ohio, discovered. Since the church from which Old Brooklyn Montessori rented used the classroom space on weekends, the teachers often returned on Monday to find their classrooms completely rearranged. In general, if a school does not have exclusive use, the facilities arrangement can be very difficult to manage.

When public schools, churches, and other buildings formerly used by nonprofits are not available, charter schools turn to generally more expensive commercial retail space. Most commercial spaces require schools to have triple-net leases, which obligate the schools to pay all utilities, taxes and insurance associated with the rented space, in addition to the negotiated cost per square foot. KIPP DC: KEY Academy in Washington, DC, serving 240 students in the fifth, sixth, and seventh grades, is in its second year of a ten-year commercial lease. Current rent and management fees run at $40,000 per month, plus insurance and taxes. Rent is scheduled to increase annually over the term of the lease, outpacing inflation and anticipated increases in the District of Columbia's per pupil nonresidential facilities allowance, which was $1,981 in 2003.

Even with KIPP DC: KEY Academy's high occupancy costs, the school's facility remains less than ideal. It lacks outdoor space, an auditorium, or teacher/visitor parking. Further, the lease stipulates that no existing space can be converted into a traditional gymnasium. As a result, when the school completed a $200,000 leasehold improvement project in June 2003 to convert nine offices into four classrooms, it installed a multi-purpose, high-ceiling meeting room rather than a traditional gymnasium with painted wood floor. Finally, KIPP DC: KEY Academy's high lease costs force the school to raise funds to avoid dipping into its instructional budget.

In order to make commercial or warehouse space useable as a school, charter schools must usually complete significant leasehold improvements. In some cases, the improvements to the facility are built into the lease terms. When a charter school in Lorain, Ohio wanted to expand in its current office building, the landlord provided $60,000 in leasehold improvements at no cost to the school. Some schools are also fortunate to find landlords or contractors who will make the renovations at a discounted price. In other cases, charter schools either raise money to complete the renovations or partner with an education management organization (EMO) with access to greater financial resources. In addition, a number of charter school operators we interviewed used personal credit cards and mortgaged their own property to build out their school spaces in the startup years. At Mainland Preparatory Academy Charter School in Texas City, Texas, the founders used personal funds and a small bank loan to complete all of the needed renovations to the school's first location. The original facility, which opened with 188 students in 1998, was a 20,000-square foot vacant warehouse.

Leasehold improvements, which ranged as high as $300,000 for our interviewees, often need to be financed. However, since financial institutions do not consider leasehold improvements to provide strong collateral, financing for renovations of leased property typically entails higher interest rates with shorter repayment terms than permanent loans, which can be collateralized through the building itself.

Some credit enhancement programs guarantee leasehold improvement loans by providing third-party guarantees for the amount of the improvements or by issuing letters of credit as security. For example, the Charter Schools Development Corporation in Washington, DC provided a $97,000 letter of credit to secure leasehold improvements to space being leased by the Arizona Agribusiness and Equine Center School from the Maricopa County Library.

Finally, charter school operators who had financed leasehold improvements noted regretfully that the schools did not own the improvements; they could not take them along with them if and when they moved to new space.

Types of Lease Arrangements

Schools can engage in several types of financial arrangements to lease facilities. In addition to the **standard lease**, in which a school contracts directly with the landlord to secure space, some schools have sponsoring organizations that provide space in exchange for the school

providing an education to a specific population. For example, in Florida, the first state to pass legislation allowing businesses to open charter schools for the children of employees, a number of for-profit companies have created **Satellite Schools**, or **Workplace Schools**. Ryder Elementary Charter School in Miami-Dade County, Florida, the nation's first satellite school, opened its K-5 facility in 1999. The school is managed by a for-profit EMO, Charter Schools USA. Ryder Systems, Inc., a truck leasing and rental company, built the school facility for $3.75 million in exchange for tax exemptions, and leases it back to the district. The lease is paid from per pupil revenue.

Some satellite charter schools have been used to recruit employees to a developing worksite. For example, when The Villages at Lake Sumpter, Inc., a retirement community, was built in an undeveloped area in Sumpter County, outside of Orlando, Florida, its owner contracted with the local school board to provide a K-12 charter school in the workplace. Parents include direct employees and subcontractors of The Villages, employees of the many businesses serving the retirement community, and others in the greater community. The retirement community's holding company funded the school's construction and owns the school building, which is leased to the school district. The school is able to take advantage of the corporation's accounting, human resources, and maintenance services. Subsidies from the retirement community help to pay for the corporation's loan payments while the school receives some capital outlay funds for lease payments. The shortfall between the lease payments and the school's associated debt is approximately $2 million per year, which is paid by the corporation. There is a clause in the contract with the district stating that, should the corporation default on its obligations, the tax-generated dollars put into the school revert back to the school district.

Real estate holding companies are non- or for-profit entities that own multiple spaces that can be leased to charter schools. NewSchools Venture Fund in Redwood City, California, a nonprofit venture capital fund for educational projects, has raised money to develop for-profit real estate holding companies for charter school facilities. In this model, charter schools are expected to lease from the holding company for a certain period, after which the charter school may elect to purchase the building.

According to NewSchools Venture Fund, holding companies offer value to both lenders and charter schools. By providing the loan to the holding company, banks decrease their risk, because the holding company is responsible for both paying the debt and finding new school tenants when a school moves. Since the holding company's facility may also include shared back-office infrastructure, administrative costs are reduced, which is of particular benefit to charter schools in their early development. However, insofar as holding companies place charter school buildings in specific locations, new schools are forced to go where the holding company has created space rather than where they hope to target their students.

AppleTree Institute for Education Innovation (AppleTree), whose mission is to increase the number of effective schools through innovation, created a "charter schools incubator" to provide affordable space for two charter schools in Washington, DC. AppleTree found 36,000 square feet of former Environmental Protection Agency space, negotiated a low-cost license under the Public Buildings Cooperative Use Act of 1976, and won a $680,000 Community Development Block Grant to transform the space into two classrooms. AppleTree provided space to two schools: Cesar Chavez Public Charter High School and the Washington Mathematics Science Technology Public Charter High School. In both cases, the lease included occupancy, heat, lights, and air conditioning for $3 per square foot. After four years, both schools moved on to rent larger spaces.

A number of charter schools we interviewed created their own nonprofit "holding companies" that own their buildings and then lease them back to the schools. As a separate 501(c)(3), the holding company can exist beyond the life of a charter and so, has access to better financial options than a school with a charter of only three or five years might have. In addition, this strategy allows ownership to remain in the hands of the holding company without returning to the public school system, in the event that the charter school closes.

For instance, Cypress Hills Community School, a dual language alternative elementary school in Brooklyn, New York that was founded by parents and community activists, formed a development corporation that was able to receive $20 million in special school construction funds from the City Council. The Cypress Hills Community School Development Corporation, a holding company, owns the school and leases the facility to the New York City Department of Education.

A **lease-purchase agreement** is a long-term lease option that resembles an installment purchase. A school "buys" a facility from the landlord though installment payments made over a given period. Although the structure varies, the most common agreement is one in which a school makes lease payments over a certain length of time with the option to buy the building when the lease expires.

Some schools have negotiated deals in which the lease payments are put toward purchase in lieu of a down payment. The purchase of the property is then financed by a loan or bond issuance. For example, North Lake Park Community School in Orlando, Florida, leases space from Lake Nona Property Holdings, Inc., a development company that financed the land and construction of the public elementary school's joint-use facility. The elementary school shares space with a YMCA and the Orlando Regional Health Care System. The city, the school system,

and the YMCA pay annual leases to the development company. At the end of the lease term, the tenants will each take full ownership of their part of the facility.

A **sale-leaseback**, currently used mainly by traditional public schools, may be increasingly attractive to charter schools after some years of operation. This type of lease agreement allows a school or district to sell its building or buildings to a private company in exchange for cash. The private company then contracts to lease the building back to the school.

In 1996, the Niagara Falls City School District in New York State planned to enter into a sale-leaseback agreement with the Honeywell Corporation, a for-profit developer. The District was to sell two older high schools and $15 million in land to Honeywell. In return for a brand new school building, Niagara Falls would sign a 30-year lease with Honeywell for an estimated $4.8 million a year, with an option to purchase for $1 at the end of the lease term. When Honeywell backed out, the district created its own nonprofit holding company to which it sold the old school buildings. The nonprofit then leased land from the city and built the new high school, which it leased to the district. At the end of the lease term, the high school will be turned over to the district.

Although rare, a lease can be financed. **Certificates of Participation (COPs)** are a form of revenue bond that provides investors with shares in a school's facility payments. The interest portion of the payments can be exempt from federal taxation. COPs can be issued more quickly than general obligation bonds because they are not legally considered debt obligations and therefore are not subject to voter approval. In the case of Niagara Falls, the district issued a 30-year, $75 million revenue bond, which it sold as COPs. The money went to the nonprofit to hire the developer of the high school. Because Niagara Falls ultimately used a nonprofit, instead of Honeywell, there has been no markup on the district's lease payments, and they equal the nonprofit's COP payments.

A number of other districts and states have issued, or are in the process of issuing, Certificates of Participation. For example, since the State Constitution of Arizona limits the state's general obligation debt, the Arizona School Facilities Board uses revenue bonds secured by a dedicated sales tax to pay for school repairs and sells COPs to finance new school construction. In August, the Arizona School Facilities Board sold $200 million in Certificates of Participation to build new schools in the state.

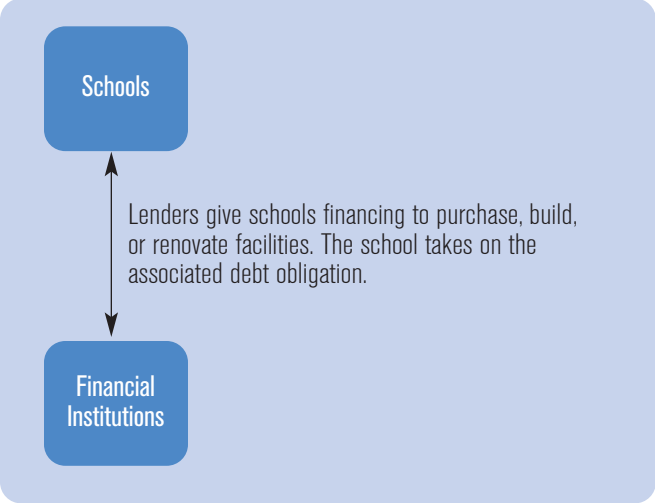
LOANS

Most charter schools, unable to pay for the renovation, construction, or purchase of their facilities through public funding streams, tend to finance their facility costs with loans. In fact, loans are the simplest and most common financing tool used by charter schools. Loans in the form of mortgages are the most common way in which charter schools finance permanent facilities.

Because mortgages are costly, however they are financed, and may divert a significant share of the school's public revenue stream from instruction, some charter school advocates believe that long-term lease agreements are a better option, particularly if the cost of leasing is low. However, while the cost of a lease generally increases by a percentage each year, loans can have the advantage of being a fixed cost, which helps schools manage their tight resources. Finally, ownership resulting from a loan increases a charter school's access to funds for facilities improvements, because the facility itself can be used as collateral.

How It Works

When charter schools borrow money to construct, purchase, or renovate a property, they agree to repay the loan with a negotiated interest rate and repayment period. Collateral, which is usually the property being financed, is taken by the financial institution to repay the outstanding balance in case the school defaults. Upon repayment of the loan, the collateral is released back to the school.



Repayment periods vary with the type of loan and the desired payback period. Since few financial institutions are willing to extend debt beyond the life of a charter, schools with longer charter terms tend to be able to secure loans with longer repayment and/or amortization periods and lower monthly payments. Schools with shorter terms may still amortize the payments over a longer period, with a balloon payment due before the end of the charter term.

Interest rates can be fixed over the life of the loan or set at a variable or floating rate, changing at different points during the loan term. A banker in Tallahassee, Florida cautioned that schools should try to avoid variable interest rates, which make it difficult to budget and plan effectively. In his opinion, fixed rates allow a school to have a set payment over the entire loan period without uncertainty regarding future rate increases. However, while uncertain, variable interest rates can entail lower interest expenses.

A school's ability to obtain a loan at a reasonable interest rate depends primarily on the perceived risk to the lender and the sources that the school can demonstrate are available for repayment. Although the ability to show equity and/or a cash reserve is also a factor, their absence can be offset by a loan guaranty or other credit enhancement.

IDEA Academy in Donna, Texas, had invested $1 million in modular buildings. This was sufficient equity to obtain a $10 million loan for an ambitious school construction project to house the charter school's existing 320 fourth through eighth grade students and its eventual expansion to a K-12 school. Although the school director ultimately decided that such a large loan would negatively impact instruction, he used the equity in the modulars to finance a $2 million building. To further mitigate the bank's risk, IDEA obtained a U.S. Department of Agriculture loan guaranty for 90 percent of the cost of the building.

Charter schools generally have not scored high marks according to standard loan assessment measures. According to Fitch, an investment rating firm, charter school debt analysis resembles startup project financing more than that of a traditional public school district. Most of the charter school operators we interviewed borrowed at interest rates ranging from 5 to 12.5 percent. In several extreme cases, schools paid interest rates nearing 20 percent. Sometimes, when charter schools were unable to obtain loans, the charter school founders took out personal loans or used their credit cards in their schools' behalf.

A K-8 charter school in Flagstaff, Arizona, is a good example of the difficulty a startup school can experience in obtaining a loan. Opened in 1995, Montessori Charter School of Flagstaff had converted from a private Montessori preschool and kindergarten. The founders planned to grow the charter school one grade per year, but they needed additional facilities. Despite their experience in running the preschool and kindergarten, local banks turned them down. Finally, the Money Store, a subprime lender that typically serves customers with poor credit, gave the founders two loans—one for $1.6 million for the construction of a new facility and a second for $575,000 to consolidate the school's existing debt—at variable rates of 5.75 to 11 percent. In order to obtain these loans, however, the founders had to pledge all their personal assets, including their home, as collateral. Loan payments consumed as much as 35 percent of the school's per pupil revenue until, in spring 2003, after eight years of operation, Montessori Charter School was able to obtain low-interest refinancing at a local bank.

Even with high interest rates, some school operators told us that the cost of a mortgage loan was lower than their previous lease payments, and so reduced their fiscal burden. During its second year of operation, Victory Charter School in Fulton County, Georgia, paid $30,000 per month, including utilities and insurance, for the use of two out of three floors of a church building. During the third year, Victory purchased the entire building for $2.5 million with a loan from a local bank. With 5 percent equity, the school was able to finance the loan at 6 percent for 20 years, resulting in monthly payments of approximately $18,000. In addition to decreasing its monthly facilities expenses, Victory receives rental income from the church, which leases its previous third floor office space for $3,000 a month.

Some banks share parts of their charter school loans with other financial institutions in order to decrease their exposure or to serve a school whose request is too large. For example, a Tampa, Florida branch of the Local Initiatives Support Corporation (LISC) was asked to purchase, or acquire, a $680,000 participation in a $1.7 million loan that NCB Development Corporation (NCBDC) in Washington, DC was making to a charter school for its facilities. The school agreed to pledge the building as collateral for the loan, and NCBDC was to have the first lien (right to property upon default) on the school building, with LISC having a 40 percent interest in NCBDC's secured first mortgage loan. With this financing structure, in case of school default, NCBDC and LISC would be repaid the outstanding loan balance based on each lender's pro rata interest in the $1.7 million loan. The school, however, was not aware of the "sharing" of the loan; its only contact was with NCBDC.

Rating Charter School Credit Worthiness

A number of financial institutions have created scorecards for evaluating charter schools prior to granting them loans. For example, the Raza Development Fund, established in 1998 in association with the National Council of La Raza's Charter Schools Development Initiative, provides reasonably priced capital to finance alternative education programs and new community-based charter schools serving the Latino Community. The Raza Development Fund has an eight-page list of "risk acceptance criteria," which includes such characteristics as the charter school operator's experience with school construction projects; charter school management and operations; the existence of a cash reserve; the qualifications and experience of the board; legal, operational, and financial transparency in the school's management; and the soundness of the educational program and the clarity of its stated performance outcomes. The list also includes such market/environment considerations as the funding available to charter schools, a clearly demonstrated market for the school, the state and local attitude toward charter schools, and community support for the project.[28]

City First Bank of Washington, DC tailors the fundamental five Cs of credit—capacity, capital, character, collateral, and conditions—to the uniqueness of charter schools. Here, "conditions" is changed to "charter authorities," and financial metrics are coupled with academic performance. Indicators used for academic performance include changes in standardized test scores, turnover of instructional staff, and average student attendance. In addition, the "charter authorities" section

[28] Raza Development Fund, Inc. (2003). *Risk Acceptance Criteria*.

incorporates such issues as the length of the charter term, the charter application and renewal process, charter oversight, and the relationship between charter authorities and local lenders as well as EMOs.[29]

Types of Loans

Charter schools use three common types of loans:

- Leasehold improvement loans
- Construction loans
- Permanent (or mortgage) loans

In addition, a line of credit—an arrangement in which an amount of credit is available for a specified time period and funds are drawn from the line as needed up to the maximum amount—can be directly issued to a charter school to pay operating expenses and one-time improvements. Lines of credit may also be included in a facility loan package to help with short-term needs. Because lines of credit are not used exclusively for acquisition, construction, or permanent financing, we do not discuss them below.

Leasehold improvement loans are used to pay for renovation or "build-out" to a leased facility. Since most charter schools lease facilities in the startup years, this is a widely used type of loan. However, there is little collateral value in improvements, and many lenders shy away from providing leasehold improvement loans, particularly in low-income communities where many charter schools are located. For these reasons, leasehold improvement loans tend to be short-term (not to exceed the length of the lease) and have higher interest rates than permanent financing.

From the charter school's perspective, investing sizeable amounts in the renovation of space is often a necessary, but undesirable, expense. With leasehold improvements there is no ownership of the property, and it is difficult or impossible to take along renovations when the school moves to a different facility in order to accommodate growth in enrollment.

Construction loans are short-term loans used to pay to construct a building or renovate an existing structure. Repayment terms vary, but typically the borrower pays interest only for six to twelve months after which the principal is "rolled" into permanent financing. In some cases, bridge financing may be obtained to support financing needs between the construction and permanent loan periods.

Permanent loans, also called mortgage loans, are long-term financing mechanisms for the purchase of land or buildings and for the financing of any remaining construction loan balance. Standard collateral for both construction and mortgage loans is the land or structure being financed. Banks typically finance 70 to 90 percent of a property's value, and the borrower is expected to finance the rest. For charter schools, this means providing up to 30 percent of value in cash, in addition to providing the bank with a lien on the property. Repayment terms, however, are longer than other types of loans, and amortization periods (the length of time used to determine periodic payment amounts) can be as long as 15 or 25 years. Because of the unique nature of charter school term limits, however, most loans to charter schools have a balloon payment, in which the balance of the loan is due when the charter expires, and which can be refinanced if the charter is renewed.

Interest rates on permanent loans vary widely. Many school operators we interviewed refinanced high-interest loans with low-cost permanent financing. In Houston, Texas, YES College Preparatory School began with a 12-year permanent loan at 12.5 percent interest from a last-resort lending institution. This original loan was refinanced with a 7-year mortgage loan at 7 percent interest from a national bank, resulting in substantial monthly savings for the charter school and the ability to build equity in its facility at a faster pace.

Loan pools are one way for financial institutions and government lenders to mitigate the risks associated with lending to charter schools. In a loan pool one or more investors "pool" their resources, and various borrowers then access the funds through separate loans. A loan pool, which finances multiple borrowers, benefits from portfolio diversification and can charge a correspondingly lower interest rate. Investors benefit from reducing their exposure to any single school credit and from the inclusion of multiple schools with different risk profiles.

There are several examples of state, municipal, and private loan pools for charter schools. In all these examples, the loan pool was created prior to any particular loan being made to a school.

The Financial Foundation for Texas Charter Schools was the first loan pool in the country developed specifically to provide low-interest, working-capital loans to qualifying Texas charter schools. It was created in 1998 as a sister nonprofit organization to the nonprofit Charter School Resource Center of Texas, which had opened a year earlier. Both organizations are now under the same 501(c)(3) and board. Since there was very little federal startup money for Texas charters in 1998, the Financial Foundation for Texas Charter Schools was a response to charter schools' need for short-term loans for early-stage expenses. Banks and corporations, including Wells Fargo Bank, Chase Bank of Texas, Bank of America, Burlington Resources, Duke Energy, and El Paso Energy, contributed grants and low interest loans to create a $3 million loan pool. A total of 32 low-interest loans of up to $100,000 each were made over the next several years to qualifying Texas charters. Since significant federal charter school startup funds are now available, in January 2004, when the last three loans will be repaid, it is anticipated that the Financial Foundation portion of the nonprofit will become inactive.

[29] A more complete description of City First's process can be found in Nida, Thomas A. (2002). Lending to Charter Schools. *The RMA Journal*, 52-61.

The California Charter School Revolving Loan Fund, established in the state treasury by the California Department of Education, contains over $20 million in combined state and federal loan funds and is available to non-conversion charter schools that have not yet had their charters renewed. A charter school may receive multiple loans for a maximum of five years each, as long as the total amount received does not exceed $250,000. Funds may be used for, but are not limited to, leasing and renovating facilities. Loans carry a fixed interest rate based on the earnings in the pooled money investment account. Although Nevada has developed the legal framework for a similar revolving loan program, no money has been appropriated.

In 1997, one year after charter legislation was passed in Illinois, the Chicago Public Schools initiated a $2 million Charter School Revolving Loan Program. Managed by the Illinois Facilities Fund, a statewide nonprofit which assists with school facilities needs, the Charter School Revolving Loan Program provides loans at 5 percent interest, most of which are for $250,000.

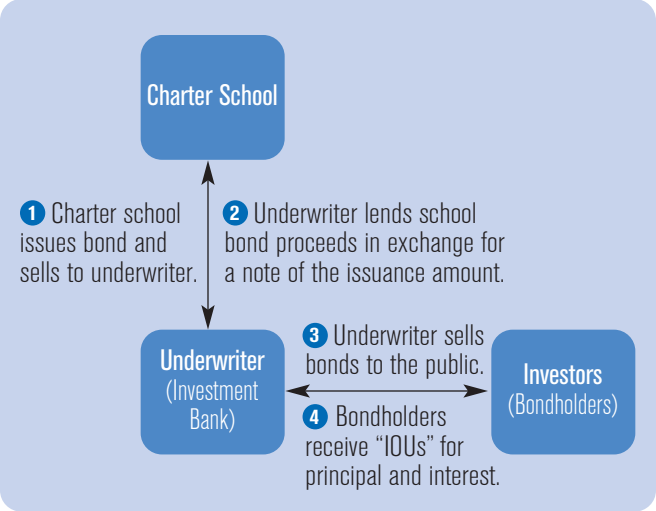
To assist charter schools with their facilities needs, NCB Development Corporation used its $6.4 million Facilities Financing Demonstration Grant from the U.S. Department of Education to enhance a $40 million loan fund comprised of investments from different financial institutions, including JP Morgan, Merrill Lynch, Citibank, PNC, NCB, Fleet, Washington Mutual, Commerce Bank, and Citizens Bank. Not only does the loan fund help to significantly lower the banks' risk exposure, but participating banks can also receive Community Reinvestment Act credit for their investment. NCB Development Corporation has been lending to charter schools since the mid-1990s. Its current portfolio of charter schools consists mainly of mortgages and leasehold improvement loans that range from $25,000 to over $4 million. The organization is also involved in offering charter schools technical assistance in facilities development and financing.

BONDS

A bond is a debt instrument that allows an entity to borrow funds at a fixed rate over a stated period of time. There are both institutional and retail markets for bonds, with investors purchasing the bond in exchange for principal and interest payments on specified dates.

How It Works

Bond issues are usually too large to be bought by a single investor, and the issuer cannot effectively market its offering to large numbers of individual investors. Thus, bonds are sold to an underwriter, who then resells them at a profit to multiple investors. Schools typically cannot issue bonds directly. An entity, called a "conduit," issues the bonds and lends the proceeds to a school. Both methods are described in this section.



Underwriting firms are selected either by negotiation or competitive bid. Schools shop around for a securities dealer or investment bank to underwrite their issuance. Indiana, for example, has a bond bank for city, county, and other qualified institutions, including charter schools. Although no bonds for charter schools have been issued, the bond bank is set to underwrite, market, and provide other services for its municipal offerings. Such a government-sponsored bond bank can reduce the cost of issuing bonds by purchasing the debt issuance at a cost that is favorable to the schools.

As individual startup projects, charter schools were initially considered too high-risk for the bond market, but attractive tax-exempt bond yields and investment-grade ratings have stimulated interest in the charter school sector. Although only a relatively small number of charter schools have successfully obtained bond financing for their facility needs, the longer financing terms of 20-30 years and generally low interest rates have made bonds among the most attractive financing mechanisms.

The first charter school to receive an investment-grade rating was the North Hills School, a charter school serving 850 students in Irving, Texas. North Hills spent its first several years in a number of facilities, including an old warehouse, an old church, and a building leased from the city. In the fifth year of the school's history, North Hills found a horse facility that, with significant renovations, could be turned into a school, and the school decided to try to issue a $6 million bond to finance the renovations.

First, a lawyer hired by the charter school worked to have Texas law amended to include charter schools in the group of nonprofits allowed to issue bonds. Then the school had to wait for Texas to establish its charter renewal process, which North Hills successfully passed. When it was renewed, North Hills negotiated a ten-year charter with the state, specifically to help with the bond issuance process. Finally, North Hills made presentations to Standard & Poor's and Moody's and was given

Moody's first investment-grade rating. Two years after the beginning of its finance project, the seven-year old charter school was able to obtain a 20-year bond at 7.25 percent interest and placed the entire bond issue with one corporation.

As the North Hills story suggests, bonds have not been easy financing tools to access for charter schools, particularly in the early years of charter reform. Beyond the difficulties of establishing a legal framework within state law for the issuance of bonds, traditional credit analyses do not particularly fit charter schools. While the operational aspects of charter schools can be compared to a business, the primary mission of charter schools—to attract students and raise their achievement—goes beyond any narrow business analysis. Moreover, the brief operating history of charter schools; the perceived risk of default due to non-renewal or closure; and the fact that charter schools do not have the taxing powers associated with public school districts, all make charter schools potentially risky in the eyes of investors. Whereas a typical public school district bond is generally rated at the highest investment grade (AAA or Aaa), those charter school bonds that are lucky enough to be rated are generally given ratings of BBB or Baa and pay a correspondingly higher interest rate.

The high upfront costs of bond issuance, which cover legal, investment banking, and other professional fees ranging from $50,000 to $200,000, may present an additional roadblock to charter schools. As conversations with a number of securities dealers made clear, facilities bond projects need to be $2 million or more to make a bond issuance economically feasible.[30] On a small issuance of $1 million, for example, a 5 percent interest rate coupled with $300,000 in upfront costs would be equivalent to a 15 percent interest rate when amortized over the length of the bond. Large schools with ample cash flow and significant bond needs can absorb the cost of issuance and profit from the lengthy financing terms. However, small charter schools in search of financing for relatively small facilities projects should realize that loans are generally more economical than bonds.

Finally, even with professional assistance, issuing a bond demands a high level of expertise. The Board of Trustees at North Hills Charter School, for example, included a real estate attorney who engaged colleagues and devoted nearly full time to pursuing both the changes in the law and the legal preparation for the bond issuance. But many schools don't have staff or board members with the financial acumen necessary to manage the issuance process. Even though a number of companies now work with charter schools to obtain bond financing, schools that succeed in issuing bonds have generally needed access to bankers and lawyers who can handle the negotiations and due diligence associated with the bond process.

Obtaining a Bond Rating

Commercial bond rating firms evaluate the risk of bond issues and assign ratings. Insofar as risk is perceived as greater, ratings are lower and lenders demand a higher return for their investment. The highest ratings given to any bond are AAA (Standard and Poor's and Fitch) and Aaa (Moody's). Bonds rated in the BBB category or higher are considered investment grade; bonds with ratings in the BB category and below are considered "high yield" or below investment-grade (junk bonds). Between 1999 and 2002 Kirkpatrick Pettis, an investment firm in Denver, underwrote bonds for 28 charter schools, only 12 of which had investment grade ratings.

All three major rating agencies—Moody's Investors Services, Fitch Ratings, and Standard and Poor's Corporation—predict that the charter school market will continue to grow as loan refinancing and expansion needs create opportunities for debt financing. Each of the three has written a report on the charter school market and developed its own criteria for rating a charter school bond. While these criteria differ slightly on specific financial ratios and risk calculations, rating considerations for all three agencies are also adapted to each state's unique charter school framework and to the structure of each bond. A summary of the rating agencies' evaluation criteria, drawn from their most recent reports on charter schools, is shown in the table below.[31]

Charter school debt analyses by all three agencies incorporate such "business" indicators as anticipated student enrollment (demand), educational alternatives in the area (competitive position), and charter school governance and operations (management strategies). In

TABLE I: Criteria for Determining the Investment Ratings of Charter Schools by the Three Major Rating Agencies

Moody's	Fitch	Standard and Poor's
■ Service area, demographics, and enrollment trends	■ Competitive position	■ Administration and management factors
■ Management, charter policies, and fiscal goals	■ State and local legislative and regulatory frameworks	■ The service area's economy
■ Security features, including additional bonds test and flow of funds	■ Capital demands	■ Financial factors
■ Oversight issues	■ Financial measures	■ Debt structure
■ Charter renewal risk	■ Debt legal structure	
	■ Local service area	

[30] Charter Friends National Network and the NCB Development Corporation. (2000, April). Charter School Facilities: A Resource Guide on Development and Financing.
[31] See: Fitch. (2001, May 31). *Charter Schools: Growth, Challenges and Public Policy*. Fitch Public Finance, Revenue Special Report; Moody's Investors Service. (2002, June). *Moody's Methodology for Rating Charter Schools: An Evolving Sector in the Market Place*. New York: Moody's Investors Service, Municipal Credit Division; Standard & Poor's. (2002, November 13). *Public Finance Criteria: Charter Schools*. New York: Standard & Poor's.

addition, charter-specific issues, such as the term of the charter, the renewal process, and state oversight issues, make the analysis of charter school debt substantially different from that of a public school district or a business.

If partnered with an education management company (EMO), a charter school's bond rating also depends on the strength of that partner. While a number of EMO-run charter schools have issued bonds, bond-rating agencies claim to be neutral as to the benefit of having a management company. In their view, EMOs can contribute financial expertise and equity to a project, but they also bring potential risk associated with own their financial history and management structure. Moreover, EMOs tend to be in the media, and a sharply positive or negative media portrayal can sway the finance community's sense of the profitability and security of investment in an EMO-partnered charter school.

Bond Insurance

Purchasing bond insurance allows charter schools that would not be able to achieve investment grade status to obtain higher bond ratings. With bond insurance, the insurer's credit is substituted for that of the school and is the basis for the bond rating. Although the improved rating results in a lower interest rate and better marketability, schools pay an insurance premium. American Capital Access, a financial insurance company, provided bond insurance for a premium of $1.5 million, or 13.35%, for an $11.235 million bond offering for two charter schools in Arizona managed by Chancellor-Beacon, a for-profit EMO. With the insurance, as well as a one-year debt service reserve credit enhancement from both Chancellor-Beacon and the Charter Schools Development Corporation, the bond offering was issued at 5 percent interest and a 25-year term.

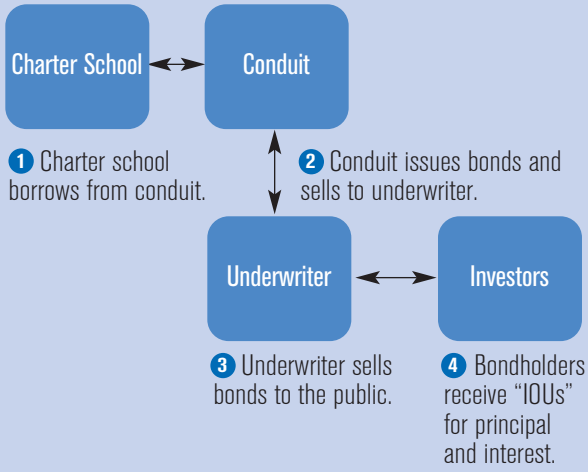
Moral Obligation

There are public credit enhancement programs available to local districts, and both Colorado and the city of Indianapolis, for example, allow charter schools to attach the moral obligation of a public entity to their bonds, which allows the charter schools to achieve a higher rating. Much like insurance, the moral obligation pledge effectively substitutes the municipality's credit for that of the school. The primary risk assumed by investors is that of non-appropriation of funds by the municipality should the school default on its payments.

Conduit Financing

A growing number of states allow charter schools to issue tax-exempt debt by declaring them "public entities" and authorizing other public or nonprofit entities to issue bonds on their behalf. In essence, charter schools use a "conduit" to issue their bonds. In typical conduit financing, the conduit lends the equivalent amount of the bond issuance to the charter school in the form of a permanent or mortgage loan. The conduit issues bonds and sells the issue to an underwriter, which then resells the issue in the capital markets. The charter school's loan repayment corresponds to the amortization of the bond issuance, plus processing or transaction costs.

The charter school and conduit enter into an agreement that provides the charter school with a loan for the bond proceeds. The school's rating, if it obtains one, is based on the underlying security. However, if a school has a moral obligation of a public entity or a guaranty, the third party's credit rating is substituted for the school.



In Colorado, the Colorado Education and Cultural Facility Authority (CECFA) acts as a conduit for charter schools, enabling them to obtain tax-exempt financing. Typically, the charter school's nonprofit corporation, established to hold the property, borrows the funds raised by CECFA in the bond offering and uses them to pay for the acquisition or construction of a school facility on behalf of the charter school. The nonprofit then grants a mortgage on the property to the board of trustees to secure repayment of the bonds. According to a report on charter school capital financing in Colorado, CECFA typically charges both an upfront fee ranging from $20,000 to $30,000 and a "trailer" fee based on a percentage of the outstanding principal for the life of the loan.[32]

Types of Bond Financing

Bonds can either be taxable or tax-exempt. **Taxable bonds**, which are subject to federal, state, and municipal taxes on the interest payments, carry higher interest rates than tax-exempt bonds in order to provide the same after-tax yields to bondholders.

In Greeley, Colorado, University Schools, which had been a laboratory school of the University of Northern Colorado, issued a taxable bond to pay for its new facility when the school went charter and moved off campus. Because University Schools had a 107-year history as a university laboratory school, the state granted the school a 30-year charter. Members of the board of trustees then put up their

[32] Caldwell, Russel & Arrington, Barry. (2000). *Colorado Charter Schools Capital Finance Study: Challenges and Opportunities for the Future*. Denver, CO: Colorado Department of Education, p23.

own property and life insurance as collateral, and University Schools was able to issue $17.5 million in AA bonds at an interest rate of 6.5 percent. However, the school has had to increase enrollment from 625 to 950 students to make the bond payments of $1.3 million a year, which still constitute 26 percent of University School's overall budget.

Horizon Community Learning Center in Phoenix, Arizona, spent its first five years as a conversion charter school in a hardware store and a church. When the founders decided to build a facility on ten acres in 1999, the school sold $19.5 million in 30-year taxable bonds at 8.5 percent interest. Then in September 2000, after legislation was passed enabling charter schools to sell tax-exempt bonds, Horizon Community Learning Center was able to get a new charter for 15 years, allowing it to issue $29.5 million in tax-exempt bonds at a variable interest of 7.5 to 6.5 percent. The new bonds were used to refinance the first bond issuance and build a new wing. Even with the reduced interest rate, however, Horizon spends $2.1 million on annual mortgage expense, more than a quarter of its an annual operating budget of $8 million.

In general, **tax-exempt or municipal bonds** are more attractive than either commercial loans or taxable bonds, because of their significantly lower interest rates and their long-term financing of 20 or 30 years.[33] As with Horizon Community Learning Center in Phoenix, a number of charter school operators we interviewed had refinanced—or were looking to refinance—either permanent loans with bond issuances, or taxable bonds with tax-exempt bonds.

The story of the Arts and Technology Academy, a K-6 charter school in Washington, DC, illustrates the several stages schools often have to go through in order to lower their facilities costs. The Arts and Technology Academy had joined with the EMO Advantage (later taken over by Mosaica) in order to obtain a facility. Advantage acquired and renovated the property and leased it back to the school, with a lease-to-purchase option. The purchase price was set at the actual cost of acquisition and renovation, rather than the current market price of the property (which initially was appraised at more than $500,000 above cost). The school then obtained a loan from a local branch of Allfirst Bank (now M&T Bank), supported by a credit enhancement from the Department of Banking and Financial Institutions (DBFI), to buy the building from the EMO.

While the agreement with the EMO would have meant $30,000-50,000 per month in leases and fees, the new loan financing decreased the school's monthly interest payment to $12,000. However, with the assistance of financially savvy board of trustee members, the school was able to issue variable rate bonds for $3.9 million to refinance the debt. Two-thirds of the bonds were issued at a 2.8 percent rate, and one-third was issued at a 2.2 percent rate, which freed up more than $360,000 annually for educational programs and teacher salaries.

Municipal bonds have either a general or limited obligation. **A general obligation bond** is a municipal bond that is backed by the taxing power of the issuer. When a public school district issues a general obligation bond, it pledges its "full faith and credit" in repaying the principal and interest on the debt. In most states, general obligation bonds must first receive the approval of the district's voters for a levy of taxes on their property. If voter approval is obtained, districts may then issue bonds for up to 20-25 percent of the actual value of the district's taxable property. Bonds issued in this way become part of a capital funding stream, which is separate from the instructional stream. General obligation bonds receive the highest rating of tax-exempt bonds because of the breadth of the "full faith and credit" pledge of the sponsoring district. School districts virtually never default on their general obligation debt.

Pembroke Pines, Florida, a rapidly growing city before it was devastated by Hurricane Andrew in 1992, built the first municipally-run and owned charter school system. The city used $90 million in tax-exempt municipal bonds to construct multiple schools from pre-K to a high school and a satellite campus of a community college. The city served as the guarantor of the bonds, and the schools were each built in less than a year by the Haskell Company, a publicly traded design-build company. State capital funds and per pupil revenue, as well as additional revenue received from after-school programs, recreation facilities, and other joint-use arrangements, are used to make bond payments.

Charter schools have rarely had access to general obligation bonds, because they have no taxing power and there is no practical way for them to seek voter approval for a bond mill levy. However, in 2002, Colorado passed legislation requiring that a public school district must first ask its local charter schools whether they wish to be included in a bond issue before going to voters with a general obligation bond. Although districts are said to resist sharing their bond issues with charter schools, two Colorado charter schools have been included with fairly small requests in their districts' much larger bond issuances. Eagle County School District included $1.1 million for Eagle County Charter Academy in its $48.36 million bond issue. The charter school used its portion for infrastructure, including water, sewage, electricity, and a road that went to the charter school and gave another public school a second, long overdue access route.

Bonds amounting to $2.5 million for Cesar Chavez Academy in Pueblo County, Colorado, were also included in its district's $104 million bond issue. Tension between the charter school and the district prior to the bond issue made this a more difficult collaboration. Cesar Chavez, which was located in an abandoned district building, had requested $7 million for an addition and renovations. Although the smaller sum curtailed the charter school's facilities plans, Cesar Chavez was given an extended lease on the district's building and a ten-year charter to increase its access to financing.

[33] Charter Friends National Network and the NCB Development Corporation. (2000, April). Charter School Facilities: A Resource Guide on Development and Financing.

A limited obligation bond, also known as **a revenue bond**, is a bond secured by revenues produced by the facility for which the bond was issued. Since school districts traditionally have not been operated from user charges, they have lacked project revenue to support borrowing and must repay mainly from taxes. However, there are recent examples of districts and/or municipalities issuing this type of bond. For example, in 2001, the Pomona Unified School District in California created the Pomona Valley Educational Foundation, which, in turn, bought a vast, largely unused shopping center. The Foundation leased space within the mall, now known as the Village at Indian Hill, to an adult education center, a Head Start program, a technology research center, and a history museum. It also built a conference center available for rent. Revenue from these leases and rentals was then used to repay revenue bonds that had been issued for the construction of a high school for 400 students and three interconnected elementary schools serving a total of 1,800 students, all also part of the Village.

Limited obligation or revenue bonds are the most commonly issued bonds by charter schools and their conduits. Per pupil funding is the "revenue" used to repay the obligations. However, since the number of students attending the school may change, the investment community views public per pupil revenue as variable. It also sees repayment as in competition with instructional obligations. Thus, security from a third party, such as a debt reserve fund, bank letter of credit, or state-credit guaranty is often required. Such enhancement does necessarily result in an investment-grade rating for the issuance.

To meet Washington, DC charter schools' needs for access to capital for facilities, under the authority of the Department of Banking and Financial Institutions (DBFI), the Office of Public Charter School Financing and Support provides credit enhancements and direct loans for renovation, acquisition or leasehold improvements. In 2003, DBFI awarded Friendship House Schools a $3 million loan, which was required to fund the debt service reserve on its $44 million bond issuance, which was used to finance four schools.

A **bond pool** is the pooling together of individual revenue bonds, cross-collateralized by a reserve fund to secure the entire pool. The proceeds of the pool are used to finance multiple school projects. The use of a bond pool diversifies the borrowers, which helps to lower the risk of bond default. All the charter schools in a bond share liability insurance and a common reserve fund, which represents a percentage of the bond issue. The mutual dependence of charter schools in a bond pool has several drawbacks. First, once the pool has been established, schools often must negotiate which school will obtain how much. Second, since all the debt is part of a single bond issuance, all participating schools must maintain their reserves until the last school finishes repaying its debt.

There have been several charter school bond pools in Arizona. In Maricopa County, the Industrial Development Authority agreed to issue an education revenue bond of nearly $29 million for six charter schools. Rated BBB by Standard & Poor's, the issue consists largely of a tax-exempt portion at 6.7 percent interest, as well as a small taxable portion at 9 percent interest.

The experience of the American Heritage Academy with the Maricopa County bond issue suggests some of the advantages and disadvantages of bond pools. American Heritage Academy, a K-12 liberal arts charter school for 260 students, had been leasing and was able to build a new school with its $3.2 million portion of the bond pool. Although the school founder viewed the interest rate on the bond as significantly lower than a loan would have entailed, $3.2 million was somewhat more than the school had initially wanted, and the upfront fees for the bond issue were $87,000. Moreover, the monthly payments of $25,000 on the bond, which are taken out by the county before the school receives its per pupil, have amounted to over 20 percent of the school's revenue. Finally, of American Heritage Academy's $3.2 million, $500,000 must remain in a reserve unusable by the school until the entire bond is paid back by all six charter schools in the bond pool.

The **Qualified Zone Academy Bond (QZAB)** program uses tax credits to assist state and local educational agencies in financing the renovation and repair of public school facilities. Under the QZAB program, the federal government provides a tax credit in lieu of the low interest that local districts pay on general obligation bonds. The bond issuer is then responsible for repaying only the amount borrowed, significantly reducing the cost of the bond. To be eligible for a QZAB, a school must be located in an Empowerment Zone or Enterprise Community or have a student body in which at least 35 percent of the students are eligible for the federal free or reduced-price lunch program. Schools that benefit from QZABs are also required to receive cash or in-kind donations from private entities worth at least 10 percent of the bond amount.

The Pomona Valley Educational Foundation, established by the Pomona Unified District in California, used QZABs to finance the purchase, design, and architectural work done for the mix of schools, community organizations, and businesses that fill the once-distressed shopping center.

Until now, QZABs have been used most widely in Massachusetts, where the State Department of Education issues its allocation directly to charter schools, which are considered "local education agencies" (LEAs) and need no approvals from local school systems or chartering agencies. Over $6 million in QZABs have been issued by the Media and Technology Charter High School, $5.61 million in June 2001, and $660,000 in December 2002. The South Boston Harbor Academy Charter School has also received $6.1 million in QZAB allocations in 2003. Two schools,

Roxbury Preparatory Charter School and Holyoke Community Charter School, have received QZAB allocations, but never used them. Two additional schools have received QZAB allocations, which they plan to use before Summer 2004, the Neighborhood House Charter School ($6.3 million) and the Atlantic Charter School ($6 million.)

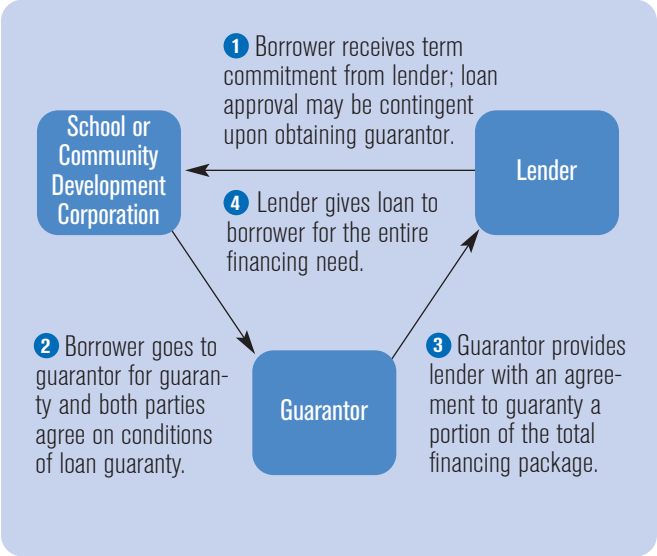
The Arizona Department of Education has made $1.6 million in QZABs available to both school districts and charter schools. In California a few charter schools have also used QZABs, although the chartering school districts issued the QZABs. However, in a number of states, including New York, the Department of Education has until now refused to treat charter schools as LEAs for the purposes of allocating QZABs.

CREDIT ENHANCEMENTS

Credit enhancements provide additional security to reduce loan recovery risk. Most credit enhancements come in the form of a loan guaranty, but charter schools are now gaining access to debt service reserve funds and bank letters of credit as well.

Loan Guaranty

The most popular type of credit enhancement used by charter schools is the **loan guaranty**, which is a pledge from an individual, corporation, or municipal or federal agency (the guarantor) to provide repayment to a financial institution (lender) for outstanding principal and interest should the school (borrower) default on its financial commitment.



A loan guaranty provides the lender with a signed commitment from a guarantor, which pledges to fund a school's financial obligation (up to a certain percentage or dollar amount) in the event of a default. In some cases, a guaranty is provided in lieu of an equity contribution, which enables lenders to provide financing for up to 100 percent of project costs. In addition to the guaranty amount, the agreement may include certain monitoring requirements to ensure that the school will provide the guarantor with ongoing information about its financial and educational performance. The agreement also makes clear the guarantor's rights should the loan not be repaid as contracted. The school (or foundation or community development corporation on behalf of the school) negotiates directly with the bank on the terms and conditions of the loan and signs a loan agreement (a mortgage note in most cases) with the lender.

Guaranty amounts range from 15 to 100 percent of the total loan package. Some schools have taken advantage of programs offered by non-education finance entities that offer high guaranty amounts. In order to obtain a $2 million construction and refinance loan from a local bank, IDEA Charter School, located in rural Texas, received a loan guaranty for 90 percent from the U.S. Department of Agriculture Community Facilities Financing program. The school used its existing building as 10 percent collateral, which resulted in 100 percent loan-to-value or collateralization.

Minnesota New Country School (MNCS), a charter high school now located in Henderson, Minnesota, opened in 1994 in neighboring Le Sueur County in three storefront buildings next door to the local high school. This first site was far from ideal. After the first three-year lease ended and the school had passed its first charter renewal process, MNCS went to the local Economic Development Committee and asked for permission and money to build a new school. MNCS was turned down because the district lacked the funds and had no interest in building a new high school.

Minnesota New Country School then went to Henderson, which welcomed the possibility of a new high school being built. A feasibility study was conducted, which estimated the cost of a 17,000 square foot facility at $1.2 million. MNCS set up a separate community development corporation and obtained $330,000 in tax increment financing from the county and $75,000 from the local Economic Development Authority. The school then raised $125,000 from individual investors. With the additional state lease aid, which amounted to as much as $1,500 per pupil, the school still had a shortfall. When MNCS approached the local bank, it was told that, since the previously raised money was already assigned, the school would still need a guaranty for any loan. MNCS then took advantage of a U.S. Department of Agriculture Rural Development loan guaranty that the bank accepted, and the new school, which features open spaces and pods, was ready for students in fall 1998.

Guarantees, which not only increase the level of financing schools can access, but enable schools to access financing products at more favorable interest rates, can be provided by governmental, corporate, or personal guarantors, or by pledges of additional collateral.

In 2002, the Rodel Foundation, a small foundation located in Delaware, joined with other Delaware institutions to found the Innovative Schools Development Corporation (ISDC), which established a $4 million loan guaranty fund for charter schools in Delaware. The fund's first guaranty assisted the Newark Charter School with a $1.76 loan guaranty, enabling the school to obtain an $8.5 million loan. ISDC is currently working to develop loan guarantees with three other Delaware charter schools.

The "leverage aspect" of a guaranty fund, such as has been created by the ISDC, is very powerful. As loans are repaid, the guaranty can be recycled to other borrowers. This recycling allows limited funds to assist more schools than individual grants would be able to service. Foundations are particularly fond of guaranty funds like the one developed by ISDC, as such funds provide professional management for their money and decrease the administrative burden that comes with small grants made directly to individual schools.

In Chicago, Illinois, the public school district guaranteed approximately 80 percent of a $5.5 million bond issuance that enabled a charter school to purchase its facility. A private guarantor provided a guaranty for the first 20 percent of the loan. Although the school district was the second guarantor, it will retain ownership of the property if the charter school defaults on its debt obligation.

Ohio administers a formal guaranty program through the Ohio Schools Facilities Commission. The program guarantees up to 80 percent of the cost of school construction with an absolute dollar cap of $1 million for an owned facility and $500,000 for leasehold improvements. The guaranty cannot exceed 15 years. As the loan is repaid, the guaranty amount may be reduced or eliminated to reflect the increase in borrower equity. Guarantees may also be reduced if the school meets certain thresholds, such as increased student enrollment, fund balance, or years of successful operations.

Community groups and partnering foundations also provide guarantees to schools. To help one of its New York City charter schools for which it acts as a nonprofit EMO, Beginning With Children Foundation provided a guaranty of $1.375 million to secure the school's facility and complete renovations.

Debt Service Payment Reserves

As a standard credit enhancement available for most borrowers, debt service payment reserves are used to provide temporary liquidity should a borrower have difficulty making debt service payments. The size of the reserve varies according to lender requirements, but it is typically structured to be equal to one year of principal and interest payments. In some cases, the amount of the reserve is added to the loan amount, which increases the total size of the charter school debt obligation.

The Innovative Schools Development Corporation (ISDC) in Delaware typically incorporates a debt service reserve fund into all loans structured using an ISDC guaranty.

Letters of Credit

Some guarantees come in the form of a letter of credit issued to the landlord or property developer. For leasehold improvements, a letter of credit is often additional security for a landlord completing tenant improvements. Letters of credit can also be used to fund a debt service reserve or to guarantee a permanent mortgage. In 2003, the Charter Schools Development Corporation (CSDC) provided a $100,000 letter of credit to secure leasehold improvements for a new startup charter school, Casa Esperanza Montessori Charter School in Raleigh, North Carolina. CSDC charged a one-time fee of five percent for the credit enhancement. The guaranty will be partially released after three years, subject to the school meeting specific negotiated financial performance conditions, and fully released after four years, provided that no rent obligations are delinquent.

The U.S. Department of Education has initiated a program to foster the creation of credit enhancements for charter schools. In June 2002, the **Charter Schools Facilities Financing Demonstration Grant Program** awarded five nonprofit institutions—Charter Schools Development Corporation, Raza Development Fund, Inc., NCB Development Corporation, America's Charter School Corporation, and Low-Income Investment Fund (formerly the Low-Income Housing Fund)—one-time grants for credit enhancement programs. These nonprofits can use the federal funds to attract other capital, such as bank loans or bonds (eventually creating loan pools), to address the cost of acquiring, constructing, or renovating charter schools. However, the funds cannot be used for direct purchase, lease, renovation, or construction of school buildings.

In September 2003, this program, now called the **Credit Enhancement for Charter School Facilities Program**, announced that $25 million was awarded to four organizations: Massachusetts Development Finance Agency, Center for Community Self-Help, Local Initiatives Support Corporation (LISC), and NCB Development Corporation. The Program has been funded at $37.5 million for 2004.

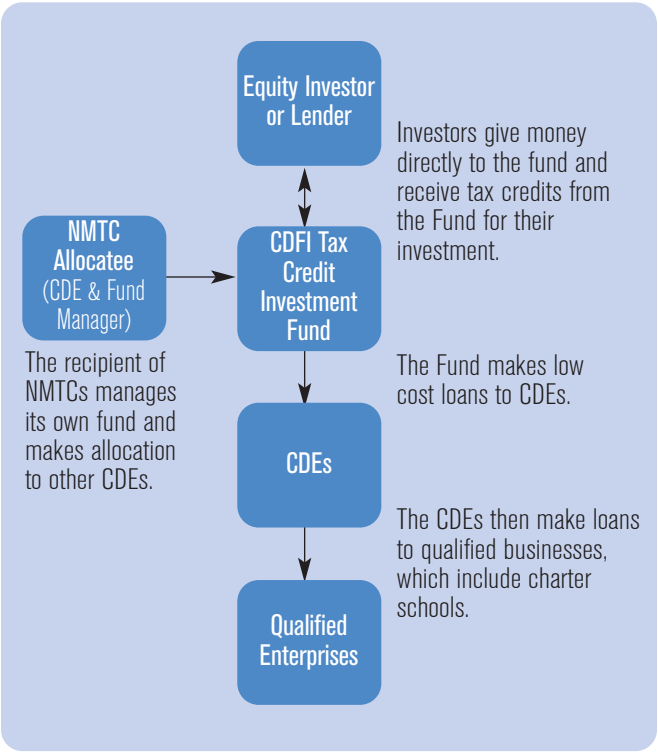
In many cases, schools may be required to use a variety of enhancements as collateral. A loan may be secured by the first mortgage lien, as well as a guaranty, debt service reserve fund, and any other negotiated assignments, such as lease payments or other school income. Although programs channeling funds to nonprofits, such as those described above, can help to alleviate the financing problems of charter schools, charter school operators and advocates we interviewed tended to view the size of the grants as too small to make a strong dent in the charter school facilities financing problem.

EMERGING MECHANISMS

In addition to the standard financial products described in the preceding sections, charter schools will soon have access to new funding and financial mechanisms.

New Market Tax Credits

In December 2000, the United States Congress enacted the **New Markets Tax Credit (NMTC)**, which is designed to generate $15 billion in new private sector equity investments that will, in turn, spur business growth in low-income rural and urban communities. Individuals and corporations that invest in community development entities (CDEs), such as the Illinois Facilities Fund and Self-Help Ventures Fund, will be eligible for a 39 percent tax credit, which can be claimed over seven years. These entities in turn make investments in, or loans to, qualified enterprises in low-income communities.



Sixty-six community development entities were named in March 2003 to receive the first $2.5 billion in NMTC program allocations. In its most common form, the grantee becomes the manager of a tax credit fund, which is a vehicle set up to allocate the tax credits annually to investors and to pool the funds from investors, in order to provide loans to other entities for investment in qualified businesses.

To qualify for the NMTC program, a community development entity must be a domestic corporation or partnership that: 1) has a mission of serving, or providing investment capital for, low-income communities or low-income persons; 2) maintains accountability to residents of low-income communities through their representation on a governing or advisory board of the entity; and 3) has been certified as a CDE. Many community development financial institutions are certified as CDEs.

Since for-profit investors are especially reticent to make riskier investments in low-income areas that do not generate substantial returns, the tax credits provide an incentive for investors to channel funds to organizations that operate in low-income areas and to offer those funds at a lower cost.

According to the National Community Capital Association (NCCA), a national membership organization of community development financial institutions (CDFIs) which received an $8 million tax-credit allocation, charter schools and their respective community development organizations fit well into the definition of a "qualified enterprise" and therefore should be able to benefit from the program. NCCA will not lend directly to charter schools but will use its allocations to finance member CDFIs (which are also CDEs) that make qualifying NMTC loans or investments.

Tax-Increment Financing

Tax-increment financing (TIF) is a special tool that cities can use to generate money for economic development in a specific geographic area called a TIF district. Individual state law sets the parameters for defining a TIF district, as well as the amount that a city can set aside for TIF projects. TIF dollars are new property tax dollars reinvested in the district in which they are created. These "revenues" arise if new development takes place in the TIF district or if the value of existing properties increases. The funds are then spent on public works projects or given as subsidies to encourage more private development.

As public works projects, school districts and charter schools are eligible for TIFs. If located in a TIF district, schools can receive funds for repair or the construction of new classroom space.

As mentioned, Minnesota New Country School in Henderson, Minnesota, was allocated $330,000 in TIF funds to help finance its $1.2 million school construction project. The school has conducted research for two prestigious universities and is considered a magnet for technological development in the rural community.

In Chicago, the city has budgeted $1.7 billion for public works, for which schools can apply to fund construction and repair needs. No money has yet been allocated.

The Qualified Public Education Facility Bond Program

The Qualified Public Education Facility (QPEFs) Bond Program, established in 2001, facilitates the issuance of $3 billion per year in tax-exempt, private-activity bonds. QPEFs can be used to construct, rehabilitate, refurbish or equip a public school facility. Bond proceeds are loaned to a private, for-profit corporation or developer who owns the school facility and leases it to a public school. Bondholders are repaid by the annual lease payments. The school rents until the end of the lease term, usually 15 to 30 years, at which time the school facility is transferred to the public school at no additional cost.

Individual states must create legislation to allow charter schools to be direct recipients of QPEFs. Although a new financing tool, many charter school advocates are lobbying to get charter schools access to QPEFs. To date, none have been issued.

SECTION III: THE CHARTER SCHOOL EXPERIENCE OF FACILITIES FINANCING AND THE DESIRE FOR BUILDING OWNERSHIP

INTRODUCTION

The charter school operators we interviewed for our analyses of facilities financing mechanisms often pointed to a finance lifecycle. This lived experience of facilities financing for a typical startup charter school has been noted by the financing community,[34] further developed through our own interviews, and is told from the perspective of the charter school.

In the Startup phase, years 1 and 2, a charter school is starting small and preparing for incremental growth. During the second stage, Expansion, in years 3 through 5, a charter school's enrollment and staffing capacity is growing steadily. The final stage, Stabilization, occurs around the fifth year, at which point the charter school has the majority of its systems in place, has reached its largest enrollment, and, in most states, has successfully passed through the renewal process. Though there are exceptions to this pattern, we discuss a charter school's unique facilities needs at each stage below.

STAGE I: STARTUP

In the startup phase, a charter school experiences the operational turbulence typical of any new organization. Systems must be put in place to address everything from meeting the authorizer's reporting requirements to staff and student policies. Initial decisions about hiring and curriculum are made, with future adjustments anticipated. At the same time, the school's relationship with the community is still new. Even with a waiting list, school leaders are aware that there is no guarantee of future support. For instructional and operational reasons, the charter school opens with a small enrollment in two or three grades, which it plans to build slowly over time. Since the opening enrollment translates into very low revenue, the school can usually afford only modest monthly leases during Stage I.

Schools may experience a good deal of movement from one building to another during Stage I, and sometimes even into Stage II. As the charter school adds a new grade each year, it may be forced to find new space to accommodate the slightly larger student body. As a charter school operator noted, schools need "just-in-time building" because facilities can be neither too far ahead nor too far behind their enrollment. While most charter schools cannot afford to pay for facilities that already come with room for growth, they also need space for new students. Sometimes, the school may choose to lease portable modular classrooms as a relatively low cost way to accommodate the rising enrollment.

Many Stage I charter schools with leases pay the security deposit and monthly rent with their per pupil funding. Since these funds are usually their sole source of income, schools also take out lines of credit so that they can make purchases without immediately depleting their financial resources. Schools need furniture, equipment, and large quantities of office supplies in their startup years, in addition to their facilities.

A charter school's first space is often an old supermarket, an underused shopping mall, or excess office space that was not originally designed for the purposes of public education. Therefore, the facility must be renovated to be usable as classroom space. Sometimes charter schools obtain leasehold improvement loans to refurbish the space to suit their instructional and operational needs. Unfortunately, these loans have high interest rates and are taken when the school has its lowest revenue. Moreover, though the terms of leasehold improvement loans tend to be relatively short, they are sometimes longer than the school's occupation in that facility, meaning that payments for those renovations are being made long after the school has moved out. Finally, the improvements made with these loans are unlikely to be portable when the school leaves.

STAGE II: EXPANSION

By its third year, a charter school has experienced steady growth and resolved many organizational issues. Its standing in the community is also much more secure. The students have gone through at least one battery of standardized tests, and with school staff more stabilized, the leadership is preparing for the renewal process.

Although the school may not have reached its full enrollment, it has likely outgrown its initial space. The school can choose to rent a bigger location, which also may need to be modified into an acceptable educational facility, or it can attempt to purchase a larger facility or begin construction of a new building made to its specifications. In both cases, the school begins to seek long-term financing, such as mortgage loans and lease-purchase agreements.

The larger per pupil revenue the charter school now receives may be sufficient to allow the creation of a small cash reserve, which can be used to build its credit. The school may also be ready to initiate a capital campaign to raise facilities funds.

A common strategy for a charter school is to set up a nonprofit holding company that retains the rights to the property and leases it back to the school, while remaining responsible for all associated financing. In this case, the operators of the school create the holding company, and the company assumes legal ownership of the building. This approach benefits the school from a financial standpoint, as the lease payments tend to equal the holding company's debt payments on the property. More important, holding companies create a firewall between the facility and the school as an educational institution. If the school closes or fails to make the lease payments, the nonprofit retains the facility and the building does not go to the district.

[34] Nida, Thomas A. (2002). Lending to Charter Schools. *The RMA Journal*, 52-61; Charter Schools Development Corporation promotional materials.

STAGE III: STABILIZATION

After five years, an effective charter school exhibits signs of stability. The community firmly stands behind the school, as evidenced by a long waiting list and considerable parent involvement. The school has successfully passed its first renewal, indicating that the structures and systems in place have appropriately met the needs of its students. If it is a middle school or high school, there will have been at least two graduating classes.

With its largest enrollment and income, the school is in a position to acquire affordable, long-term financing, such as tax-exempt bonds or long-term lease agreements. It may also consider debt consolidation or refinancing to decrease and better manage its debt.

At this stage, a charter school has overcome several hurdles to a favorable credit rating. Most important, its successful negotiation through renewal greatly mitigates perceived risk by the investment community. Though the renewal of a school's charter is based largely on student performance, it is also proof of good day-to-day operations, sound management, a solid relationship with the authorizer, and strong community and political support. Finally, the school's management of its facilities financing over the years has given it a strong credit history.

THE DESIRE FOR BUILDING OWNERSHIP

Charter schools obtain facilities in one of two ways: through leasing or through owning. While some charter schools across the country have been able to lease empty public school buildings from their districts, and others are in parochial schools or other leased space they view as adequate, most charter school operators we interviewed wanted to own their own facilities, despite the long-term commitment of millions of dollars. There are several reasons why the desire for ownership is strong in the charter school community.

First, ownership ends the numerous challenges that come with leasing, including yearly rent increases, leasehold improvement costs that come at high interest rates, the lack of equity accumulation in the facility, and the general uncertainty of having a landlord who may have other, non-educational objectives for the building. Ownership also gives a school a valuable asset that it can borrow against or sell to generate money needed for its educational program.

Charter school operators also believe that ownership is important to the school community because it eases the fear of abandonment. In some low-income, distressed communities, where many charter schools are located, there may be a long history of people, agencies, and initiatives that have been neither permanent nor long-term in their impact. Therefore, the new construction or purchase of a building can be a sign of commitment by the charter school to the community.

For staff, school ownership can be a sign of job stability. It is hard for teachers and other staff to be fully dedicated to a school that changes sites every one or two years. A number of charter school operators we interviewed spoke of losing teachers because of inadequate space and regular moves. For board of trustee members, who commonly donate both time and money on behalf of the charter school, ownership can be interpreted as a positive "return" on that investment.

Finally, since charter schools are an education reform that many still see as an experiment, ownership shows confidence that the school will continue to pass its periodic renewal process, meet the needs of its community, and outperform its neighboring traditional public schools.

Many of the charter school operators we interviewed also preferred for their facility to remain under private ownership, usually by their nonprofit holding companies, rather than return to public ownership by the district or state should the school fail to obtain charter renewal or close. In some states, including Arizona, Texas, and Florida, charter school facilities that have been partly financed with public monies return to the districts in which they are located (or, in Arizona, to the School Facilities Board), should the charter school default on its loan or cease operation.

In Minnesota, where public lease aid cannot be used for mortgages, some charter schools used holding companies to circumvent this restriction. Schools used their lease aid to pay the holding companies, which, in turn, paid the mortgages. Finally, holding companies were a way for those charter school operators, who had dedicated their personal savings to the schools and mortgaged their property on its behalf, to hold on to the facility, irrespective of the renewal process or the fate of charter reform.

CONCLUSION

Charter schools move through a finance lifecycle as they attempt to secure facilities that meet their evolving needs. Considering the characteristics of each phase may help charter schools accurately determine what type of financial arrangement is most appropriate for them. This framework also summarizes the issues that most charter schools face when trying to align enrollment growth, program requirements, financial management, and facilities needs.

However, the reality is that most charter schools incur substantial debt beginning in Stage I and continually throughout their lifecycle. Although permanent residency and ownership help to resolve community issues and alleviate debt concerns, as the annual capital costs are fixed for the life of the loan, owning a building comes with its own set of challenges and related financial obligations.

It should be said that the problem of facilities financing has unintended consequences for charter school operators and, more widely, for charter reform. Most important, the time, attention, and financial resources expended by charter school officials on facilities issues diverts instructional monies and administrative resources from charter schools' educational programs.

SECTION IV: THE "FINANCE-ABLE" CHARTER SCHOOL, THE EMERGING FINANCE GAP, AND THE IMPACT OF FACILITIES FINANCING ON INSTRUCTION

INTRODUCTION

This section begins by reviewing ten criteria being used by the finance community to determine whether a charter school is "finance-able." We then suggest how these criteria are creating a finance gap between those schools considered investment worthy and those that are not. Finally, we discuss the effect of the general paucity of public money for charter school facilities on instructional resources available to charter school students, and, in turn, how extending the charter school model of privatizing facilities financing might impact other public schools.

THE "FINANCE-ABLE" CHARTER SCHOOL

By comparison with traditional public schools, whose bonds are considered one of the safest investments,[35] charter schools are perceived to be high-risk investments. Because of this perception, charter school loans are often over-collateralized. Many operators we interviewed reported having to provide multiple forms of guaranty and security for the lender, including the property itself, a loan guaranty, and a debt service reserve. While this is typical practice for new businesses, even charter schools with established operating histories often have to continue providing multiple guarantees. Yet not all charter schools have access to guarantees. Indeed, a significant number of charter schools are, and are likely to remain, unfinance-able.

In Colorado, for example, where there is a range of public assistance for charter school facility financing, several financiers agreed that, of the state's 100 charter schools, 50 of which already have facility financing, the remaining half are not finance-able due to their small size or their startup nature.

Over the past decade, charter school operators and advocates, education officials, and the financial community have come to a general agreement on the characteristics needed by a charter school to be considered "finance-able." However, while there is agreement between the investment and the charter school communities on the importance of such issues as solid instructional leadership, it is the investors that have driven the criteria of an investment-worthy charter school, since it is they that have the capital that schools need for financing.

Below we list ten criteria of a "finance-able" charter school:

1. Student enrollment of at least 300, with plans for future growth
2. Substantial cash reserves
3. Operating history of at least 3 years
4. Business expertise
5. Professional board of trustees
6. Solid instructional leadership, academic program, and student performance
7. Successful renewal or long-term charter
8. Affiliations and partnerships
9. Strong charter authorizer and state support for charter schools
10. Evidence of community support

This is not an "all-or-nothing" list. That is, a school does not necessarily need to meet all ten criteria to obtain financing. However, since each characteristic has clear implications for which charter schools find affordable financing, as well as which charter schools ultimately thrive, we discuss them in turn.

1 Student Enrollment of at least 300

Over the course of interviews with charter school operators, education officials, and financiers, a school enrollment of 300 was the "break-even" figure most frequently cited as the minimum needed to secure financing. As the "break-even" phrase suggests, a student body of 300 is assumed to bring in the minimum per pupil revenue that can comfortably pay for instructional and operational costs while still leaving money for a reserve, which is a key requirement for financing. Financiers also assume that with 300 students, the school has enough revenue to withstand a temporary dip in enrollment and still meet monthly expenses. However, most private investors believe that this minimum must be accompanied by growth projections, reflected either in the charter agreement or in a business plan created for financing purposes.

Moody's Investors Services argues that, "the smallest schools demonstrating investment grade characteristics generally have a minimum enrollment of between 300 and 500 students."[36] However, one investor maintained that an investment-worthy charter school could have as few as 200 students, and another investor reported financing charter schools with enrollments as low as 100, as long as their facilities were "justifiable" and their per pupil revenues were sufficient to pay the debt obligation.

Since the nation's median enrollment for all charter schools is less than 150,[37] the generally required minimum enrollment of 300 clearly eliminates a significant number of charter schools.

2 Substantial Cash Reserves

The existence of a substantial cash reserve is considered good practice in any business, and the financial community requires that charter schools create a substantial cash reserve to safeguard against a sudden loss in income caused by a drop in enrollment, and to act as a guaranty for any debt the school incurs. This money can be used for a down payment, the upfront costs on a bond issue, or ongoing maintenance. In Minnesota, where charter schools receive significant state lease aid, a financial consulting firm advises schools to place 10 percent in a cash reserve.

[35] Traditional public school facilities bonds are considered safe investments for several reasons: school and district closure or default rate is virtually nonexistent, the bonds have guaranteed sources of repayment in the form of tax levees and government funds, and the business capacity of districts is assumed to be high.
[36] Moody's Investors Service. (2002, June). *Moody's Methodology for Rating Charter Schools: An Evolving Sector in the Market Place*. New York: Moody's Investors Service, Municipal Credit Division
[37] General Accounting Office. (2000, September) complete.

Since charter schools already operate with a discounted per pupil allocation in most states, it is difficult for them to set aside reserve funds without negatively impacting their academic programs. Moreover, in the startup years, when student enrollment is at its lowest and the school is working with minimal revenue, significant startup costs such as large-scale hiring and sizable purchases of equipment and curricular materials place added strain on budgets. Thus, the creation of a reserve is extremely difficult for most startup charter schools, and some charter school operators worry that diverting substantial resources away from instruction at this early stage can have long-term consequences for students.

3 Operating History of at least 3 Years

Since charter schools remain largely unknown and untried institutions to the investment community, and charter school leaders often come from educational rather than business backgrounds, investors generally want to see a three-year record of the charter school's handling of its fiduciary, operational, and educational responsibilities before committing themselves to financing. This assures investors that the school has systems in place that both address the ongoing needs of the institution and offer contingency plans for emergencies. Receiving revenue and paying salaries and other expenses, reporting to the sponsoring district and/or authorizer, as well as managing standardized testing procedures, should all have been systematized by the end of the third year. This means that most charter schools either obtain high-cost financing or no financing at all in their early stages.

4 Business Expertise

Because charter schools are independent and do not have a school district that handles their business affairs, school-level capacity to handle financial matters is considered critical. While a school leader may decide between using revenue for a business manager, an extra teacher, a counselor, or a nurse on the basis of pedagogy, the financial community wants to make sure that all decisions ensure the financial stability of the school. The creation of long-term budgets with growth projections, for example, is often assumed to be beyond the capacity of a typical charter school administrator.

Some schools, taking seriously their lack of business expertise, hire a business manager or an accountant; others use the "back office" services of a nonprofit or for-profit management company. ExED, a nonprofit EMO, provides back office services to charter schools serving low-income communities in Southern California. Other charter schools around the country have hired for-profit services to strengthen their accounting and other back-office functions.

5 Professional Board of Trustees

The financial community also looks for board of trustee members representative of the wider professional community, especially attorneys, accountants, and real estate brokers. To investors, having board members with professional backgrounds means that the school has access to business expertise. It also mitigates the risk of investing in a stand-alone charter school whose knowledge is limited to education. Although startup charter schools often open with boards consisting of parents, educators, and community members, schools are experiencing increasing pressure from charter school authorizers and the financial community to create professional boards. Unfortunately, community-developed charter schools in low-income areas—just those charter schools the movement has sought to stimulate—may have greater difficulty finding professional boards than do charter schools initiated by EMOs or charter schools located in more affluent areas.

6 Solid Instructional Leadership, Academic Program, and Student Performance

In predicting how well an individual school is likely to deliver instruction and raise student performance, the financial community places significant weight on the credentials of the school's principal or director and administrative staff. Although a charter school may view experience as more important than credentials (particularly as a cost-saving measure), charter school operators and the financial community are generally in agreement on the need for a strong instructional leader.

Sometimes, local banks and other private investors visit prospective charter school clients to observe how the school operates on a daily basis. As with any business, financial backers want to make sure that the enterprise they have supported is sound, and, occasionally, they conduct personal inspections for that purpose. One EMO indicated that having loan officers visit its existing schools enables it to obtain financing for upcoming schools in their first year of operation or even in the application stage. Financiers use the existing schools as a proxy for the developing ones. This form of relationship building helps financiers feel more comfortable lending to charter schools and serving them on a long-term basis.

As part of a loan evaluation, financial institutions are starting to recognize student performance as an increasingly important criterion for assessing creditworthiness and "finance-ability." Improved performance indicates that the school is successful in achieving its goals, is likely to receive charter renewal, and may indicate that it will continue to receive community support.

Some financiers want charter schools to use a "research-based" instructional program such as Core Knowledge, Everyday Math, or Success For All, because they believe that these curricular programs lower the risks of unsuccessful charter school teaching and low achievement. Regardless of the instructional methods used, financiers view positive changes in student performance as important in determining whether a charter school is finance-able.

7 Successful Renewal/Long-Term Charters

While few investors will lend money beyond the length of a charter, some will offer financing to a charter school that they are convinced has an established track record and will be renewed. The initial loan can then be refinanced after renewal. Unfortunately, short-term financing generally comes at a higher cost than when debt is extended over a longer period of time. Thus, charter schools tend to experience their highest borrowing costs exactly when they have the lowest revenue and highest expenses.

While 90 percent of all states with charter law provide charter terms of ten years or less, and many states offer initial charters of three or five years, several states have allowed the terms of charters to be extended to make charter schools more attractive to the investment community. In our study states, some Arizona schools now have 15-year charters. Texas charter schools can typically be chartered for 15-30 years. In Colorado, where a charter is legally at least three years, a number of schools have been given 30-year charters to cover the general period of a bond obligation.

8 Affiliations and Partnerships

Since startup charter schools are generally perceived as fragile, their relationships with other organizations are important to private investors. Those charter schools affiliated with a charter school network, such as Aspire Public Schools in California and the EdVisions Cooperative in Minnesota, bring the successful track record of those models with them, even though the individual school may still be in the startup phase. Similarly, charter schools partnered with a community development corporation or other community-based organization are generally believed to have increased capacity to handle real estate issues. Finally, charter schools that partner with education management organizations may use the latter's reserve funds or "back office" services to bolster their financial capacity. On the other hand, charter schools using EMOs encumber a portion of their revenue in management fees; moreover, EMOs carry their own operational and credit histories and are evaluated separately when charter schools attempt financing.

Individuals with community ties or strong financial networks have sometimes enhanced a charter school's credit rating. For example, an Episcopal minister who started Camino Nuevo Charter Academy in Los Angeles, California, was able to obtain financing because he was known to have been a solid presence in the community for eight years. As mentioned earlier, individual board of trustee members well known to the financial community for their business acumen may also reduce the perceived risk of a charter school.

9 Strength of Authorizer and State Support

Investment analyses of charter schools invariably contain information on the school's authorizer, including its application and monitoring processes, its reporting requirements, and the technical assistance and support it offers charter schools. Some financiers also rate authorizers within a particular state. Although the authorizers we interviewed were sometimes uninformed about their charter schools' facilities arrangements, authorizers in several states are considering lengthening the terms of their school charters in order to help meet their schools financing needs.

Investors also look more generally at the state's political climate for charter schools, the consistency of state funding streams available to charter schools, as well as the rate of renewal in a district. Charter schools in states with perceived negative or fluctuating attitudes are generally considered poor investment opportunities.

10 Community Support

As schools of choice, charter schools see their waiting lists as indications that their offerings are meeting community needs. For the financial community, long waiting lists are insurance that the school will be able to maintain and expand its enrollment.

In reviewing these ten criteria for a finance-able charter school, it is important to note that not all are equally beneficial from an educational perspective. While developing and strengthening financial expertise is necessary for every charter school, the parameters dictating a school's size or its board of trustee composition can conflict with the mission of some charter schools. Of the ten criteria listed, only the two concerning the academic program and the charter authorizer relate to a school's primary purpose: education. Moreover, as we have suggested, a research-based instructional program may or may not guarantee student success, and strong instructional leadership and a strong authorizer are only indirectly related to classroom learning. Indeed, while an authorizer that grants long charters is considered a benefit by investors, a long-term charter may actually be in conflict with a pedagogically strong charter school operating under strong performance-based accountability. While several financiers we interviewed were interested in student performance in that it affected fundamental demand for a school's services, they were as, or more, concerned with school operations and finance.

THE FINANCE GAP

Our analysis of the "finance-able" charter school suggests an emerging finance gap between a minority of schools able to achieve affordable, low-cost financing for their facilities and the vast majority of charter schools with access to only very expensive financing, or no financing at all. Our research design pointed to those schools that were able to achieve reasonable financing—often described to us as "superstar" charter schools. We only spoke with operators of a few charter schools who were in leased or free space at the time of the interviews. However, even the superstar charter schools we interviewed had often gone

through an early phase in which they had been unable to achieve financing or had obtained it at exorbitant interest rates nearing 20 percent.

As can be seen through our examination of the ten criteria for determining a "finance-able" charter school, financial and educational criteria are not always aligned. There are three areas, in particular, in which the interests of the financial world may be misaligned with the mission and priority of a charter school: size, cash reserve, and a professional board of trustees.

Size

Many charter schools start with fewer than one hundred students in year one and grow slowly and carefully each subsequent year. This means they have low enrollment just when they are most in need of funds to renovate their facilities, and when the private sector is most reluctant to lend at affordable rates. By the time charter schools are considered to be of a "finance-able" size, well into their third or fourth year, many have amassed significant debt and still do not have their optimal facility.

As important, many charter schools want to stay small and may never have a "finance-able" enrollment. For example, several investors spoke regretfully of charter schools for at-risk students, including dropouts or pregnant teens, which were designed to be under one hundred students, and thus would not be likely to find an affordable financing arrangement. Yet these charter schools serve critical student populations that can least afford to have their instructional programs depleted by high-cost leases and loans.

Substantial Cash Reserve

We have already discussed the low student enrollment during the Startup and Expansion phases and the strain this puts on revenue. As important, many charter schools have as their highest priority maintaining small classes and a low student-teacher ratio throughout their existence. Thus, without engaging in fund-raising, there is little money available for a cash reserve. Moreover, while a reading specialist, staff developer, or accountant is much more expensive for a school of 80 students than for a school of 380 students, charter schools often make these staffing hires during Startup, rightly wanting to strengthen their instruction and operations at the onset. Indeed, charter schools committed to serving students who have been poorly served by traditional public schools are most likely to insist on making sacrifices to ensure that their students succeed, rather than putting the money aside into a cash reserve.

Although finding adequate facilities is critical to charter school operators, several we spoke to had forgone financing that would have enabled them to build larger or better schools in order to spend as much revenue as possible on teachers, learning specialists, and curriculum. It was also commonly believed that, while charter schools serving middle-class students could afford to build high-cost facilities because their students came with strong skills, charter schools serving low-income and at-risk students had to devote their revenue to instruction in order to make up for the inadequate instruction these students had received in their traditional public schools.

Professional Board of Trustees

Financiers often spoke of the "fire-in-the-belly," which is characteristic of founders and board of trustee members of most startup charter schools, particularly of those in low-income communities. These board members came from the communities that had been ill-served by traditional public schools and wanted to develop a charter school to give their children a strong preparation for life. According to the financiers, while parents, teachers, and individuals in social service roles were important in getting charter schools off the ground, these community individuals had to be replaced by individuals with business expertise and political know-how, if the school was to obtain financing and thrive.

While it is clear that board members must have the knowledge and skills to review budgets, oversee charter school staff, and communicate with the authorizer, there is a concern that adding to or replacing early board members with a savvy professional board may be impossible without going outside the community. Moreover, even when possible, changing the character of a board may easily separate the school from its community roots.

THE DIVERSION OF ALREADY DISCOUNTED INSTRUCTIONAL FUNDS TO FACILITIES

As we learned over and over throughout our interviews, unless the schools were lucky enough to have a free building or, as in Minnesota, state aid covering leasing costs, the expense of charter school facilities is competing with instructional spending. While Michigan limits facilities spending to 20 percent of the per pupil revenue received by charter schools, and a number of financiers reported wanting charters to spend no more than 15 percent on debt, the charter schools in our study states spent an average of 20-25 percent of their instructional revenue on facilities, including maintenance, insurance, and debt service, with one school spending nearly 35 percent.

While some schools held aggressive capital campaigns to lower the impact of facilities needs on their instructional spending, more often the funds raised in these campaigns were used to leverage financing. Several charter schools reported increasing their enrollment beyond what they had proposed in their charters, or thought best for their school, in order to pay for their facilities costs. One school had grown from 600 to over 900 students.

Although charter school funding is calculated differently in each state, and often varies by district, charter school operators and advocates across the country have argued with state and local officials over whether they receive parity in funding with traditional public schools. The lack of a capital funding stream for charter schools further discounts the charter school per pupil allocation.

Most charter school operators were proud of the school facilities they had struggled to build, renovate, or purchase. Beyond the need to accommodate their growing student body, an attractive school is viewed as important to increasing enrollment and retaining teachers. Indeed, relatively few interviewees spoke of foregoing the facilities they longed for because of the strain on instructional and operational resources.

Yet some charter school operators, particularly those serving students in low-income communities, did make that sacrifice. They hoped that having an inadequate facility or a school in multiple sites would not deter parents from enrolling their children. They spoke of the need to focus as much of their revenue as possible on teachers, instructional specialists, and rich curriculum materials.

Given that charter schools serve a higher percentage of low-income students of color than traditional public schools,[38] and that the stated objective of the charter school movement is to give these students a real alternative to the kinds of schools that have failed them, it is a sad irony that charter schools must devote such a significant portion of their revenue to facilities costs.

[38] SRI International, 2002 November

SECTION V: CONCLUSIONS, RECOMMENDATIONS, AND ISSUES FOR FURTHER RESEARCH

CONCLUSIONS

Across the country, increases in public school enrollment, a neglected school infrastructure, and an emphasis on small learning communities, have all increased the demand for public school facilities. At the same time, dwindling capital funding budgets and voter resistance to property tax increases have created unprecedented opportunity for nontraditional solutions to facilities financing.

In the midst of a general public school facilities crisis, charter schools have arisen in part as an experiment in nontraditional facilities funding. The approximately 2,700 charter schools across the United States operate under charters or performance contracts (generally between five and ten years) in which they exchange decreased regulation for performance-based accountability. As important, charter schools, which in most states are funded at a lower per pupil rate than traditional public schools in their area, receive little or no capital funding. Thus, charter schools have had to seek private involvement in facilities financing and to use their discounted instructional revenue for the repayment of debt. Because some public school districts have sought nontraditional financing of facilities, including the leasing of facilities within instructional budgets, charter schools may offer lessons for public school systems generally.

This report focuses largely on the charter school experience. We also focused on startup charter schools, rather than charter schools that had converted from public school status, since the latter generally remain in the public school facilities in which they were previously located. To obtain a national perspective, our study has reviewed nontraditional facilities financing in fourteen states and the District of Columbia. These states were chosen because they have charter law and high needs for public school facilities caused by student growth and/or facilities repair needs. Our analysis is based on a total of 100 interviews, conducted over a nine-month period, with representatives of charter schools and other public schools; advocacy agencies and resource centers for charter and other public schools; federal, state, and local public education offices; nonprofit and for-profit private charter school partners; and the finance and real estate development community. Since we were interested in those schools obtaining nontraditional financing, our sample included relatively few charter schools in former public school facilities or other low-cost leased space, and no public schools using general obligation bonds to finance their facilities.

Capital assistance or lease aid streams are available to charter schools in six of our fifteen study jurisdictions, and around one-fifth of all charter schools operate in former district facilities. However, the charter schools in our study generally use a significant proportion of their per pupil or instructional revenue to pay for leasing, renovation, construction, purchasing, and maintenance.

Whether they lease or purchase, most charter schools in our study incur debt even before they open their doors. Charter school operators obtain facilities financing to make leasehold improvements on their rented space, to purchase land and/or a facility, and to construct or renovate a building. While financiers generally believe that charter schools should not commit more than 12-15 percent of their per pupil revenue to debt service, the charter schools in our study spend an average of 20-25 percent of their instructional revenue on lease payments or repaying loans and bonds, and a few report debt repayment costs as high as one-third of their per pupil revenue.

In the Startup phase, years one and two, when charter schools generally serve only two or three grades and enrollment is small, per pupil funding is at its lowest. Charter schools during this phase generally engage in standard leases to secure their facilities. However, since these facilities are often vacant warehouses, office parks, or other space not originally meant for a school, most charter schools make modifications using leasehold improvement loans. These loans, which are sometimes obtained with the personal collateral of the charter school founders, have interest rates that rarely fall below 7 percent and are often as high as 12.5 percent. Moreover, renovations made with leasehold improvement loans do not contribute to a charter school's equity and cannot be taken when the school moves to new quarters, as it generally must do to accommodate enrollment growth.

Those schools that manage their growth and resolve their organizational challenges move into the Expansion phase, in approximately their third year. During this period, they add on leased space, often in nearby, or not so nearby, buildings, and they may begin to purchase modular classrooms. The phrase "just-in-time building," used by a charter school operator we interviewed, highlights the need for space to be supported by current enrollment revenue, and thus the need to add space with each enrollment increase.

Schools quickly find that their ability to obtain a loan at a reasonable interest rate depends primarily on their perceived risk to the lender and the sources the school can demonstrate as available for repayment. Since per pupil revenue varies with enrollment, and charters in most states are for five years, charter schools have generally not scored high marks according to standard loan investment measures. While several states have lengthened charters to as long as 30 years to make schools more attractive to investors, this shift may work against the performance-based accountability goals of the charter movement.

Sometime around the fifth year, if a charter school has been successful, it enters a period of Stabilization. The school has gained strong community support, reached the enrollment forecast in its charter, efficiently managed its operational and financial resources, created a cash reserve, and, in all likelihood, passed its first renewal. For those schools with over 300 students, their per pupil revenue is now substantial. Hoping to end the uncertainties and financial burdens of leasing, many charter schools seek to own their own facilities during the Stabilization period. Ownership assures teachers that they will no longer have to endure distressing moves, and is a sign to parents and neighbors that the school is committed to the community. Finally, ownership signals to the larger educational world that school choice works and charter schools are here to stay.

Charter schools often refinance their debt during the Stabilization period with more affordable long-term loans and bonds. Because charter schools issue revenue bonds, which are repaid through per pupil revenues rather than property taxes, their interest rate is higher than that of general obligation bonds. (Although Colorado requires that public school districts invite charter schools to be included in their general obligation bonds, only two districts had done so by the end of 2003.) Moreover, most charter schools have not been able to issue tax-exempt bonds, which would offer them lower interest rates.

To facilitate charter schools' financing, some states and private entities have created credit enhancement programs. However, since existing credit enhancement programs follow the same criteria as other financial products, only those charter schools with a positive credit profile and a facilities deal in the making have been able to take advantage of them. Moreover, there are currently far too few credit enhancement programs to satisfy the needs of charter schools.

Despite growing enrollment levels and an improved credit status, charter schools tend to be "over-collateralized." In addition to using their buildings as collateral, the schools in our study had to obtain a credit enhancement, such as a loan guaranty or debt service reserve, to assure the financial institution that they will repay their debt. In some cases, even a personal surety has been taken as collateral.

As the finance community begins to become more sophisticated about charter school needs, loan pools and bond pools are being developed to provide charter schools with affordable financing while decreasing the lending institutions' risk exposure. While schools in all three phases are able to take advantage of these products, the schools must usually be considered "finance-able" before receiving assistance.

Charter reform is now more than a decade old. As charter schools have built a financing track record, the investment community has increasingly viewed charter schools as an investment opportunity. Indeed, the three major rating agencies, Fitch, Moody's, and Standard & Poor's, all offer charter school rating instruments. However, the definition of an "investment-worthy" charter school created by the finance community has increasingly affected how operators shape important aspects of charter schools.

School size. Small charter schools under 300 students are generally not considered "finance-able," and most investors want school enrollment to be between 300 and 500, and growing. This eliminates charter schools in their early phases of development. More important, it excludes those charter schools that are intentionally small—often those schools whose mission it is to serve pregnant teenagers, dropouts, and other at-risk students.

A cash reserve fund. Some investors want charter schools to maintain a significant cash reserve. While this provides security to the investor and is good business practice, a cash reserve also means further cuts in instructional spending. The requirement to build a strong cash reserve is a special burden on charter schools during their early years when their funding is at its lowest and their priority is to build strong student performance with small classes and a low student-teacher ratio. Some charter school operators spoke of being hardest hit by this demand, because their schools serve low-income students of color who have been poorly served by traditional public schools, and who need as much instructional revenue as possible devoted to curriculum, teaching, and other learning supports.

Board composition. Charter schools are under pressure from the finance community to develop professional boards of trustees whose members represent insurance, law, real estate, and finance. While business and legal expertise is critical to the oversight of charter schools, many charter schools were started with community boards whose "fire in the belly" made the schools a reality despite serious obstacles. Professionalizing boards of trustees may easily separate charter schools from their founders and their community roots. Moreover, since finding well-connected professional boards is clearly much more difficult for charter schools in exactly those low-income communities that most need charter schools, we believe that training should be offered by charter school authorizers and resource centers to increase the capacity of boards of trustees, and that the finance community should recognize the benefits of trained board members, whatever their backgrounds.

Finally, even if charter school facilities financing can be improved with low-interest loans and tax-exempt bonds, the fact that these mechanisms are generally repaid with public per pupil funding streams results in decreased money for instruction. While charter school operators work hard to secure facilities that attract and hold students, give teachers stability, and signal commitment and success to the community, the

fact that most charter schools use between 20 and 25 percent of their per pupil allocation on their facilities has an obvious impact on the quality of instruction they are able to provide their students.

The twelve-year history of nontraditional facilities funding and financing in charter schools suggests the dangers of privatizing facilities financing and using instructional revenue streams for repayment. While schools have been constructed more rapidly than would be the case with traditional public schools built from public capital funding streams, charter schools operators have spent enormous time and resources on financing their facilities, and their students have had to make do with severely curtailed instructional budgets. Thus, the charter school model needs to be rethought both by those concerned with the fate of charter school reform and those contemplating its wider application to traditional public schools.

RECOMMENDATIONS

Until charter school facilities can be uniformly addressed through federal, state, and district funding, we believe that policy changes should be focused on creating a cooperative, easily navigated financing environment with equal access for all public schools.

We group our recommendations by key players: charter schools and their advocates, the private sector, and public officials.

Charter Schools and Charter School Advocates

- Charter schools and their advocates should identify "charter school-friendly" financial institutions that will work to create a fairly priced and appropriate financial package. Just as banks rate the creditworthiness of charter schools, the charter school community should share information on the financial services and credit approval processes of financial institutions.
- Charter schools need to become savvy about the financial world. Most financiers we interviewed are keen on building relationships with their charter school customers, but they also want an applicant who is prepared and understands the process.
- The pressure on charter schools to find good facilities is enormous, and charter schools that have had high-cost leases for several years can easily fall into mortgages that have lower monthly costs than their leases but still place too high a burden on their schools. Although charter school operators often view their facilities costs as out of their control, it is important for schools to determine a realistic percentage of their budget to be spent on facilities debt service and maintenance.

Private Sector

As financial institutions increase their exposure to charter schools, several changes may help to create mutually beneficial relationships.

- The financial community should reassess the nature of charter school "risk" and offer charter schools the same credit available to other organizations that rely on government funds. Revisiting the traditional credit analysis to include charter-specific factors will help to create a more accurate picture of a school's ability to repay facility related debt service.
- Foundations, the financial community, and other interested bodies should increase the amount of money available to charter schools through grants, loans, bonds, and credit enhancements—indeed, the full range of mechanisms described in this report. However, pools of low-interest loans or bonds, which provide the same benefits as a credit enhancement fund, will be particularly useful in decreasing the risk exposure to financiers and the resulting cost of financing, while increasing the amount of money available to charter schools.
- The private sector should work closely with the public sector in its creation of charter school-friendly, low-interest financial products. Although an expanded array of credit enhancement programs may resolve some credit issues, working with schools and other organizations throughout the entire process will alleviate initial concerns that would otherwise disqualify charter schools for loans and other assistance from the private sector.

Public Officials

We believe that taking facilities costs out of instructional revenue is not a viable, long-term solution. Rather than trying to solve capital funding problems without capital budgets, state laws need to be changed to give charter schools more access to the capital funding mechanisms available to traditional public schools and other public entities. Moreover, officials must work to strengthen capital funding streams, including making the public aware of the need for new and better school buildings, if the national public facilities problem is to be solved.

- Charter school funding formulas should be amended to include all or part of the substantial infrastructure costs borne by these schools.
- Charter schools should be allowed to participate in the general obligation bond issuances of traditional public schools in their communities.
- State lease aid should be made available to charter schools, especially in their first and second years of operation, when they need to focus on operations and instruction while building reserves and positive credit histories.
- Districts should make available earmarked, underutilized or vacant public school buildings to charter schools at nominal prices. As traditional public schools face similar facility challenges, more collaboration between school districts and charter schools would both help alleviate overcrowding and make the distribution of resources more equitable across all public schools.
- States and districts with growing communities should mandate that all developers pay school impact fees, to be used by either traditional or charter schools. Good public schools increase the value of real estate.

- Given the high costs associated with facility financing, state agencies, including charter authorizers, should set realistic guidelines on how much charter schools can spend on their facilities. Stipulations concerning the highest interest rate a school can contract, or capping debt and maintenance spending as a percentage of a school's budget, will help protect the schools from usury practices, as well as ensure that instructional spending is not adversely affected by the need to acquire facilities.
- Charter school authorizers should offer technical assistance concerning facilities financing to charter school operators, as well as technical assistance on legal and financial issues to charter school boards of trustees.

ISSUES FOR FURTHER RESEARCH

Our research focused on identifying ways that charter and other public schools are financing their facilities. In the course of our work, related issues were raised that deserve further exploration.

- A significant number of charter schools are currently considered "unfinance-able" and so remain in leased space and/or obtain financing only at high rates. We believe that these charter schools may be serving at-risk students and others most in need of educational resources. Research needs to be conducted on the mission of these schools, the student body served, those factors that deem them un-finance-able, and their resulting facilities and instructional expenditures.
- Because of limited capital funds and financing, many charter schools locate in space not initially designed for schools. Thus, while charter schools often provide unique learning environments, they also go without cafeterias, gymnasiums, offices, and other common spaces that are standard in traditional public schools. Moreover, in an attempt to build or acquire facilities they can afford, these facilities may not have the longevity of traditional public schools. While our research was unable to focus on quality issues, charter schools offer an important opportunity to differentiate between traditional school building standards that provide a better learning environment, greater safety and longevity and those that may have outlived their use.
- We persistently heard that charter school operators had created their schools to serve students who had been failed by traditional public schools and were suffering in their achievement. Yet these same charter schools were using a significant percentage of their often discounted per pupil revenue to pay for high-cost facilities. Although charter schools promise more efficient use of public money, research needs to be conducted on the effects of the eroded instructional dollar on student achievement. This is particularly urgent, since No Child Left Behind mandates that children in low-performing schools be given schools of choice, such as charter schools.

APPENDICES

APPENDIX A: SCHOOL FACILITIES FUNDING— AN ANNOTATED BIBLIOGRAPHY

This annotated bibliography contains articles, books, monographs, newsletters, and other documents, as well as web sites, of interest to charter and alternative schools on financing school facilities. The bibliography is divided into five sections.

Section I: General Literature contains general material on school facilities funding and financing, with a focus on nontraditional methods.

Section II: Funding and Financing Mechanisms contains material divided by the funding mechanism discussed:

- Bonds
- Capital Campaigns
- Credit Enhancement
- Grants
- Joint Use/Mixed Use
- Lease Arrangements
- Loans
- Ongoing Facilities Support
- Public Private Partnerships
- Satellite Schools
- School Impact Fees

Section III: State Legislation and Initiatives contains information that is pertinent to specific states.

Section IV: International Experience contains documents on nontraditional facilities funding outside the U.S.

Section V: Web Sites contains a list of important sites on school facilities funding.

Because the field of school facilities funding is changing rapidly, we have not included information more than five years old.

I. General Literature

Addonizio, Michael F. (2000, November-December). Private Funds for Public Schools. *Clearing House, 74*(2), 70-74.
Discusses sources of nontraditional revenue for public school systems: the result of donor activities (the solicitation of goods, services, and money via direct and indirect donations); enterprise activities (the selling or leasing of services or facilities); and shared or cooperative activities (pooling functions with other agencies or organizations to lower costs). Discusses implications for equity in public school finance.

Charter Friends National Network (2000, April). *Charter School Facilities: A Resource Guide on Development and Financing*. Charter Friends National Network and the NCB Development Corporation. 59p & appendices.
http://www.uscharterschools.org/gb/dev_fin/toc.htm
Walks charter school operators through all the major steps of facility planning, development and financing.

Crampton, Faith E., & Thompson, David C., Eds. (2003). *Saving America's School Infrastructure. Research in Education Fiscal Policy and Practice*. Greenwich, CT: Information Age Publishing. 270p.
Section I of this book argues that the unmet school infrastructure funding needs are a critical educational capacity issue. An overview of 50 states is offered, and the Canadian approach is described, as the approach to capital financing in higher education. Section 2 describes the issues facing the funding of school infrastructure in urban and rural school systems, as well as for students with disabilities. There is a review of school finance litigation, an analysis of funding technology versus bricks and mortar, and an analysis of whether principals should be involved in school facilities renovations. Section 3 argues for a balance in school infrastructure funding.

Crampton, Faith E.; Thompson, David C.; Hagey, Janis M. (2001, Fall). Creating and Sustaining School Capacity in the Twenty-First Century: Funding a Physical Environment Conducive to Student Learning.(2001, Fall) *Journal of Education Finance*, *27*(2), 633-52.
Multiple data sources suggest that aggregate unmet school infrastructure needs of $266.1 billion were significantly larger than found in earlier studies and varied substantially among states. Suggests different short- and long-term funding strategies to address the problem. Includes five appendices.

Crampton, Faith E.; Thompson, David C. (2002, December). The Condition of America's Schools: A National Disgrace. *School Business Affairs, 68*(11), 15-19.
http://www.asbointl.org/WhatsNew/SchoolBusinessAffairs/index.asp?s=0&bid=1015
Investigates state unmet funding needs for school infrastructure. Finds an estimated total of $6.1 billion in unmet funding needs. Provides state-by-state estimates of unmet funding that range from $100,000

in Vermont to $6 million in New York. Compares urban and rural infrastructure needs. Includes recommendations for school business administrator action. (Contains 17 references.)

DeArmond, Michael; Taggart, Sara; Hill, Paul. (2000, May). *The Future of School Facilities: Getting Ahead of the Curve.* University of Washington, Seattle: Center on Reinventing Public Education. 29p.
http://www.crpe.org/pubs/pdf/report_facilitiesweb.pdf
Looks at five trends in education-performance pressure on schools; personalization; new technology; changes in supply of teachers; and changes in student characteristics-and what they imply about the kinds of buildings and spaces districts will need. Suggests developing smaller schools, sharing buildings between multiple schools, adapting facilities for both commercial and educational uses, and partnerships with companies and organizations outside the education sector. Presents a case study on the high school built by the public-private partnership of the Niagara Falls City School District and Honeywell, Inc.

Flynn, Margaret; Kershaw, Amy. (2000, August). *Financing Facility Improvements for Out-of-School Time and Community School Programs. Strategy Brief.* 1(4). Washington, DC: The Finance Project. 20p.
http://www.financeproject.org/Brief4.pdf
Presents general principles and strategies for financing facility improvements and highlights five examples of innovative strategies: 1) accessing school construction dollars; 2) using grants and donations; 3) accessing low-cost debt; 4) engaging partners to jointly develop facility improvement projects; and 5) generating revenue through tax and building codes.

Gurley, Richard. (2002, August). *School Capital Funding: Supplementary State Profiles.* Nashville, TN: Office of Education Accountability. 104p.
http://www.comptroller.state.tn.us/orea/reports/schcapsupp.pdf
Focuses on methods used nationally by each state to finance K-12 capital outlay. In addition to presenting annual capital funding allotments, information includes whether or not there are credit enhancement programs; loan programs, state oversight; and legal actions related to capital funding. TO ORDER: Office of Education Accountability, 505 Deaderick Street, Suite 1700, Nashville, TN 37243-0268. Tel: 615/401/7911.

Hassel, Bryan. (1999, June). *Out of the Box: Facilities Financing Ideas for Charter Schools.* Charter Friends National Network. 37p.
http://www.charterfriends.org/outofbox.html
Offers suggestions for planning; minimizing the amount to be financed and the cost of financing; and advocating for policy change. An appendix contains lists of schools featured and potential public sources of facilities financing, sites, and buildings.

Hassel, Bryan. (1999, January). *Paying for the Charter Schoolhouse.* Charter Friends National Network. 22p.
http://www.charterfriends.org/facilities.html
Presents facilities funding challenges facing charter schools and offers four concrete ways states can help fund capital costs for charter schools, including providing adequate revenue to cover facilities costs; giving charter schools access to low-cost financing; creating or stimulating finance pools for charter schools; and providing incentives for organizations to supply facilities.

Hassel, Bryan. (1998). *Charter School Facilities Financing: Some News from the Front.* Charter Friends National Network. 6p.
http://www.charterfriends.org/ffnews.html
Contains revenue information on Florida, Minnesota, Arizona, and Washington DC. Descriptions of charter schools across the country suggest ways to lower facilities costs.

Hassel, Bryan. (1998). Preliminary Findings. Charter Friends Facilities Financing Project. Charter Friends National Network. 7p.
http://www.charterfriends.org/facilities.html
Offers five state strategies for helping to fund capital costs for charter schools, including providing adequate revenue to cover facilities costs; giving charter schools access to low-cost financing; creating or stimulating finance pools for charter schools; providing incentives for organizations to supply facilities. A fifth strategy is to consider other ways to reduce the cost of facilities for charter schools and improve the facilities climate.

Kauth, Ann. (2001, January). *New Schools for Older Neighborhoods: Strategies for Building Our Communities' Most Important Assets.* Washington, DC: National Association of Realtors, 20p.
http://www.realtor.ogr/SmartGrowth2nsf/
Case studies highlight how five communities, in big cities and small towns, overcame obstacles to create good new schools in existing neighborhoods. Examples include: the Oyster School in Washington, D.C., which shared existing space with an apartment building; a school in Pomona, California, built at the site of a mall and vacant supermarket; a magnet-type school in Dallas, Texas, built on undeveloped land near a multifamily apartment complex; and two public academies in downtown Chattanooga, Tennessee, to attract children whose parents work in town. Other examples of noteworthy approaches to new schools for old communities are briefly outlined.

Kennedy, Mike. (2000, June). Found Money. *American School and University, 72*(10) 6-18, 20-21.
http://asumag.com/ar/university_found_money/index.htm
Discusses the alternative funding avenues school districts have used to support facility construction and improvements when tax levies and state aid are not enough. Acquiring donations, creating lease-purchase agreements, and using tax increment financing are highlighted.

Lawrence, Barbara Kent. (2002, May). *Lowering the Overhead While Raising the Roof.* Rural School and Community Trust. 24p.
http://www.ruraledu.org/publications.html#facilities

Includes strategies that rural communities have used to reduce the costs of their small schools. Before planning a school facilities project, administrative and legislative resistance to small schools and state policies should be understood. Provides 13 strategies for reducing costs, including good maintenance, siting and doing renovation instead of new construction. Includes an extensive list of resources for further information.

Leadership for Quality Education. (1999, Spring). *Illinois Charter School Resource Guide: A Developer & Handbook for Getting your Charter School Off the Ground.* Chicago, IL: Author. 126 & appendices.
http://www.lqe.org/resource_guide.htm
A general guide for charter school operators and developers that contains an analysis of the pros and cons of various facilities financing operations, including: internal funding from operating funds; capital campaigns; traditional bank loans; loans guaranteed by other entities; low-interest loans through community development institutions; modular buildings; multi-use facilities, and occupying an existing facility.

Leavy, Jacqueline, et al. (1999, November). *Rebuilding Our Schools Brick by Brick.* Chicago, IL: Neighborhood Capital Budget Group. 137p.
http://www.ncbg.org/documents/schoolsreport.PDF
Explores efforts made and lessons learned by the Chicago, Illinois, public school system in rebuilding its public schools. Also looks at the extent of the school building crisis, national enrollment trends, and what state and local governments have been able to do to solve their problems. Describes how some of the nation's fastest-growing school districts are fixing their schools, and the innovative financing options that have been tried. Appendices contain statistics on Chicago's public school system and a bibliography. 137p. TO ORDER: Neighborhood Capital Budget Group, 407 S. Dearborn St., Suite 1360, Chicago, IL; Tel: 312-939-7198

Mead, Sara. (2001). *School Construction. Policy Report.* Washington, DC: Progressive Policy Institute, 21st Century Schools Project. 12p.
http://www.ppionline.org/ppi_ci.cfm
Examines the policy and political issues that surround school construction and illustrates how infrastructure banks would work and help address this challenge. Infrastructure banks offer flexibility for states and localities by offering a range of financial services to school districts and schools, including charter schools and small schools, but they are capitalized with federal money to leverage state and local funding.

National Education Association. (2000, May). *Modernizing Our Schools: What Will It Cost?* Washington, DC: Author. 64p.
http://www.nea.org/lac/modern/modrpt.pdf
Presents a 50-state estimate of school modernization of $321.9 billion, although total funding needed for public modernization ranges from $50.7 billion (New York) to $333 million (Vermont). Recommendations include some states using their current budget surpluses for immediate, productive investments in school modernization; more federal assistance to modernize; adequate funding for teacher education to take full advantage of technology; and state level need assessments and action planning. Appendices provide data tables, a school modernization needs assessment questionnaire, data collection matrixes for school modernization needs assessment, calculation of unmet funding need for education technology, descriptive statistics, and state assessments of school infrastructure and education technology and related materials. (Contains 62 references.)

National Forum on Education Statistics. (2003). *Planning Guide for Maintaining School Facilities*- Web Version. 184p.
http://nces.ed.gov/pubs2003/maintenance/
The "Planning Guide for Maintaining School Facilities" is directed to help school facilities managers plan for efficient and effective operations. The Guide provides practical advice on a range of topics, including how to do a facilities audit to know what you have, planning for maintenance that will ensure smooth operations and avoid costly surprises, managing staff and contractors, and evaluating maintenance efforts.

National Governor's Association. (2000, June 14). *Building America's Schools: State Efforts To Address School Facility Needs.* Washington, DC: National Governor's Association (NGA), Education Policy Studies Division, NGA Center for Best Practices. 15p.
http://www.nga.org/cda/files/000620SCHOOLNEEDS.pdf
Provides summaries of each state's activities to address their shortage of school buildings by supporting school construction. Eleven states subsidize, reimburse, or match local funding for construction projects; 10 states have an established formula for determining the amount of state funding each school district receives; 6 states have established a new agency to oversee school construction within the state; 5 states provide low-interest loans for low-income school districts to help support their school construction efforts; and 4 states require the Governor and the state legislature to approve all school construction projects prior to state funding being made available. Contact information for each state is included.

National Trust for Historic Preservation. (2003, January). *State Policies for School Construction and Renovation: Seen through a Community Preservation Lens.* Washington, DC: Author. 59p.
A state-by-state analysis of capital funding dollars, school site standards, maintenance, planning, transportation, and other issues related to the development of school buildings.

Nelson, Howard F; Muir, Edward; Drown, Rachel. (2000, December). *Venturesome Capital: State Charter School Finance Systems.* Washington, DC: Office of Educational Research and Improvement, U.S. Department of Education. 185p.
A state-by-state analysis of various aspects of charter school financing. Chapter 7 focuses on facilities and capital outlay financing.

Schroeder, Jon; Hassel, Bryan & Page, Barbara. (2000-2002). *Facilities Financing Update.* Charter Friends National Network. np.
http://www.charterfriends.org/cfi-financing.html
Sixteen regular electronic updates on federal and state facilities funding issues, research, and local problems experienced by charter schools involved in facilities financing. Each issue contains a mix of important items.

Sielke, Catherine C. (2002, December). The State of Funding School Facilities' Needs in the United States. *School Business Affairs, 68* (11) 23-27.
Investigates variations in state funding programs for school building needs. Also describes use of local voter-approved bond issues to fund local school construction. Includes tables of 2001-02 primary state aid programs, state bond programs, debt limits, and state aid for debt. Discusses emerging funding issues.

Southwest Educational Development Laboratory. (1998, September). Financing Alternatives Call for Flexibility, Creativity, *SED Letter. 10*(4).
http://www.sedl.org/pubs/sedletter/v10n04/finance.html
One page discussion of methods that can be used alone or in combination to fund school facilities: lease or lease-purchase plans; establishing business/community partnerships; imposing school impact fees; making bond issues more attractive to voters.

Utt, Ronald D. (1999, February 23). *How Public-Private Partnerships Can Facilitate Public School Construction.* Washington, DC: Heritage Foundation. 19p.
http://www.heritage.org/Research/Education/Schools/BG1257.cfm
Examines the efforts to make school construction a federal responsibility; alternatives to federal and state borrowing, and the advantages and benefits of private-public partnerships in school construction in the United States. Concludes with an examination of the federal role in school construction, the legislative direction, and the risks inherent in establishing such a role.

II. Funding & Financing Mechanisms

BONDS

21st Century School Fund. (2001). *Building Outside the Box: Public-Private Partnership: A Strategy for Improved Public School Buildings.* Washington, DC: Author, 8p.
http://www.21csf.org/csfhome/Documents/Oyster/Building_Outside_Box.pdf
Describes the creation of a new school building for James F. Oyster Bilingual Elementary School in Washington, DC through the issuance of a revenue bond. The District of Columbia agreed to divide the school property in half to make room for a new school and a new residential development. They also agreed to dedicate property taxes and revenue from the sale of the land to repay a revenue bond. In exchange, LCOR, the private developer of the new 211-unit apartment building, agreed to design and build a new school and repay the Oyster revenue bond. TO ORDER: 21st Century School Fund, 2814 Adams Mill Rd., N.W, Washington, DC 20009; Tel: 202-745-3745

Dickerson, Jason F.; Martucci, Frederic J.; Clayton, Pamela K. (2001, May 31). *Charter Schools: Growth, Challenges, and Policy Options.* New York: Fitch, IBCA, Duff & Phelps. 16p.
www.fitchratings.com
Discusses challenges, risks and mitigating circumstances that finance institutions should consider when working to develop bonds for charter schools.

Gamikhar, Shama & Koerner, Mona. (2002, Summer). Capital Financing of Schools: A Comparison of Lease Purchase Revenue Bonds and General Obligation Bonds. *Public Budgeting & Finance*, 22 (2), 21-39.
Research in Texas showed that LPR bonds typically have higher interest costs than GO bonds and do not have any advantages over GO bonds in circumventing state restrictions on school district tax and debt authority. Yet voter approval requirements implicit in the state aid formulae supporting school bond repayments and the bond election requirements are both less stringent in the case of LPR bonds than GO bonds, and so are used by low-spending districts.

Herlong, William. (2002, October). Building on the Installment Plan. *American School Board Journal.* 44-46.
The Greenville, North Carolina school district created a nonprofit corporation, and then issued $800 million in "63-20 bonds." Because the bonds were issued by a non-profit corporation, this avoided North Carolina's constitutional debt limit. It also avoids the anti-lease purchase law, since the district will purchase the schools from the nonprofit in 25 yearly installments. Describes the process and obstacles encountered (including a lawsuit).

Hitchcock, David G., Murphy, Stephen J. (2002, November). *Public Finance Criteria: Charter Schools.* New York: Standard & Poors. 8p.
http://www2.standardandpoors.com/NASApp/cs/ContentServer?pagename=sp/sp
Presents charter schools to the investment public. Provides an analytic framework for investments in charter schools that includes: administration and management factors; the service area economy; financial factors; and the debt structure.

Mead, Sara. (2002, September). *Early Returns: Tax Credit Bonds and School Construction?* Washington, DC: Progressive Policy Institute. 10p.
http://www.ppionline.org/documents/School_Construction_0902.pdf
Analyzes the results to date of the federal QZAB program piloting tax credit bonds, begun in 1997. Findings show that, in the absence of more substantial federal assistance, QZABs play an important role in helping needy districts build and maintain school facilities, even though

they are not the most effective long-term solution to the problem. Also discusses whether a better long-term model exists in the form of State Infrastructure Banks (SIBs).

Moody's Investors Service. (2002, June). Moody's Methodology for Rating Charter Schools in the Marketplace. New York: Author. 24p.
http://www.moodys.com
Reviews the five key credit categories that are evaluated when assigning a rating: 1) Service area demographics and enrollment trends; 2) Management, charter policies and fiscal goals; 3) Security features; 4) Oversight issues; and 5) Charter renewal risk.

No Author. (1998, April 6). Builder Teams with Municipality to Provide all School Services. *Engineering News Record*, 240 (14), 14.
Pembroke Pines, Florida has created a municipally owned and run charter school system, funded by tax exempt municipal bonds, with turnkey educational services being provided by a division of the Haskell Company. According to the mayor of Pembroke Pines, project costs for the Haskell Charter School are $6,800 per student station, whereas the state's average is $13,000 per student station.

Riley, Richard W.; Frost, Susan; Brennan-Gac, Patricia. (2000, April). *Fixing Our Schools Now! Qualified Zone Academy Bonds: A New Approach to Financing School Renovation and Repair.* Washington, DC: U.S. Department of Education, 69p.
http://www.ed.gov/pubs/fixschools/index.html
Examines the Federal government's Qualified Zone Academy Bonds (QZABs) system for helping school districts carry out needed school renovations and repairs, discusses why QZABs are good ideas for school districts, highlights eligibility criteria, and provides basic funding information along with state allocations for 1998 through 2000. A school deputy superintendent and a financier provide their perspectives on using QZABs, followed by profiles of QZAB programs to illustrate how schools around the country are utilizing QZABs. Final sections list state contacts where information related to QZAB issues can be found; a list of cities, counties, or other areas that contain Empowerment Zones or Enterprise Communities; and responses to frequently asked questions.

U.S. Department of Education. (1998, April 15). Guidance on the Qualified Zone Academy Bonds (Section 226 of the Taxpayer's Relief Act of 1997, Section 1397E of the Internal Revenue Code). Washington, DC: US DOE. 7p.
http://www.ed.gov/offices/OVAE/qzabfin.html
Since 1998, states and local governments can issue Qualified Zone Academy Bonds (QZABs) to raise funds for use of a Qualified Zone Academy. Banks and other lending institutions can receive tax credits as an incentive to hold these bonds. Suggests how states, school districts, and schools can link to QZABs and how other Federal education programs may support innovative school partnerships. Presents examples of ways school/business partnerships and QZABs could work.

CAPITAL CAMPAIGNS

Brouillette, Matthew J.; Utt,Ronald D. (1999). *Partnerships in School Construction.* Mackinac Center for Public Policy. 2p.
http://www.mackinac.org/article.asp?ID=1782
In response to the problem of how to pay for the construction of new school buildings, and for improvements in existing facilities, the report argues that school districts from Florida to Nova Scotia to Scotland are opening their fundraising process to the private sector in ways that save billions of dollars. Describes problem, and presents case studies.

Ferdinand, Pamela. (2000, March 1). True to their Public High Schools. Powerful Alumni Aid Major Fund-Raising; At Boston Latin, Goal is $60 Million. *Washington Post*, A3, A9.
Boston Latin School is one of many public high schools across the country raising large sums from former students for educational facilities and other school improvements.

Kiesewetter, Sue. (1998, August). The Name Game. *School Planning and Management, 37*(8), 29-30, 32-33.
Discusses the selling of naming rights for school sports complexes as a way of funding the construction of school athletic facilities. It explains how schools can effectively manage such arrangements and provides an example of one such project involving the building of a $3 million ice center for the Arrowhead School District in Menomonee Falls, Wisconsin.

Roach, Arthur H. (2001, March). Fundraising Basics for Private School Facilities. Washington, DC: National Clearinghouse for Educational Facilities. 6p.
http://www.edfacilities.org/pubs/fundraising.pdf
Examines the process behind setting up and implementing a "capital campaign:" a program for raising money for new or renovated facilities at private K-12 schools. Covers tax information regarding gifts to institutions and offers advice for setting up a comprehensive development program, including fundraising software and tips on implementing all the components of a development program. Campaign planning issues are discussed, including using fundraising consultants, drafting and assembling specific campaign documents, conducting feasibility or planning study, and developing a campaign strategy.

CREDIT ENHANCEMENT

Mead, Sara. (2002, November). *Building a Third Way on School Construction. Getting Past a Broken-Down Debate to Fix Broken-Down Schools.* Washington, D.C: Progressive Policy Institute. 6p.
http://www.ppionline.org/ppi_ci.cfm
Reviews the six-year debate over the federal role in school construction that continues to be centered on the details of various tax credit proposals. Also discusses the difficulties charter schools have accessing facilities financing due to their brief operating histories, length of char-

ters, and high risk factors. Two suggestions are offered: 1) break the link between charter facilities aid and school construction and fund the Carper-Gregg initiatives, which would authorize federal funds to serve as credit enhancement and to match state charter school facilities funding; and 2) create federal funding for State or Regional Infrastructure Banks to assist school construction.

GRANTS

Born, Laurie; Wilson, Dave. (2000, December). *Philanthropic Support for Public Education in the Southwest Region.* Austin, TX: Southwest Educational Development Laboratory. 32p.

http://www.sedl.org/pubs/cha98/

Examines the relationship between philanthropy (gifts and grants provided by private foundations and business concerns) and public schools in Arkansas, Louisiana, New Mexico, Oklahoma, and Texas. The study found that philanthropy for K-12 public education is growing, but that grant makers' priorities, philosophies, and charter restrictions establish a context in which the distribution of funds is erratic, dollars don't necessarily flow to districts with impoverished students and poor academic performance, and anomalies can have unintended consequences. Schools are most successful in gaining philanthropic support from local donors when they have coherent, strategic initiatives and/or staff are assigned responsibility for fund-raising.

JOINT USE/MIXED USE

Bingler, Steven. (1998, March). Less Is More: Collaborative Learning Environments for the Next Century. *Learning By Design, 7*, 16-17.

http://www.newhorizons.org/strategies/learning_environments/bingler.htm

Provides several examples of collaborative initiatives that expand the boundaries of the classroom into the community. Includes case studies of a school located in the Henry Ford Museum in Dearborn, Michigan, and the Zoo School situated within the boundaries of the 500-acre Minnesota Zoo outside of Minneapolis.

Fuchs, Marek. (2002, September 18). Schools Adapt Old Lesson: Share and Share Alike. *New York Times.* Final, section b, Page 8, Column 3.

http://www.cefpi.org/nytimesarticle.html

Discusses several schools in New York City that are sharing spaces either with other schools or with non-educational entities. Examples include shared spaces with community centers, the New York City Police Department's School Safety Division, housing projects, charter schools, drug treatment centers, and college campuses.

Galley, Michelle. (2002, January 16). *Generation Connection. Education Week, 21*(18), 28-34.

http://www.eduweek.com/ew/newstory.cfm?slug=18preschool.h21

Discusses a two-room school housing a playground, a kindergarten, and a preschool classroom that is located in the Grace Living Center nursing home in Jenks, Oklahoma. This combination of young and old in the same facility came about as the result of a partnership between Donald Greiner, the owner of the Grace Living Centers chain of nursing homes in Oklahoma, and the Jenks school district.

Leisner, Hava. (2000, May-June). Developer Builds New Community School. *School Construction News,* 3(3), 14-15.

The North Lake Park Community School/YMCA in Orlando, Florida is a developer-owned, school-district maintained, mixed-use enterprise. Five partners joined to build the campus: Orange County Public Schools, YMCA, City of Orlando, Lake Nona Property Holdings Inc. and Orlando Regional Health Care Systems.

MacKinnon, Colleen T. (2001, March-April). Viewing School Facilities as Community Development Projects: The Case of Hinesburg, Vermont. *Small Town, 30*(2), 28-31.

Instead of accentuating differences among agendas through competition for scarce resources, community members, educational planners, and community development planners cooperated in renovating a high school building in Hinesburg, Vermont, to include community spaces for recreation, social services, and nontraditional education. Design elements that promote the greatest possible use of facilities by community members are discussed.

Nathan, Joe & Febey, Karen. (2001, September). *Smaller, Safer, Saner Successful Schools.* Minneapolis, MN: University of Minnesota, Center for School Change, Humphrey Institute. 68p.

http://www.centerforschoolchange.org

Urban, suburban and rural communities have modified existing buildings or constructed new elementary, middle and high school public buildings to help increase student achievement and safety. Offers twenty-two case studies illustrated by dozens of color pictures and a summary of research showing how shared facilities and small schools have increased achievement and safety while developing stronger community support and involvement in the schools.

New Schools/Better Neighborhoods. (2000, January 18). *The Development of Educational Facilities Through Joint Use Mechanisms.* Los Angeles, CA: New Schools/Better Neighborhoods. 7p.

http://www.nsbn.org/jointuse/ed_facilities.html

The subject of joint use, generically meaning the development of K-12 education facilities in combination with other facilities such as parks or libraries, was broached at the Getty Symposium in May 1999 as one of several means of accelerating and enhancing new school construction. Accordingly, a working group was formed under the guidance of NSBN with the charge to research, evaluate, and formulate recommendations regarding joint use. The paper is an overview of the subject and discusses the benefits of joint use, as well as its constraints. Also explored are such joint use themes as the school district as community developer, leveraging community goals, and adaptive re-use of existing structures.

Ritchey, David. (2002, September). Sharing Services and Facilities: Making It Work. *School Business Affair, 68*(8), 22-26.
Describes several examples of cooperative efforts between school districts and municipalities to share facilities and other resources: Loveland, Colorado; Vaughan, Ontario; Yankton, South Dakota; Bangor, Maine; Mt. Pleasant, Iowa; Pamlico County, North Carolina. Also includes two examples of school districts sharing facilities and resources with private-sector entities: Minneapolis, Minnesota, and Santa Ana, California.

Sullivan, Kevin J. (2002, October). Catching the Age Wave: Building Schools With Senior Citizens in Mind. Washington, DC: National Clearinghouse for Educational Facilities. 12p.
http://www.edfacilities.org/pubs/agewave.pdf
Discusses why educators and school facility planners should consider designing multipurpose schools that contribute to stronger intergenerational links. Reasons include: ending age segregation, enriching the lives of children and seniors, creating support for public education, and keeping seniors healthy and learning. Also discusses the challenges and opportunities of such efforts and includes several case studies. (Contains 15 references.) TO ORDER: National Clearinghouse for Educational Facilities, 1090 Vermont Ave., N.W., Suite 700, Washington, DC 20005-4905. Tel: 202-289-7800, 888-552-0624

Taylor, Matthew D.; Snell, Lisa. (2000, December). Innovative School Facility Partnerships: Downtown, Airport, and Retail Space. Policy Study No. 276. Los Angeles, CA: Reason Public Policy Institute. 19p.
http://www.rppi.org/ps276.html
Examines three locations where schools have utilized partnerships with private enterprises to help ease school overcrowding: downtown areas, airports, and malls. These initiatives help local school districts save construction funds for other district needs. Students benefit from smaller class sizes and unique educational opportunities afforded to them by the school location and interaction with local businesses. Students and parents also benefit from the creative scheduling that the schools offer by working around the parents' schedules.

Testa, Ken. (2001). Joint-Use School Facility Agreements Strengthen School Communities. *Educational Facility Planner, 36*(3), 11-13.
Examines joint-use facility agreements that encourage the shared use of school facilities by school districts and community entities. Explores the positive impact that these arrangements have on student achievement. Identifies six key strategic practices for creating effective joint-use facility agreements and six key barriers to this development.

LEASE ARRANGEMENTS

Bunch, Beverly S.; Smith, Tina. (2002, Spring-Summer). The Viability of Lease-Purchases as a Means for Funding School Facilities. *Journal of Education Finance, 27*(4), 1049-66.
Examines the use of the lease-purchase of school facilities in Texas; provides background on the use of lease-purchases by Texas school districts; describes factors influencing the use of lease-purchases and superintendents' experiences based on survey responses from 50 school districts; recommends careful evaluation of advantages and disadvantages before using this financing option.

Dolan, Thomas G. (2001, May). School as the Heart of the Community. *School Planning and Management, 40*(5), 26-29.
Discusses how Niagara Falls (NY) High School, one of the first privately financed public projects in New York, was able to help in the rebirth of its declining neighborhood by rebuilding its high school to give the community something to relate to. Financing efforts through a sale-lease back arrangement, facility design, and community amenities are highlighted. Private companies were able to bypass the bidding process, get around various issues with unions, and build the school without raising taxes.

Utt, Ronald D. (2001, August). *New Tax Law Boosts School Construction with Public-Private Partnerships.* The Heritage Foundation Backgrounder No. 1463. Washington, DC: The Heritage Foundation. 10p.
http://www.heritage.org/Research/Taxes/BG1463.cfm
Describes a provision in a tax bill implemented in June 2001 that allows towns and cities to build public school facilities by forming public-private partnerships with qualified real estate investors and developers. Private sector investors can fund construction, then lease the facilities to public school systems at annual costs below the costs communities would incur if they built the schools themselves. Benefits of public-private partnerships include more timely school construction, lower costs through competition, and savings through maximum use of school facilities. Presents experiences with such partnerships in Canada, the United Kingdom, and the United States. Describes partnership schools as alternatives to smart growth restrictions. ERIC NO: ED457267. TO ORDER: Heritage Foundation, 214 Massachusetts Avenue, NE, Washington, DC 20002-4999. Tel: 202-546-4400.

LOANS

Nida, Thomas A. & Bradley, Bridget C. (2002, December-2003, January). Assessing the Performance of Charter Schools. *The RMA Journ.*, 48-57.
Investors at City First Bank of DC explain how they assess charter schools when analyzing facilities financing requests from these schools.

Nida, Thomas A. (2002, May). Lending to Charter Schools. *The RMA Journal*, 52-61.
An Investor at City First Bank of DC discusses the lending opportunities available to financial institutions and offers a way of analyzing those charter schools requesting facilities financing.

ONGOING FACILITIES SUPPORT

Adams, Matthew C. (1998, July). Off-Balance Sheet Financing. *Facilities Manager, 14*(4), 56-57.
Examines off-balance sheet financing, the outsourcing for selected facilities needs, as a means of saving operational costs and using facility

assets efficiently. Examples of using outside sources for energy supply and food services, as well as partnering with business for facility expansion, are provided. Concluding comments address tax regulatory issues.

Association of School Business Officials International. (1999). *Financing School Facilities.* Reston, VA: Author. 16p.
Examines the construction of new facilities and the renovation or expansion of existing one; payment for accumulated deferred maintenance in existing facilities and adequate maintenance of facilities in the future; and financing of the future depreciation of existing and new school facilities and equipment. Recommends changes in policies, statutes, regulations, and laws in order to properly address all three areas. (Contains 17 references.) TO ORDER: Association of School Business Officials International, 11401 North Shore Drive, Reston, VA 20190, Tel: (703) 478-0405

Davis, Stephanie, Ed. (2002, June). *Revitalization by Design: A Guide for Planning and Implementing School Improvement Projects through School-Community Partnerships.* Baltimore: State of Maryland, Public School Construction Program. 24p.
http://www.pscp.state.md.us
Intended to be used by parents, teachers, school administrators, students, community organizations and residents as a guide to developing and maintaining large- and small-scale school improvement projects. Includes case studies of a small project (Bladensburg High School sign) and a large project (Shadyside Elementary School master plan). TO ORDER: State of Maryland Public School Construction Program, 200 W. Baltimore St., Baltimore, MD 21201; Tel: 410-767-0617

Hopkins, Gary. (1999, October 11). Detroit School Repair Program: A Model for Others. *Education World.* 5p.
http://www.educationworld.com/a_issues/issues062.shtml
A marathon ten-week effort in the summer of 1999 resulted in some major improvements to Detroit's public schools. But the effort could not have succeeded without the cooperation and involvement of the city's business community. Organizations from Northwest Airlines to the Detroit Pistons provided personnel to see the program through in this renovation blitz that could serve as a model for other cities and towns large and small.

Huddleston, Elizabeth. (2001, October). Building Bridges. *Athletic Business, 25*(10), 47-49, 51-52.
http://www.athleticbusiness.com/articlearchive/content/AB-1001-42.pdf
Discusses how partnerships between municipalities and school recreation departments are providing better facilities and programs for the entire community. Some successful collaborations are examined.

Mahoney, John; Thompson, Laura. (1998, February). Upgrade Your Facilities Without a Bond Issue. *School Planning and Management, 37*(2), 56-60.
Discusses eliminating bond issues for facility energy management upgrades by using performance contracting. Explains that performance contracts create savings that help support financing new equipment over a specific number of years. Financing options, performance contracting tips, and an example of its use in St. Louis (Missouri) are highlighted.

McCord, Robert S.; Mattocks, T. C.; Kops, Gerald. (2002, November 14-16). Doing Business with Entrepreneurial America: Protecting School District Interests. In: *Balancing Rights: Education Law in a Brave New World*. Papers of the Education Law Association, Annual Conference (48th, New Orleans, LA). ERIC Document ED473341
Identifies benchmark considerations when entertaining the question of private management of public school facilities through contracting for services and charter conversion. Also highlights elements of contract law pertinent to formal agreements between school districts and private providers. Includes a suggested list of contract contents as a starting point for drafting the contract between school authorities and a school management vendor.

PUBLIC-PRIVATE PARTNERSHIPS

Cohen, Sarah. (1998, August). School Planning: Lessons Learned at the Celebration School. *School Planning and Management, 37*(8), 14, 16-18.
Discusses the lessons learned from Disney's K-12 Celebration School when trying to apply the latest research on teaching and learning to the school's design. The future of business/school partnering in school planning is explored, as is expert advice on the school planning process.

Edmondson, Brad. (2001, July-August). Corning's Choice. *Preservation, 53*(4), 42-49.
Discusses Corning, Inc.'s relationship with the surrounding community and the problem that arose when a large Corning-backed campus-style high school was proposed that brought objections from many local residents.

Geiger, Philip E. (2003, June). Natomas Superintendent Seizes Opportunity Thinks Outside the Box. *School Planning and Management, 42*(6), 56-59.
Describes how the superintendent of Natomas Unified School District in Sacramento, California, along with three other educators and local government officials, teamed to create a joint-use campus that includes a community college, public library, and regional park. Taxpayer dollars are further stretched with the use of a "privately financed leased facilities" arrangement.

Keller, Bess. (2003, June 18). N.Y. Employer Withdraws Offer To Help Build New High School *Education Week*, np.
http://www.edweek.com/ew/ewstory.cfm?slug=41briefs.h22
An unusual plan to consolidate the two public high schools that serve Corning, N.Y., has died, along with hometown employer Corning Inc.'s

offer to provide $60 million toward an up-to-the-minute replacement building. The final blow to the proposed school in the 5,600-student Corning-Painted Post School District was dealt early this month with the election of three new members to the school board, giving opponents a 6-3 majority. Two months earlier, New York state Commissioner of Education Richard P. Mills invalidated the funding mechanism that officials had devised for the 2,000-student high school, which was to rise on the outskirts of the city of Corning. Officials of the ailing high-tech materials company said the gift was off with the collapse of the plan. Critics have argued that the school would be too big, would contribute to sprawl, and was not justified by likely future enrollments.

Katz, Janet A. (2003, June). Putting Health First. *School Planning and Management, 42* (6), 46-48.
Describes the successful public-private partnership between the Austin Independent School District and the Children's Hospital of Austin to provide student health services.

Lindsey, Thomas J. (2003, June). Taking the Road Less Traveled. *School Planning and Management, 42*(6), 64-67.
Describes a unique partnership between the Sycamore Community School District in Ohio and the University of Cincinnati that resulted in a new K-4 elementary school located on the campus of Raymond Walters College. The facility's location offers opportunities for interaction and cooperative programs between the school district, the university, and the community.

McLaughlin, John M.; Bavin, G. William. (2003, August). Private Capital for Public Schools. *The School Administrator, 7*(6), 28-32.
http://www.aasa.org/publications/sa/2003-08/McLaughlin.htm
While still in the early stages, public-private partnerships increasingly are providing a viable alternative to address the need for extensive renovation and development of public school facilities. Discusses the Natomas Unified School District in California's use of a build-lease agreement, and the partnership with Honeywell to build a new school in Niagara Falls, N.Y.

Raiford, Regina. (2002, January). The Learning Curve. *Buildings, 96* (1), 28-30, 32.
http://www.buildings.com/Articles/detail.asp?ArticleID=592
Examines how a group of private corporations can bring new skills to the difficult task of designing, constructing, starting up, and maintaining educational facilities.

Schorr, Lisbeth. (2000, July 12). The Intersection of School and Community. *Education Week Online. 19*(42).
http://www.educationweek.org/ew/ewstory.cfm?slug=42schorr.h19
Increasing public and philanthropic resources are becoming available to fund a wide array of activities that make use of school facilities, school legitimacy, and school resources. However, there is little clarity or consensus about how roles, resources, and responsibilities should be allocated, or the extent to which new demands for accountability are consistent with achieving social purposes. Offers five lessons from recent community efforts to strengthen and expand support families, neighborhoods, and schools.

SchoolDesigns.com. (1998). *Guajome Park Academy, Vista Village Learning Plaza, Vista, California. np.*
http://www.schooldesigns.com/ResultsDetail.asp?id=209
Case study of an 8,000-square-foot technology and learning environment for the Guajome Park Academy, a charter school in Vista, California. The project was the result of a public-private partnership including Guajome Park Academy, the city of Vista, the Eastridge Companies, Norstan Communications, and Creative Learning Systems. Includes project description and photographs.

Evergreen Freedom Foundation. (2003). *School Construction: Building a Better Schoolhouse.* Olympia, WA: Author. 6p.
http://www.effwa.org/pdfs/Construction.pdf
Discusses several innovative ways to fund school construction using public-private partnerships, including municipal/capital lease plans, operating lease plans, a service contract structure, and a satellite concept. This is a section of the "School Director's Handbook" which addresses a range of issues of interest to school directors, teachers, and parents and is intended to promote discussion about educational alternatives.

Stainback, John. (2000). *Public/Private Finance and Development Methodology, Deal Structuring, Developer Solicitation.* New York: John Wiley & Sons. 287p.
Provides detailed coverage of the complex process involved in taking a real estate project from conceptualization through construction. Also provides a detailed description of alternative developer solicitation techniques, prototypical developer RFQs and RFPs, and eight public/private development case studies. ISBN: 0471333670

Trivers, Andrew. (2002, July). Looking beyond Traditional Resources. *School Planning and Management, 41*(7), 16-19.
Describes how public-private partnerships between the St. Louis School District and a handful of corporate and not-for-profit institutions with interests in neighborhoods surrounding certain schools enabled the rebuilding of two aging schools: the Jefferson School in Murphy Park neighborhood and the Adams School in the Forest Park Southeast neighborhood.

Wildman, Scott. (1998, December). *Partnerships between Public Schools and Private Developers. An Investigative Report.* Sacramento, CA: Joint Legislative Audit Committee of the California State Legislature. 145p.
http://www.edrs.com
Presents findings from seven public/private partnerships between school districts and the private sector. In all seven cases, school districts

encountered significant problems and complications that the authors believe far outweigh the benefits that these projects' proponents promised to the school districts. The Los Angeles Unified School District joint venture operation, in particular, being largely unsupervised and unaccountable, engaged in irresponsible, and possibly illegal, behavior by misrepresenting basic facts. These abuses have misdirected and squandered millions of taxpayers dollars intended for instructional programs and the rebuilding of the public education infrastructure. ERIC NO: ED433682.

Utt, Ronald; Munro, Douglas. (1999, Spring). Private Sector Public Schools: Fiscal Responsibility Dictates It, Says Nova Scotia. *The Calvert News Series*, 4 (1).
http://www.calvertinstitute.org/news/Vol4-1/cnvol4_1c.html
Recommends that instead of publicly financing school construction, Maryland should follow the example of other jurisdictions such as Nova Scotia, the United Kingdom and Florida and encourage the private development of public schools. Experience elsewhere has demonstrated savings to taxpayers of up to a third, coupled with sufficient incentives to allow the private sector to turn a reasonable profit.

Zehr, Mary Ann. (2001, June 20). Corning, N.Y. Debates Company's School Plan. *Education Week on the Web. 20*(41).
http://www.edweek.org/ew/ewstory.cfm?slug=41corning.h20
Corning, New York's largest employer, Corning Inc., has promised to pay what would be the local taxpayers' share of a proposed school construction project, about $60 million over 30 years

SATELLITE SCHOOLS

Jaquiss, Nigel. (1998, June 3). Satellites in the Suburbs. *Willamette Week.* np.
http://www.wweek.com/html/education060398.html
News article about a decision to put on hold a proposed public school at a high-tech headquarters in Beaverton, Washington. Parental opposition to the partnership between the Beaverton School Board and a private corporation was based on the perception that it would be nothing more than a private school paid for by public dollars.

No Author. (1998, December). Creating Schools at Work Sites. *School Administrator, 55*(10), 60.
Major businesses across the U.S. are providing work-site school facilities for their employees' children. The corporation provides the facility space, utilities, and maintenance services to operate the school on or near its property, and the state provides the teachers and aides, books, curriculum materials, and school equipment. Discusses the operating rules of work-site schools and the multiple benefits associated with them.

Schnaiberg, Lynn. (1998, March 25). Worksite Charter Schools Take the Edge Off Commuting. *Education Week.* np.
http://www.edweek.com/ew/ewstory.cfm?slug=28work.h17
Medical Center Charter School was designed to educate the children of some of the 50,000 employees who work in the nearby 675-acre Texas Medical Center. At least 30 public schools serving the children of employees at the workplace dot the nation. But overall, some charter proponents and employers say, public schools are not adapting quickly enough to the real needs of working parents.

Seder, Richard C. (1999, April). *Satellite Charter Schools: Addressing the School-Facilities Crunch Through Public-Private Partnerships.* Los Angeles, CA: Reason Public Policy Institute, Policy Study No.256. 6p.
http://www.rppi.org/ps256.html
Over thirty satellite, or work-site, schools operate in partnership with local school districts. This partnership between the private sector and school organizers presents a viable option for charter school leaders, business partners, and children.

SCHOOL IMPACT FEES

Bushweller, Kevin. (1999, June). If They Build It. . . *American School Board Journal, 186*(6), 30-33.
Impact fees are one-time charges assessed to residential developers that help pay for new roads, libraries, school buildings, and other infrastructure needed for growing populations. The fees' highly political nature has pitted school officials against developers, with mixed results. Utah, South Carolina, Florida, and Colorado initiatives are discussed.

Sack, Joetta. (2002, October 30). School Officials Study Facility Costs. *Education Week, 22*(9), 12.
http://www.edweek.com/ew/ewstory.cfm?slug=09facilnote.h22
A rural school district in Arizona, facing a huge population boom, is using public and private partnerships coupled with simple school design to pay for much needed new schools. Rather than ask residents for more bond money, the Higley district has managed the growth by partnering with local government agencies and private groups to build new schools that serve as multi-use facilities.

III. State Legislation and Initiatives

Anderson, Amy; And Others. (1998, April). *Making Better Decisions about Funding School Facilities.* Denver, CO: Education Commission of the States, Report NO: PB-98-3, 15p.
http://www.ecs.org/clearinghouse/13/23/1323.htm
Identifies the major decision points for policymakers addressing facilities funding in Colorado and the key questions to consider, and provides examples of strategies used by other states. Examines how state school facility needs can best be determined, what the state and local role in paying for school facilities is, and through what funding mechanisms. Appendices list how the various states have funded their school facilities.

Caldwell, Russell B. & Arlington, Barry. (2000, January). *Colorado Charter Schools Capital Finance Study.* Prepared for the Colorado Department of Education. Denver, CO: Colorado Department of Education. 43p & appendices.

http://www.cde.state.co.us
Describes the range of strategies used by charter schools to obtain facilities (leases, private donations, and tax exempt financing), as well as the roadblocks to successful capital finance. Offers fifteen policy recommendations to improve facilities financing for charter schools.

California Dept. of General Services, Office of Public School Construction. (2000, October). *Deferred Maintenance Program Handbook.* Sacramento, CA: Author. 33p.
http://www.documents.dgs.ca.gov/
Provides process information on California's Deferred Maintenance Program, including a description of the administering body of law. Chapters discuss the program's process on the topics of basic/additional apportionment, fund release (basic/additional and critical hardship), the Deferred Maintenance Five-Year Plan, district deposit, project expenditures, critical hardship apportionment, multiple critical hardship apportionments, and funding priority for critical hardship projects. Appendices provide the life expectancy of school facilities components, and a review of the most commonly asked questions.

Commonwealth of Virginia. (2002, September 30). *The Public-Private Educational Facilities and Infrastructure Act of 2002 Model Procedures.* Richmond, VA: Author. 16p.
http://www.fccps.k12.va.us/html/PPEA%20MODEL%20PROCEDURES.pdf
The intent of this statute is to provide a vehicle for Virginia's state and local agencies to create public-private partnerships to meet a wide range of infrastructure needs, such as construction and renovation of elementary and secondary schools, higher education facilities, telecommunication systems, water and wastewater treatment facilities, and virtually any other building, plant, or facility that is primarily for use by a public entity. The Virginia Act is structured to reduce the time and money spent by the submission of projects to extended boards of review, encourage entrepreneurial activity on the part of the private sector, tailor a project to the particular needs of the user, and encourage the innovative use of tax-exempt and taxable project financing.

De Patta, Joe. (2001, March-April). The Ohio School Facilities Commission. Revamping the State's School Construction Projects. *School Construction News, 4*(3), 20-22.
http://www.schoolconstructionnews.com/archives/ma2001/qandama01.html
Presents an interview with the Ohio School Facilities Commission's (OSFC) Executive Director Randy Fischer, who discusses the OSFC's history and its work in managing K-12 school facilities throughout the state. Topics include its efforts to help school districts get bond measures on ballots, funding projects, and its "Partnering Program" for construction projects.

Division of Assistance Management, Minnesota State Dept. of Children, Families, and Learning. (1999, June). *Guide for Planning School Construction Projects in Minnesota.* St. Paul, MN: Minnesota State Dept. of Children, Families, and Learning, Division of Assistance Management. 160p.
http://cfl.state.mn.us/FACILIT/GUIDE_Master.pdf
Summarizes changes in Minnesota laws and regulations for educational facility funding options and construction project proposals; highlights some of the latest ideas in planning and designing school sites, space design, and related issues; and examines essential considerations when designing middle level and community use/partnership spaces in schools. The development of partnerships with community groups, public agencies, and private users; and charter and private schools conclude the guide.

Florida School Construction Finance Commission. (2000, February 7). *A Report to the Governor, Senate President, and Speaker of the House of Representatives.* Tallahassee, FL: Author. 70p.
Examines school construction funding methods and policy in Florida. Summarizes previous efforts to resolve these issues by other commissions and task forces as well as a 1997 special session of the Florida legislature. School impact fees are discussed, including pertinent testimony presented to the Commission. An overview of alternative school construction funding methods is presented, listing pros and cons of each option and the Commission's assessment of alternative school construction funding methods. Appendices contain information on Florida law regarding school impact fees and a description and responsibilities of the Florida School Construction Finance Commission (FSCFC); a list of FSCFC members; comparative charts of capital needs indicators; Florida student population growth; education fixed capital outlays; school construction finance data; and trend charts on tax collection data covering 1980-1999. TO ORDER: Florida School Construction Finance Commission, c/o Florida LCIR, Suite 4, Holland Building, Tallahassee, Fl 32399-1300. Tel: 850-488-9627

Governor's Education Reform Study Commission, Education Facilities Committee, (2000, November 28). *Financing School Facilities.* Atlanta, GA: Author. 32p.
www.edrs.com
Provides information on past financing of Georgia school facilities, the current method of financing needed school facilities, and possible alternatives for the future. The methods used and the level of state funding for school facilities in other states allow a comparison of Georgia's Capital Outlay Program to the capital outlay programs available in other states. The responsibility for financing school facilities in Georgia has been shared by the state and local boards of education, using both state and local revenue sources. Since local school systems vary in their ability to finance school facilities with local revenue sources, alternative formulas are considered for the distribution of state capital outlay funds. ERIC NO: ED470378.

Haynes, Doug; Hood, John. (1999, June 17). *There Are Better Ways. Building Smaller, Safer, Effective and Efficient Public Schools.* Raleigh, NC: John Locke Foundation. 22p.

www.edrs.com

Outlines new ideas for school construction in North Carolina and describes a model for implementation. Ideas include frugal construction, permanent modular construction, private ownership of new public school buildings, contracting out ownership and management, schools in the workplace, virtual schools on the web, and selling naming rights to sports facilities. ERIC NO: ED447674.

Jacobson, Linda. (1998, June 3). Georgia Schools Tap New Source for Construction. *Education Week, 17* (38), 13-14.

http://www.edweek.com/ew/vol-17/38ga.h17

In 1996, Georgia voters approved a measure that gave local districts access to a 1-cent sales tax for school construction and renovation, to be charged in addition to an existing state sales tax of 4 cents and other local sales taxes. One of the benefits of the new source of funds—called the Educational Local Option Sales Tax, or ELOST, which come in monthly, is that a pay-as-you-go system of building schools can save districts millions of dollars in interest charges.

Pioneer Institute for Public Policy Research (1998). *Charter School Facility Financing: Constraints and Options. A Study for the Massachusetts Charter School Resource Center.* Boston, MA: Author. np.

http://www.pioneerinstitute.org/research/providers_table.html

Contains a list of selected charter school facility financing providers', general resources, requirements, and terms, as well as a chart on estimated charter school rent or mortgage payments in twenty states. There is also some Massachusetts information.

Schroeder, Jon. (1998, April 19). Minnesota Charters Breaking New Ground on Facilities. *Citizens League Minnesota Journal.* 5p.

http://www.charterfriends.org/mnfacilities.html

Reports on Minnesota's Building Lease Aid program, which appropriated $3.0 million over two years to provide up to $550 per year for each student enrolled in a charter school.

State Allocation Board & California School Finance Authority. (2003, July 23). *Charter School Facility Funding.* Sacramento & Los Angeles: Office of Public School Construction and California School Finance Authority. 56p.

http://www.documents.dgs.ca.gov/opsc/chart_sch/joint_report.pdf

This report describes the implementation of a pilot program of the State Allocation Board to provide funding for new charter school facilities in California. Also lists the charter school projects funded by the State Allocation Board, and describes other methods used to fund charter school facilities. Offers recommendations for statutory changes.

State of California. (1998, April). *Lease-Purchase Program Applicant Handbook.* Sacramento, CA: Author. 123p.

http://www.documents.dgs.ca.gov/OPSC/PDF-handbooks/LP-Handbook.pdf

Guides applicants through the process of acquiring and managing California state funds for public school facility construction projects. Includes eligibility requirements, regulations and required forms, design and specifications review and approval process, bid authorization process, the "change order" process for any changes or alterations during project construction, and the close-out audit regulations and forms for reporting project expenditures.

IV. International Experience

Audit Scotland. (2002, June). *Taking the Initiative: Using PFI Contracts to Renew Council Schools.* Edinburgh, Scotland: Author. np.

www.audit-scotland.gov.uk.

Reviews the private financing of public school facilities in Scotland under the Private Finance Initiative (PFI), in which some 80 schools have been completed. The initiative is analyzed along a number of variables, from procurement to value.

British Columbia Ministry of Municipal Affairs. (1999, May). *Public Private Partnership: A Guide for Local Government.* Vancouver, BC: Author.

http://www.marh.gov.bc.ca/LGPOLICY/MAR/PPP/

Describes potential benefits and risks of public-private partnership as well as common fallacies related to this form of service delivery. Offers broad guidelines as to when public-private partnership should be considered. Analyzes legislative changes needed, as well as the legislative authority that B.C. governments now have for involvement in public-private partnerships. Offers ways local government can prepare for public-private partnerships, and guidelines for selecting the appropriate approach for the delivery of services and infrastructure.

Brown, Daniel J. (2001, December). The Promise of a Public-Private Partnership for School Construction. *School Business Affairs, 67*(12), 36-40.

Describes partnership between public and private sectors to build an elementary school in Abbotsford, British Columbia, including the context, the participants, the school, special features of the partnership, the financing, the nature of the relationship, an evaluation by the major partners, and lessons learned and questions raised. Includes five web sites. (Contains 10 references.)

Brown, Daniel. (2001, January). *The Public-Private Partnership that Built a "Traditional" School. A Case Study from British Columbia. SAEE Research Series No. 7.* British Columbia, CA: Society for the Advancement of Excellence in Education. 50p.

http://www.saee.bc.ca/order_form.htm

Examines the management and outcome of the public-private partnerships (P3s) school construction project used in the Auguston housing development in Abbotsford, British Columbia to build an elementary school. P3 method allowed the school to be constructed in only 12 months, at 10 percent below that achieved by conventional procurement, and was accomplished within standard building specifications.

Outcome analysis demonstrates the P3 methodology can be used to build public schools at lower cost. Interviews with the participants reveal a need for extra time to work with the various partners and the need to comprise.
ISBN-0-96851444-5-6 TO ORDER: Society for the Advancement of Excellence in Education, 201-1451-B Ellis St., Kelowna, BC Canada V1Y 2A3; Tel: 250-717-1163

IV. Web Sites

Active as of October 14, 2003

Association for Governmental Leasing and Finance
http://www.aglf.org
A nonprofit association of companies engaged in municipal leasing activities. The web site provides education about tax-exempt leasing and financing. The AGL&F publishes national surveys on federal and municipal governmental leasing, and federal tax law affecting governmental leasing, including analysis of tax-exempt lease-purchase agreements, certificated leases, true leases arbitrage rebate, and management contracts.

Charter Friends National Network
http://www.charterfriends.org
The Charter Friends National Network promotes quality charter schools by connecting and supporting resource centers and other state-level charter support organizations and activities. The site provides updates on federal education legislation, technical assistance resource materials, including information on partnering with community-based organizations and contracting for management services, an updated directory of individual state charter school contacts, including resource centers, charter associations and other charter support organizations, and a calendar of upcoming national and state workshops and conferences on charter schools.

Chronicle of Philanthropy: Internet Resources
http://www.philanthropy.com
Links section providing annotated descriptions of fundraising and nonprofit management sites. Sites are grouped by organization type (arts organizations, educational organizations, religious charities, etc.) as well as by management area (fundraising, gifts and grants).

DfES Public Private Partnerships [United Kingdom]
http://www.dfes.gov.uk/ppppfi/
This web site developed by the United Kingdom's Department for Education and Skills (DfES) includes copies of DfES public private partnerships-related publications, case studies, project list, links and contacts, and a feedback section.

Education Commission of the States
http://www.ecs.org/clearinghouse/24/13/2413.htm
Updated in April 2003, web site contains charter school finance policies across the states and answers the following questions: Through whom does a charter school receive its funding? How is the per pupil funding level for a charter school determined? Does the state provide start-up and/or planning grants to charter schools? Does the state provide facilities funds or other facilities assistance to charter schools? Does the state specify who must provide transportation to charter school students?

Education Finance Database
http://www.ncsl.org/programs/educ/ed_finance/intro.htm
A database created by the National Conference of State Legislatures that provides 50-State education finance data, including how each state's capital outlay is funded.

Education Finance Statistics Center
http://www.nces.ed.gov/edfin/
Education finance information for elementary/secondary or post-secondary public or private education, including publications, education finance data, and answers to frequently asked questions in education finance. This is part of the National Center for Education Statistics of the Department of Education.

Education Law Center
http://www.edlawcenter.org/
Nonprofit organization dedicated to the pursuit of equal educational opportunity on behalf of poor, minority children and children with disabilities, especially those attending public schools in New Jersey's urban communities. Includes extensive information on school facilities issues concerning New Jersey's Abbott Districts.

EdSource
http://www.edsource.org/
A California nonprofit organization founded in 1977 that provides analytical information about California school finance and other state-based education policy issues.

MuniNet Financial Services
http://www.muninetinfo.com/USA%20Map.htm
A commercial site that contains interesting information on state laws on lease/lease-purchases of property, and qualifications for tax-exempt financing.

National Clearinghouse for Educational Facilities, Washington, DC
http://www.edfacilities.org
Offers articles, books, journals and other resources, as well as links to sites, on methods used by state and local governments and school districts to finance K-12 school construction, renovation and repair projects.

Organizations Concerned About Rural Education
http://www.ruralschools.org/
A coalition of more than two dozen education, farm, rural, technology and utility organizations that have a common concern for modern and

effective schools. This web site provides resources for funding, news releases and information on its video "Rebuilding America's Schools."

The National Conference of State Legislatures
http://www.ncsl.org/programs/educ/ed_finance/
A searchable education finance web site that concerns the funding of K-12 education in the 50 states. Among the subject areas addressed are local taxing methods, capital outlay and debt service, and recent school finance litigation.

P3 Schools in Nova Scotia. Halifax, Nova Scotia, Canada
http://www.lupinworks.com/lct/tsc99/ppp/home_ppp.html
Considers various issues related to Public-Private Partnerships in general and P3 School construction in Nova Scotia specifically. It includes links to a collection of interviews, news releases and studies on "Public-Private Partnerships"; identifies the steps in P3 School Construction; and lists the private sector partners involved in the P3 construction projects.

SchoolFacilities.com Newsletter
http://www.schoolfacilities.com/resourceDetails.asp?resourceID=385&mode=1
Subscribers to this site receive a weekly newsletter on issues related to school facilities.

Schools Private Finance Initiative [United Kingdom]
http://www.teachernet.gov.uk/Management/ResourcesFinanceandBuilding/funding/
This web site, developed by the United Kingdom's Department for Education and Skills, includes general information about the UK's Private Finance Initiative promoting funding partnerships between the public and private sectors. The site also includes publications and guidance, an application toolkit, a list of current projects, and offers some answers to the most frequently asked questions.

Technical Preservation Services for Historic Buildings: National Park Service
http://www.cr.nps.gov/hps/tps/index.htm
A Department of Interior site that provides architects, organizations, and public agencies with publications, videos, and online information on preserving, restoring, and rehabilitating historic buildings. The site contains over 40 online publications on topics such as windows, roofing, heating, etc., guidelines for rehabilitating historic buildings, and information on preservation tax incentives and grants.

U.S. Charter Schools
http://www.uscharterschools.org
Created in 1997 by WestEd, in partnership with the U.S. Department of Education and the Charter School Development Center at California State University's Institute for Education Reform, the U.S. Charter Schools web site serves as a place where charter school developers, authorizers and operators can meet and exchange ideas. The site provides a wide range of information and links to resources to guide charter schools in every phase of their development.

U.S. Department of Education. Credit Enhancement for Charter School Facilities
http://www.ed.gov/programs/charterfacilities/index.html
The Credit Enhancement for Charter School Facilities program helps charter schools meet their facility needs. Under this program, funds are provided on a competitive basis to public and nonprofit entities, and consortia of those entities, to leverage other funds and help charter schools obtain school facilities through acquisition, construction, or renovation.

U.S. Department of Education. Funding Opportunities
http://www.ed.gov/funding.html
Comprehensive source for information on grants or contract opportunities from the United States Department of Education (DOE). Includes a guide to DOE programs, details of the DOE budget, a roundup of DOE administrative regulations, and a forecast of funding opportunities.

U.S. Department of Education. Grants and Contracts Information
http://www.ed.gov/topics/topics.jsp?&top=Grants+%26+Contracts
Basic, introductory information on how to obtain grants from the Department of Education, as well as information on contracting procedures for product and services procurements. Both background and status information for ongoing Departmental procurement is included, so that potential bidders can easily access and download all relevant contract and standards documents.

U.S. Department of Education. Programs and Funding: Office of Elementary and Secondary Education
http://www.ed.gov
Provides financial assistance to state and local educational agencies for maintenance and improvement of both public and private preschool, elementary, and secondary education. This site links to over a dozen OESE programs.

U.S. Department of Education. Qualified Zone Academy Bonds
http://www.ed.gov/programs/qualifiedzone/index.html
This provision of the tax code provides a source of funding that may be used for renovating school buildings, purchasing equipment, developing curricula, and/or training school personnel. The proceeds of the bonds may not be used for new construction. This is a tax credit bonds program, not a grant program. This site includes purpose, eligibility, applicant information, funding status, FAQs, and resources.

APPENDIX B: STATE PRESSURE FILTER

State	Charter School Law	2000-01 State Funding (in $ millions)*	2000-01 State Spending Per Pupil ($)*	Actual Enrollment Ten-Year Growth Rate (1990-1991 to 2000-2001)	Projected Growth Rate of School Age Children (1989-2009)	Weighted Average of Schools in Need of Repair**	Cost to Modernize Existing Public Schools (in $ billions)	Average Cost of Debt Service per Pupil in 1997 ($)
Alabama	N	68.4	94.18	60.0%	5.4%	44%	1.519	135.24
Alaska	Y	145	1,067.28	19.3%	30.1%	51%	0.727	5.04
Arizona	Y	260	303.39	33.9%	66.4%	47%	4.749	573.99
Arkansas	Y	29.5	65.85	2.7%	5.3%	29%	1.762	234.31
California	Y	n/a	255.47	26.0%	35.2%	50%	22.000	133.65
Colorado	Y	5.0	6.90	26.2%	33.2%	39%	3.805	397.77
Connecticut	Y	392.0	697.34	19.8%	12.3%	37%	5.000	500.25
Delaware	Y	7.0	1,071.45	14.8%	15.4%	48%	1.046	242.20
District of Columbia	Y	n/a	n/a	n/a	18.7%	60%	n/a	94.73
Florida	Y	436.9	179.50	30.8%	33.9%	38%	3.300	294.07
Georgia	Y	215.0	148.80	25.5%	36.8%	29%	7.062	203.95
Hawaii	Y	93.7	503.01	7.4%	33.7%	30%	0.753	460.08
Idaho	Y	9.0	37.00	11.2%	38.1%	38%	0.699	213.63
Illinois	Y	500.0	244.12	12.5%	23.2%	39%	9.213	390.11
Indiana	Y	35.7	36.07	3.6%	7.1%	36%	2.478	506.19
Iowa	Y	0.0	0.00	2.8%	18.7%	27%	3.359	185.75
Kansas	Y	30.8	65.59	7.5%	7.6%	42%	1.793	282.30
Kentucky	N	175.3	281.23	-2.1%	1.3%	38%	2.442	205.89
Louisiana	Y	0.0	0.00	-5.3%	18.7%	42%	3.102	247.78
Maine	N	105.0	491.89	-8.0%	18.7%	44%	0.452	373.72
Maryland	Y	290.9	340.87	19.3%	21.5%	40%	3.892	173.32
Massachusetts	Y	317.7	322.55	18.1%	13.6%	50%	8.919	295.39
Michigan	Y	0.0	0.00	7.7%	2.5%	30%	8.071	409.96
Minnesota	Y	48.1	56.83	12.0%	12.1%	43%	4.517	498.28
Mississippi	Y	108.3	216.62	-6.0%	1.3%	34%	1.039	207.31
Missouri	Y	0.0	0.00	9.9%	11.7%	32%	3.475	290.81
Montana	N	4.0	25.66	1.9%	11.4%	26%	0.901	172.01
Nebraska	N	0.0	0.00	4.4%	6.1%	37%	1.609	250.48
Nevada	Y	0.0	0.00	69.2%	104.8%	28%	5.256	520.87
New Hampshire	Y	21.4	151.58	21.8%	15.9%	43%	0.410	332.55
New Jersey	Y	172.8	131.91	20.2%	16.4%	28%	20.710	296.90
New Mexico	Y	69.6	219.87	4.9%	31.8%	40%	1.411	277.22
New York	Y	1182.3	402.16	13.1%	11.5%	42%	47.640	405.66
North Carolina	Y	70.0	55.30	16.5%	25.2%	41%	6.211	301.37
North Dakota	N	0.0	0.00	10.3%	18.7%	30%	0.420	153.76
Ohio	Y	533.0	292.67	2.8%	18.7%	48%	23.000	546.95
Oklahoma	Y	0.0	0.00	8.0%	1.4%	36%	2.204	195.19
Oregon	Y	9.6	17.64	15.8%	20.0%	45%	2.407	390.79
Pennsylvania	Y	267.5	147.68	8.6%	5.9%	26%	8.465	880.33
Rhode Island	Y	30.8	194.61	13.9%	6.7%	37%	1.421	251.58

* Based on annual programs only
** Weighted average of buildings in need of total repair, 75%, (total replacement or extensive repair) and some repair, 25%, (includes extensive repair of at least one major building feature, such a roof or foundation)
n/a Not Available

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State	Charter School Law	2000-01 State Funding (in $ millions)*	2000-01 State Spending Per Pupil ($)*	Actual Enrollment Ten-Year Growth Rate (1990-1991 to 2000-2001)	Projected Growth Rate of School Age Children (1989-2009)	Weighted Average of Schools in Need of Repair**	Cost to Modernize Existing Public Schools (in $ billions)	Average Cost of Debt Service per Pupil in 1997 ($)
South Carolina	Y	20.8	32.20	4.1%	0.7%	41%	2.574	414.35
South Dakota	N	0.0	0.00	0.0%	13.2%	27%	0.499	167.68
Tennessee	Y	171.4	189.39	9.8%	20.3%	34%	2.274	259.67
Texas	Y	698.5	173.17	19.2%	30.7%	32%	9.468	385.92
Utah	Y	28.3	59.67	6.4%	21.9%	41%	8.490	266.14
Vermont	N	16.2	155.77	8.6%	5.9%	29%	0.221	289.69
Virginia	Y	219.6	171.41	14.6%	16.8%	35%	5.701	379.32
Washington	N	140.0	138.70	20.2%	28.9%	48%	5.479	478.32
West Virginia	N	72.0	252.48	-11.5%	18.7%	48%	1.000	130.45
Wisconsin	Y	n/a	252.48	9.9%	9.7%	37%	4.762	718.48
Wyoming	Y	42.5	474.58	-8.8%	3.4%	30%	0.531	440.49

* Based on annual programs only
** Weighted average of buildings in need of total repair, 75%, (total replacement or extensive repair) and some repair, 25%, (includes extensive repair of at least one major building feature, such a roof or foundation)
n/a Not Available

APPENDIX B: STATE PRESSURE FILTER

State	Funding Distribution				Funding Programs		
	State	Local	Federal	Other	Credit Enhancement	Loan Programs	Capital Funding Programs
Alabama	91.0%	9.0%	0.0%	0.0%	N	N	Y
Alaska	90.0%	5.0%	3.0%	2.0%	N	N	Y
Arizona	n/a	n/a	n/a	n/a	N	N	Y
Arkansas	5.0%	90.0%	0.0%	5.0%	Y	Y	Y
California	n/a	n/a	n/a	n/a	N	N	N
Colorado	n/a	n/a	n/a	n/a	Y	Y	Y
Connecticut	55.0%	44.0%	0.0%	0.0%	N	N	Y
Delaware	60.0%	40.0%	0.0%	0.0%	Y	N	Y
District of Columbia	n/a	n/a	n/a	n/a	Y	Y	Y
Florida	25.0%	75.0%	0.0%	0.0%	N	N	Y
Georgia	50.0%	48.0%	2.0%	0.0%	Y	N	Y
Hawaii	100.0%	0.0%	0.0%	0.0%	N	N	Y
Idaho	3.0%	97.0%	0.0%	0.0%	Y	N	Y
Illinois	46.0%	54.0%	0.0%	0.0%	N	N	Y
Indiana	4.0%	96.0%	0.0%	0.0%	Y	Y	Y
Iowa	n/a	n/a	n/a	n/a	N	N	N
Kansas	20.0%	80.0%	0.0%	0.0%	N	N	Y
Kentucky	64.0%	34.0%	2.0%	0.0%	Y	N	Y
Louisiana	0.0%	100.0%	0.0%	0.0%	N	N	N
Maine	72.0%	28.0%	0.0%	0.0%	N	Y	Y
Maryland	n/a	n/a	n/a	n/a	N	N	Y
Massachusetts	65.0%	35.0%	0.0%	0.0%	N	N	Y
Michigan	0.0%	99.0%	1.0%	0.0%	Y	Y	N
Minnesota	3.0%	97.0%	1.0%	0.0%	Y	Y	Y
Mississippi	27.0%	68.0%	0.0%	5.0%	Y	Y	Y
Missouri	1.0%	98.0%	1.0%	0.0%	Y	N	N
Montana	n/a	n/a	n/a	n/a	N	Y	Y
Nebraska	0.0%	100.0%	0.0%	0.0%	N	N	N
Nevada	n/a	n/a	n/a	n/a	Y	N	N
New Hampshire	38.0%	62.0%	0.0%	0.0%	Y	N	Y
New Jersey	n/a	n/a	n/a	n/a	Y	Y	Y
New Mexico	11.0%	85.0%	3.0%	1.0%	N	N	Y
New York	80.0%	20.0%	0.0%	0.0%	Y	N	Y
North Carolina	42.0%	57.0%	1.0%	0.0%	N	N	Y
North Dakota	0.0%	99.0%	0.0%	1.0%	Y	Y	N
Ohio	60.0%	40.0%	0.0%	0.0%	Y	N	Y
Oklahoma	0.0%	100.0%	0.0%	0.0%	Y	N	N
Oregon	6.0%	94.0%	0.0%	0.0%	Y	N	Y
Pennsylvania	n/a	n/a	n/a	n/a	Y	N	Y
Rhode Island	38.0%	62.0%	0.0%	0.0%	N	N	Y
South Carolina	25.0%	75.0%	0.0%	0.0%	Y	N	Y
South Dakota	0.0%	100.0%	0.0%	0.0%	Y	N	N

n/a Not Available

APPENDIX B: STATE PRESSURE FILTER

State	Funding Distribution				Funding Programs		
	State	Local	Federal	Other	Credit Enhancement	Loan Programs	Capital Funding Programs
Tennessee	27.0%	73.0%	0.0%	0.0%	N	N	Y
Texas	n/a	n/a	n/a	n/a	Y	N	Y
Utah	29.0%	69.0%	2.0%	0.0%	Y	Y	Y
Vermont	30.0%	70.0%	0.0%	0.0%	N	N	Y
Virginia	n/a	n/a	n/a	n/a	Y	Y	Y
Washington	47.0%	53.0%	0.0%	0.0%	Y	N	Y
West Virginia	75.0%	16.0%	9.0%	0.0%	Y	N	Y
Wisconsin	67.0%	33.0%	0.0%	0.0%	N	N	Y
Wyoming	70.0%	30.0%	0.0%	0.0%	Y	N	Y

Sources:

- Tennessee State Government, Office of Education Accountability, School Capital Funding Study, August 2002 (draft)
- National Trust for Historic Preservation, State Policies for School Construction and Renovation, January 2003 (draft)
- National Education Association, Modernizing Our Schools; What Will It Cost? 2000

Funding Program Detail:

- Credit Enhancement: state guarantee for locally-issued bonds in the event of district default
- Loan Programs: districts borrow funds from the state to finance capital projects
- Capital Funding Programs: appropriated funds, but not one-time allocations, for new construction and major renovations

n/a Not Available

APPENDIX C: FUNDING AND FINANCING MECHANISM TYPOLOGY

The following mechanisms listed alphabetically by primary category, represent a sample of funding and financing options available for public schools, including charter schools and alternative schools (e.g. non-chartered satellite or workplace schools). "Primary mechanism" is the general category for financing products under which there may be similar or related financing ("secondary mechanism"). The definition provides a concise description. "Distinguishing features" highlights mechanism characteristics to further explain the mechanism and how it is used.

Notes:

Financing agreements may be made directly with a school or with a related entity, a holding company, specifically created to own the facility on behalf of the school and lease to the school at an affordable rate. In some cases, a company may own several facilities that they lease to unrelated charter schools while the school is in its early stages. Holding companies, often created as 501(c)(3) corporations, are able to take advantage of these mechanisms and are therefore not included in the typology as financing mechanisms.

Credit enhancements are contained herein as they are commonly required in order to secure facility financing.

A public-private partnership is typically formed between the school, its district, and a private corporation as a way to take advantage of the different financing products, and therefore is not included as a financing mechanism. Though joint (shared) or mixed use of the financed property is also excluded as a financing mechanism in order to separate financing options from repayment sources, it is a related, but discrete, decision for schools when considering financing alternatives.

Also, many schools use a combination of mechanisms and strategies to finance the construction, acquisition, or renovation of a single facility. For example, in Washington, DC, a public-private partnership was formed between the Oyster School, District of Columbia Public Schools, and a private developer to construct both a new school and a neighboring multi-family building, which contains 221 rental units. They also agreed to dedicate property taxes and revenue from the sale of the land to repay a revenue bond. In exchange, LCOR, the private developer of the new apartment building, agreed to design and build the new school and repay the Oyster revenue bond. Under the terms of the LCOR and the school district, the $11 million, 35-year tax-exempt bond package issued by DC will be repaid entirely from new revenue generated by the apartment building.

Primary Mechanism	Secondary Mechanism	Definition	Distinguishing Features
1.0 BOND		A debt instrument that specifies the repayment of principal and interest over a stated maturity. The principal, or par, amount of a bond is the amount initially borrowed. The interest is the amount investors charge for the use of funds. Most tax-exempt bonds pay principal on an annual basis and interest on a semi-annual basis. Bond maturities vary.	Most states allow charter schools to issue debt or to have debt issued on their behalf by conduit issuers like a sponsoring school district. There are some states, however, that limit charter schools' ability to take advantage of such long-term financing. Bonds can be either taxable or tax-exempt.
	1.0a Taxable Bond	Interest on this type of bond is subject to municipal, state, and federal taxes.	Assuming they are legally authorized to issue debt, charter schools are generally eligible for taxable financing to the extent that they can find buyers for their bonds. Taxable bonds carry higher interest costs than tax-exempt bonds in order to provide the same after-tax yield to investors.

Primary Mechanism	Secondary Mechanism	Definition	Distinguishing Features
	1.0b Tax-Exempt Bond	In this case, interest on the bond is exempt from federal income taxation, pursuant to Section 103 of the Internal Revenue Code, and may or may not be exempt from state income or personal property taxation in the jurisdiction where issued. If the bond is exempt from state income tax, it possesses "double exemption" status. "Triple exemption" bonds are exempt from municipal or local income taxes, as well as from federal and state income tax. (See Municipal Bonds for more information.)	Many states allow charter schools to issue tax-exempt debt by declaring them "public entities" and authorizing other public or nonprofit entities to issue bonds on their behalf. Tax-exempt debt is preferable for charter school financing because of the lower interest expense it entails.
	1.1 Municipal Bond	Bond issued by a state or local government body. Interest earned is generally not taxable. A municipal bond is also known as a general obligation bond backed by the full faith and credit of a municipality. (See Mechanism 1.1a) A limited obligation municipal bond is known as a revenue bond. (See Mechanism 1.1b)	Municipal bond authorities and education management companies can issue bonds on behalf of charter schools. The terms “general obligation” and “revenue” refer to the type of security provided for the bond.
	1.1a General Obligation Bond	A general obligation bond is backed by the full faith and credit and taxing power of the issuer.	General obligation debt has not been extensively used in charter school financing.
	1.1b Revenue Bond	A bond that is secured by revenues produced by the facility for which the bond was issued, rather than the general taxing power of the relevant municipality.	Revenue bonds are not backed by the general tax base of the government and therefore are usually excluded from statutory debt limits. Bonds issued by charter schools have predominantly been revenue bonds with school per pupil aid constituting the primary revenue stream. Un-rated or non-investment grade revenue bonds often require some additional security, such as a debt service reserve fund, attachment of the "moral obligation" of the relevant municipality (rare) or some form of additional credit enhancement. (See Mechanism 3.0)

Primary Mechanism	Secondary Mechanism	Definition	Distinguishing Features
	1.2 QZAB	Under the Federal Taxpayers' Relief Act of 1997, Qualified Zone Academy Bonds (QZABs) were created to help furnish capital improvement funds for impoverished school districts. QZABs are revenue bonds that provide the bondholder with a federal tax credit in lieu of cash interest payments.	Public schools, including charter schools, that are located either in an Empowerment Zone or Enterprise Community, or that have at least 35% of students eligible for free or reduced-price lunch, are eligible for QZABs. A qualified school must develop a partnership with a business, which must be a private, nongovernmental institution, who must make a matching contribution (cash, goods, or services) worth 10% of the money borrowed using the QZAB. Individual states determine what portion of their QZAB allocation will be dedicated to charter school versus traditional public school financing. Proceeds may only be used for renovation, equipment purchase, curriculum development and personnel training (not new construction).
	1.3 QPEF	Qualified Public Education Facility Bonds (QPEFs) are tax-exempt "private activity" bonds whose proceeds can be used by private sector companies to build public school buildings that are then leased to school districts or to charter schools.	The private developer's letter of credit and operating history are used to determine the bond's rating, risk, and interest rate. Under this Federal program, each state has a statutory limit on total allocations that must be used within four years.
	1.4 Bond Pool	Individual revenue bonds pooled together with cross-collateralized reserve funds that secure the entire pool. Proceeds finance multiple projects.	By combining the financing of several individual projects, bond pools lower transaction costs and reduce risk.
	1.5 Certificate of Participation (COP)	A form of revenue bond that permits the investor to participate in a stream of lease payments, installment payments or loan payments relating to land acquisition or construction. Investors buy certificates that entitle them to receive a participation, or share, in the lease payment from a particular project.	COPs are not viewed legally as "debt" because payment is tied to an annual appropriation process. Because not technically considered debt, COPs are not subject to voter approval.
2.0 CAPITAL CAMPAIGN		A fundraising drive that takes place outside of, and in addition to, annual operating fundraising, usually to raise funds for a facilities or capital project (or for an endowment).	Typically capital campaign funds consist of a combination of donations and grants from individuals and organizations. Some large campaigns also include financing from different financial institutions.

Primary Mechanism	Secondary Mechanism	Definition	Distinguishing Features
3.0 CREDIT ENHANCEMENT		A strategy to reduce credit risk by providing the lender with reassurance that it will be compensated should the borrower default. It may come in the form of additional collateral, insurance, a substitute credit rating, guaranty program or other agreement.	Credit enhancement strategies can be developed and issued both by private and public entities. Some are publicly funded, and others are privately funded.
	3.1a Loan Guaranty	An agreement by a third party (guarantor) to pay the investor's scheduled interest and/or principal payments in the event the primary obligor does not meet the terms and conditions of the loan or bond indenture (similar to a co-signer on a loan).	Guarantees are generally used to increase the amount of money available to finance activities by encouraging lenders to offer financing to populations considered risky or to reduce the interest and cost of loans. They typically cover only a portion of the loan for a specific time period.
	3.1b District Guaranty	A pledge by the school district to provide repayment of a loan or portion of principal outstanding should the school default.	Mainly provided for new construction loans, as the default of the charter school would result in a new school for the school district (who would be responsible for assuming the remainder of the outstanding loan.) The school district agrees to use the charter facility and pay associated debt should the charter school close.
	3.2 Debt Service Reserve	Monies pledged or set aside to pay for principal and interest in case the borrower is unable to meet its payments.	Typically consists of one-year of principal and interest. The reserve can be provided by a third party guarantor or funded with borrowed monies. A reserve can provide additional security either alone or in collaboration with a guarantee.
	3.3 Letter of Credit	A letter issued by a financial institution authorizing the holder (or bearer) to draw a stated amount of money from the issuing institution.	As a guaranty, a letter of credit may be issued to the landlord or financial institution from a third party guarantor to fund or supplement debt service reserves, or as additional security on a loan.
4.0 GRANT		A funding stream consisting of payments from the federal government to state and local governments, or one-time donations from organizations and/or individuals to nonprofit organizations, to help finance activities. Grant recipients do not repay funds.	Anyone can give a grant – individuals, private corporations, or public entities. Grants typically rely on one specific stream of funds and are earmarked for a specific project.

Primary Mechanism	Secondary Mechanism	Definition	Distinguishing Features
5.0 LEASE		A contract granting the use of real estate, equipment, or other fixed assets for a specified time in exchange for payment, usually in the form of rent.	Lease payments may include leasehold improvements to the facility.
	5.1 Lease-Purchase	A lease that gives the lessee (tenant) the right to purchase the property at an agreed-upon price under certain conditions from the lessor (owner).	Agreement terms vary, however the most common is either allowing a school to apply lease payments toward the purchase of the building in lieu of an up-front equity deposit, or having a school assume the existing mortgage balance.
	5.2 Sale/Leaseback	A form of lease agreement in which a company (or in this case, a charter school or a school district) sells an asset to a private sector party – usually an insurance or finance company, a leasing company, a limited partnership, a private developer, or an institutional investor – in exchange for cash, then contracts to lease the asset back from the private party for a specified term.	Not typically used by small schools or districts, or by charter schools. Property must first be owned by an entity in order to be sold and leased back.
6.0 LOAN PRODUCTS			
	6.1 Direct Loan	A contractual agreement between a lender to provide money for the construction, purchase, or rehabilitation of a property to a borrower.	If a charter school defaults on its loan payments, the associated costs are borne by the lender and the property is "foreclosed" – owned by the lender. Loans can be used for leasehold improvements, construction, renovation or acquisition.
	6.2 Loan Pool	A loan pool is a fund capitalized by banks, government entities, other financial institutions and/or foundations that provides financing to a number of charter schools, creating a portfolio of borrowers and lenders. Revolving loan pools or funds reinvest principal and interest payments from borrowers in the pool, which can then be recycled to other borrowers.	Some states are enacting laws that provide for the creation of loan pools capitalized with federal or state funds. In a revolving loan fund, if a charter school defaults, the costs associated are sometimes paid from the pool, which reduces the dollars that can be relent.

Primary Mechanism	Secondary Mechanism	Definition	Distinguishing Features
7.0 NEW MARKET TAX CREDITS (NMTC)		A new investment tax credit designed to stimulate investment in low-income communities by providing for a 39% tax credit to taxpayers who make equity investments in community development entities. These entities in turn make investments in, or loans to, qualified enterprises in low-income communities. Investors will receive the credit over seven years: i.e., five percent of their investment in each of the first three years and six percent per year for each of the remaining four years.	Tax credits provide incentive for investors to lend to entities like charter schools that typically have limited access to capital. Given the decreased tax liability, investors and lenders can offer credit with a more favorable cost of capital.
8.0 PER PUPIL ALLOCATION		A funding stream—a fixed amount per pupil—provided by the state. The amount varies by state; however, the majority of states only provide funds for operations, including some categorical funds. Public schools receive both operational and facilities funding.	In most cases, charter schools must use a portion of their per pupil allocation to pay for facility costs. Arizona, California, Florida, Minnesota, and the District of Columbia provide charter schools with facility funds based on pupil enrollment levels.
9.0 SCHOOL IMPACT FEES		One-time payments from real estate developers to schools and school districts to build facilities and fund improvements needed to accommodate the increase in residents as a result of a new real estate development.	Typically, payments are based on the number of houses built within the development. In some cases, the developer, in addition to fees, may provide a new school building or addition.
10.0 TAX-INCREMENT FINANCING (TIF)		A way of pledging, or reinvesting, some of the increased taxes that result when property is redeveloped to pay the costs of associated public investment or to provide subsidies for private investment.	Relatively new method of economic development, TIF dollars are based on projected property tax dollars. School districts must expend monies for facilities and then be reimbursed from TIF revenues. States have to approve school receipt of TIF revenues. Although eligible, no charter schools have been awarded TIF funds.

APPENDIX D: LIST OF INTERVIEWEES *(Not all interviewees wished to be listed.)*

Advocates and Resource Centers

Phil Andrews
Director
Georgia Charter School Association
Atlanta, GA

Robert Cane
Executive Director
Friends of Choice in Urban Schools (FOCUS)
Washington, DC

Dr. Norm Chaffee
Regional Resource Specialist
NCB Development Corporation/Minnesota Association of Charter Schools
St. Paul, MN

Jim Griffin
Executive Director
Colorado League of Charter Schools
Denver, CO

Bryan Hassell
Co-Director
Public Impact
Charlotte, NC

Jack McCarthy
Managing Director
AppleTree Institute for Education Innovation
Washington, DC

Richard Moreno
Regional Resource Specialist
Florida Consortium of Charter Schools/NCBDC
Fort Lauderdale, FL

Patsy O'Neill
Executive Director
Charter School Resource Center of Texas
San Antonio, TX

Ricci Rodriguez-Elkins
Executive Director
Center for Charter School Development
Sparks, NV

Margaret Roush-Meier
Executive Director
Arizona Charter Schools Association
Flagstaff, AZ

Clint Satow
Vice President for Policy, Research & Analysis
Ohio Charter School Association
Columbus, OH

Cathy Wooley-Brown
Director
Florida Charter School Resource Center
Tampa, FL

Charter & Other Public Schools; Charter School Networks

Steve Anderson
CEO, Principal
American Heritage Academy
Cottonwood, AZ

Chris Barbic
Director and Founder
YES College Preparatory School
Houston, TX

Dan Bigler
Director of Finance Services
Horizon Community Learning Center
Phoenix, AZ

Dan Bodette
Principal
School of Environmental Studies
Apple Valley, MN

Teresa Elliott
Founder
Not Your Ordinary School (NYOS)
Austin, TX

Michael Feinberg
Superintendent
KIPP Academy Charter
Houston, TX

Lydia Glaize
Consultant to Board of Directors
Victory Charter School
East Point, GA

Nancy Grayson
Director
Rapoport Charter Academy
Waco, TX

Lawrence Hernandez
Director
Caesar Chavez Academy
Pueblo, CO

Xanthe Jory
Executive Director
Bronx School for the Arts
Bronx, NY

Gloria Lee
Chief Operating Officer
Aspire Public Schools
Redwood City, CA

Richard A. Lukich
Chairman
Old Brooklyn Montessori School
Cleveland, OH

Greg Manns
President of Board of Directors
Victory Charter School
East Point, GA

Diane Merchant
Superintendent
Mainland Preparatory Academy Charter
Texas City, TX

Jeff Miller
Superintendent of Educational Programs
The Villages Charter School
The Villages, FL

Rosemary Perlmeter
Founder
The North Hills School
Irving, TX

Larry Pierott
Principal
Horizon Community Learning Center
Phoenix, AZ

Greg Pierson
Principal
University Schools
Greeley, CO

Jim Spencer
Montessori Charter School of Flagstaff
Flagstaff, AZ

Doug Thomas
Project Director
EdVisions, Inc.
Henderson, MN

Tom Torkleson
Director
IDEA Academy Charter
Donna, TX

Katie Updike
Parent Volunteer
Marble County Charter School
Marble, CO

Liz Weatherly
Director of Development
KIPP DC: KEY Academy
Washington, DC

Sharon Weir
Director
Seashore Learning Center Charter
Corpus Christi, TX

Financial Community; Private Developers

David Balz
VP of Education Facilities
The Haskell Company
Jacksonville, FL

Russell Caldwell
SVP, Public Finance
Kirkpatrick Pettis
Denver, CO

Stephanie Clark Fitzgerald
President, CEO
The Rodel Charitable Foundation of Delaware
Wilmington, DE

Charles Dabney
Senior Program Officer
LISC
Tampa Bay, FL

Jason F. Dickerson
Senior Director, Education and Nonprofit Ratings
Fitch Ratings
New York, NY

Annie Donovan
Managing Director
NCB Development Corporation
Washington, DC

John Grafelman
Vice President
Municipal Capital Market Group
Minneapolis, MN

Susan Harper
Community Facilities
Senior Loan Officer
Low Income Investment Fund
Oakland, CA

Beth Lipson
Manager of Special Projects
National Community Capital Association
New York, NY

Carmen Maldonado
Community Development Officer
Local Initiatives Support Corporation
New York, NY

Rachel McIntosh
Program Officer
Local Initiatives Support Corporation
Indianapolis, IN

Joe Neri
Vice President of Lending
Illinois Facilities Fund
Chicago, IL

Tom Nida
Vice President
Eagle Bank
Washington, DC

Thea Okin
Director
American Capital Access
New York, NY

Joel Scharfer
Chief Operating Officer
Charter Schools Development Corporation
Washington, DC

Bob Schulman
Attorney
Feldman & Rogers, LLP
San Antonio, TX

Taylor Smith
President
Project Finance and Development, Inc.
Jacksonville, FL

C. Peter Svahn
President & CEO
Charter FS Corporation
Westerville, OH

David Umansky
Executive Director
Civic Builders
New York, NY

Mark VanBrunt
Project Director
La Raza Development Fund, Inc.
Phoenix, AZ

Jennifer Weflen
Deputy Director
Indianapolis Local Public Improvement Bond Bank
Indianapolis, IN

Charlie Whelan
President
The Whelan Group
New York, NY

Mark Whitlock
Chair, Board of Directors
Central Educational Center
Newnan, GA

Lewis Wilks
Partner
Coastal Securities
Houston, TX

James Willcox
Principal
New Schools Venture Fund
San Francisco, CA

Partners

Daniel Ardell
Chairman of the Board
Pueblo Nuevo Development
Los Angeles, CA

E. Lydell Carter
Senior Program Officer
New Visions for Public Schools
New York, NY

Mimi Clarke Corcoran
Executive Director
Beginning with Children Foundation, Inc.
New York, NY

Beverly Donohue
Chief Financial Officer
New Visions for Public Schools
New York, NY

Philip Lance
Executive Director
Pueblo Nuevo Development
Los Angeles, CA

Anita Landecker
Executive Director
Excellent Education Development
Los Angeles, CA

Michelle Neugebauer
Executive Director
Cypress Hills LDC
Brooklyn, NY

Raj Vinnakota
Co-Founder and Managing Director
The SEED Foundation
Washington, DC

AJ Wilson
Executive Director
Pomona Valley Education Foundation
Pomona, CA

Public Officials

JC Bowman
Director
Florida Dept. of Education Choice Office
Tallahassee, FL

Charles Dodge
City Manager
City of Pembroke Pines
Pembroke Pines, FL

David Harris
Charter Schools Director
Office of the Mayor
Indianapolis, IN

James Ingrasci
District Financial Advisor
Niagara Falls City School District
Niagara Falls, NY

Thomas J. Letavis
Executive Director
Michigan Public Educational Facilities Authority
Lansing, MI

Larry Likes
Superintendent
Higley Unified School District
Higley, AZ

Danielle C. Lynch
Analyst
Michigan Public Educational Facilities Authority
Lansing, MI

Mark Maine
Director
Pomona Unified School District
Pomona, CA

Kathleen O'Keefe
Financial Specialist
Michigan Public Educational Facilities Authority
Lansing, MI

Gregory Olszta
Public School Academy Liaison
Michigan Department of Education
Lansing, MI

Greg Richmond
Director
Charter Public Schools
Chicago, IL

Jennipher Snowden
Assistant Commissioner
The Department of Banking and Financial Institutions
Washington, DC

Karen Strakbein
Assistant Superintendent for Business Services
Eagle County School District
Eagle, CO

In addition, school and public officials from the following states responded to general inquiries:

- Connecticut
- Hawaii
- Kansas
- Kentucky
- Maryland
- Massachusetts
- Mississippi
- Oregon
- Rhode Island
- Vermont
- U.S. Department of Education

LISC

Educational Facilities
Financing Center