

# Financing Options Available to Charter Schools

Any combinations of options can be used to meet a school's need and realize the lowest cost of capital. Some options available in the current market are detailed below.

## TAX-EXEMPT BONDS

Provides greater access to capital in difficult markets

### Permanent financing

30 to 35 year amortization; can refinance if economically advantageous

### Well-established market of investors

- Mutual funds
- Money managers
- Insurance companies, etc.

### Fixed interest rate and repayment schedule

- Can provide lower tax-exempt rates
- Interest rate is fixed for the term of the financing
- No refinance required

### Permissible uses:

- Construction
- Land Acquisition
- Refinancing
- Improvements
- Equipment

NEW MARKETS TAX CREDITS (NMTCs)  
Must be in a "qualifying area" defined by census tract and poverty levels

### Subsidized interest rate

Tax credit buyer gets "income" from claiming the tax credits, not from a market interest rate

### Equity accrues without payment of principal

- A loan funded from the tax credits can be "forgiven" at the end of the seven-year tax compliance period
- 20-25% of the original debt may not have to be repaid

### Low debt service requirement

- Interest-only debt service payments during seven-year "tax compliance" period (required by NMTC program)
- Portion of the loan must be refinanced in 7 years

### Flexible construction management

NMTC not subject to Davis-Bacon (prevailing wage) requirements

### Permissible uses (similar to tax-exempt bonds):

- Construction
- Land Acquisition
- Refinancing
- Improvements
- Equipment

## QUALIFIED ZONE ACADEMY BONDS (QZABs)

A reduced/zero interest rate tax credit bond program available to qualifying schools

### Qualifications

- School must be located in an Empowerment Zone or Enterprise Community or have at least 35% of its students eligible for free or reduced price school lunch
- Bonds must be issued by a state or local government within the jurisdiction of the school's location
- School must have 10% private business contribution<sup>1</sup>
- Construction management subject to Davis-Bacon (prevailing wage) requirements

### Terms

- Subsidized interest rate--purchaser of the bond gets "income" from claiming the tax credits, not from a market interest rate.

- Tax credit rate and maximum term of the loan allowed is established daily by the Treasury Department and locked in for the school when the financing is finalized.
- School repays principal (and possible supplemental interest)

### Qualified Uses of Bond Proceeds

- Rehab or repair of a public school facility
- Equipment
- Developing course material
- Training teachers and other school personnel
- Expansion of existing buildings
- Cannot be used for new construction

<sup>1</sup>The school enters into an agreement with one or more local businesses to contribute at least 10% of the value of the bond to the school and can include equipment for use in the school, technical assistance in developing curriculum or in training teachers to promote technology in the classrooms, internships, field trips or other educational opportunities outside the school for students, or any other property (including cash) or services.

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