CHARACTER SCHOOL FACILITY FINANCINGS - 2018 UPDATE

How many tax-exempt bond facility financings did charter schools complete in 2018? The level of tax-exempt borrowings undertaken by charter schools in 2018 was lower than in 2017, due in part to the acceleration of certain financings in advance of the implementation of Tax Cuts and Jobs Act went into effect in January of 2018, and which would have prohibited certain types of borrowings. Based on our review, there were ±100 publicly offered charter school bonds issued in 22 states, totaling over ±$2.5 billion in 2018. This is a significant decline from an estimated ±$3.5 billion issuance in 2017. Texas charter schools issued the highest par amount of bonds in 2018 (over $734 million) with the next highest par amount in Arizona with $285 million. Texas, however, had just 8 issuances versus California with 13 issues, and Arizona and Florida with 10 issues each.

Baird completed 17 financings totaling over $760 million in 2018 including the second largest charter school financing for the year for IDEA Public Schools in September of 2018 ($168.6 million Education Revenue Bonds, Series 2018). See below a summary of charter school bond issuances.

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CONTACT US
Brian Colon, Managing Director
Manager, National Charter School Finance Group
303-270-6335
bcolon@rwbaired.com

Jim Blandford, Managing Director
303-270-6331
jblandford@rwbaired.com

Brian Kelso, Managing Director
303-270-6337
bkelso@rwbaired.com

Stacey Leigh, Vice President
303-270-6340
sleigh@rwbaired.com

Yoon-Sook Moon, Vice President
303-270-6338
ymoon@rwbaired.com

Baird Update: Charter School Facility Financing
Important information as you consider facility financings
February 2019

CHARTER SCHOOL BOND ISSUANCE VOLUME 2013-2018

Top States Issuing Charter School Bonds 2018

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>#</th>
<th>Par (MM)</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Texas</td>
<td>8</td>
<td>$734.69</td>
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<tr>
<td>2</td>
<td>Arizona</td>
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<tr>
<td>3</td>
<td>California</td>
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<td>4</td>
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<td>9</td>
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BAIRD OUTLOOK FOR 2019 MUNICIPAL BOND MARKET

This transcript of Q&A with Baird’s fixed income analysts on their outlook for the municipal market is available [here](#). A short synopsis of discussion is provided below. **The bottom line for charter school borrowers: long-term tax-exempt charter school bond rates are likely to remain low by historic standards.**

**How has market volatility affected the municipal market?**
“The sources of volatility are the regular cast of characters – trade with China, Brexit, a slowdown in the economy, the budget deficit, domestic and foreign politics. There just happens to be more of it right now. The interesting thing is that municipal bonds haven’t been particularly volatile. It tends to be a very steady-Eddie asset class.”

“Year-over-year comparisons can be misleading right now – you’ll recall the huge spike in supply at the end of 2017, ahead of the tax reform legislation. Based on the number of ballot referendums approved in November, I’d say new money issuance is on the rise.”

**What has been the effect of the 2017 tax reform on the municipal market?**
“The biggest change for the municipal market was the reduction in the corporate tax rate to 21 percent. With this lower corporate tax rate, banks and property and casualty insurance companies – institutions that traditionally have benefited from the muni market’s tax advantages – have felt less of a need to participate, though this has been offset somewhat by increased participation by life insurers and overseas investors. Going forward, if it becomes clear that the Fed’s monetary tightening is taming inflation or if economic weakness emerges, then I’d expect investors to warm up to duration and high-credit quality, which are both municipal bond characteristics.”

**After four rate increase in 2018, what do you see happening with the Fed in 2019?**
“Right now, the probability of even one hike in 2019 is less than 20 percent. If the Fed came in and raised rates two, three or four times, that would likely surprise the market and flatten out the long end of the yield curve.”

**KNOW YOUR TERMS**
A yield curve is a graph depicting a bond’s yield as it matures. It typically slopes upward to account for additional risks investors take when purchasing longer-term bonds.

**What would a flat or inverse yield curve signify, and how would it affect the municipal market?**
“Municipal yield curve inversions are uncommon. Municipal yields follow Treasury yields directionally but not as dramatically, and I’d expect just a continued flattening of the curve for 2019.”

BAIRD OUTLOOK FOR THE US ECONOMY

- Stock market conditions likely to improve over the course of the year with new cyclical bull market emerging in the second half.
- Federal Reserve shifting toward data dependency as interest rates approach neutral level.
- Economic growth expected to slow, though domestic recession risk remains minimal; Upswing in productivity growth providing an unexpected tailwind for the economy.
- Earnings growth may have peaked, but that may not preclude expectations drifting higher, especially on signs of global economic recovery.
- Absent evidence of renewed inflation and improving global conditions, bond yields not likely to move meaningfully higher. We can expect low levels of interest rates to remain in 2019 for charter school borrowers.
SELECT BAIRD CHARTER SCHOOL FINANCINGS COMPLETED IN 2018

IDEA Public Schools
Rio Grande Valley, San Antonio, Austin, El Paso, and Tarrant County, Texas

$169,480,000 Education Revenue Bonds, Series 2018

September 2018
Baird served as Sole Managing Underwriter

This financing qualified for the Texas Permanent School Fund Guarantee Program resulting in a “AAA” rating by S&P (“BBB+” Underlying)

IDEA Public Schools
Mission: IDEA’s approach to education is focused on college preparation for all children. IDEA strives to prepare students in underserved communities for success in college and citizenship, thereby helping to break the cycle of poverty by empowering students and families to help themselves.

Financing Need:
- Financing to refinance the development of eight campuses located in the Rio Grande Valley, San Antonio, Austin, Tarrant County, and El Paso
- Improvements to five existing campuses
- Acquisition of land for future schools and other campus expansion

Financing Results:
- S&P Bond Rating of “AAA” Rated (NP Guarantees) / “BBB+” Stable Outlook Underwriting
- 30-year fixed rate financing
- Secured a True Interest Cost (TIC) of 4.17%
Baird Update: Charter School Facility Financing
February 2019

Pinecrest Academy of Nevada – Sloan Campus
Henderson, Nevada

$35,000,000 Education Revenue Bonds Series 2018A (Federally Taxable)

November 2018
Baird served as Sole Managing Underwriter

Pinecrest Academy of Nevada
Mission and Vision: The Charter School’s mission is to prepare students for college and career. The Pinecrest Academy’s vision is to be a school where scholars perform at the highest level on all academic measures.

Academic Excellence: The only charter school system in Nevada to receive a 5-star rating for each of its schools.

Financing Need:
- Finance the acquisition of approximately 24.25 acres of real property and construction of charter school facilities consisting of elementary and middle school facilities on the Sloan Canyon Campus.

Financing Results:
- 35-year fixed rate financing
- Secured a True Interest Cost (TIC) of 5.046%
- The Bonds were non-rated
- Security: consisted of only the revenues associated with the new campus and related land and improvements being financed

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Green Dot Public Schools
Los Angeles, California

$56,155,000 School Facility Revenue Bonds
- $35,570,000 Series 2018A (Federal Tax-Exempt)
- $20,585,000 Series 2018B (Tangible)

September 2018
Baird served as Sole Managing Underwriter

Green Dot Public Schools
Mission: To keep transforming public education so all students graduate prepared for college, leadership, and life.

Financing Need:
- To acquire, construct, expand, remodel, renovate, improve, furnish and equip educational facilities
- Refinance two existing Market Tax Credit (NMTC) loans
- Added four (4) schools to the group of schools that are obligated to repay the 2018 bonds and the existing 2013 bonds.

Financing Results:
- NMTC Bond Rating of “BBB-“ (Positive Outlook)
- 30-year fixed rate financing
- Secured a True Interest Cost (TIC) of 4.45%

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IMPORTANT DISCLOSURES

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