

## 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     | • Improvements   |
| • Land Acquisition | • Equipment      |
| • Refinancing      | • Reimbursements |

### NEW MARKETS TAX CREDITS (NMTCs)

Must be in a "qualifying area" defined by census track 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):

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|--------------------|------------------|
| • Construction     | • Improvements   |
| • Land Acquisition | • Equipment      |
| • Refinancing      | • Reimbursements |

## OTHER CAPITAL SOURCES

#### Bank Loans/Private Placements

- Short- and intermediate financing
- 5-10 years, 20-30 year amortization
- Appropriate for newer or seasoned schools
- Interim construction usually possible
- Can be taxable or tax-exempt; if tax-exempt, issuance process similar to tax-exempt bonds

#### Lease Purchase

- Usually developer driven
- Newer schools possible
- Can be a viable source of permanent funding, though typically at a higher cost
- May include rent/lease escalators
- Purchase option due diligence required

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