

BOND FINANCING AND COMPLIANCE

What Charter Schools Need to Know



RICHARD MORENO
PRESIDENT
BUILDING HOPE
SERVICES



MELISSA GROSS-ARNOLD,
ESQ.
BOARD CERTIFIED SPECIALIST,
EDUCATION LAW



DR. DOGAN TOZOGLU
EXECUTIVE DIRECTOR
RIVER CITY SCIENCE
ACADEMY

ACCESS TO THE MUNICIPAL BOND MARKET



- Tax-advantage borrowing
- Conduit gov. agency issues bonds with tax exempt rates on behalf of the school
- Bonds are purchased by an underwriter and then sold
- The conduit agency then lends the proceeds to the charter
- Interest rates on the bonds are based on the Charter Schools own credit merit
- Investors rely on the Rating Agencies for credit worthiness (cost of capital rates)
- Investors will require financial covenants, collateral, and/or monies set aside

BOND OPTIONS

*You need
to
determine
what suits
you best*



TYPES OF MUNICIPAL BONDS



GENERAL OBLIGATION BONDS – HIGHER CREDIT QUALITY

- Backed by “full faith and credit” or unlimited taxing powers of a gov’t entity
- Issuers will collect taxes in an amount sufficient to repay principal and interest
- Bondholders have “first call” on all taxes
- Requires taxing authority
- May require voter approval or be subject to certain limits on amount of debt which may be issued

REVENUE BONDS – LOWER CREDIT QUALITY

- Backed by a specific revenue stream
- Sources of payment matched to the project financed
- Users pay cost of project and financing
- A variety of revenues can be pledged to pay debt service
- Covenants with bondholders may limit additional bonding capacity

“WORKING GROUP”

- ***Borrower: Organization responsible for payment on debt***
 - (i.e. Charter School / Foundation)
- ***Registered Municipal Advisor: Building Hope/Richard Moreno***
 - Advises the borrower
- ***Issuing Authority or Issuer: Governmental Entity***
 - Serves as the conduit through which the bonds are issued to qualify as tax-exempt.
- ***Underwriter: Investment bankers***
 - Coordinate all aspects of the transaction
 - Review of all documents
 - Assistance in all negotiations
 - Pursuit of a credit rating and/or credit enhancement.
 - Purchase the bonds from the issuing authority and sell them to investors
- ***Printer: Company selected to print the Official Statement (disclosure document).***
- ***Rating Agency(s): Nationally recognized credit rating agency***
 - Reviews the structure of the transaction and the Borrower’s credit strengths and vulnerabilities.
 - Applies a formal rating to the bonds, if applicable.
- ***Consultant: Developer, Auditor, Feasibility***
- ***Architect/Engineer***

“LEGAL WORKING GROUP”

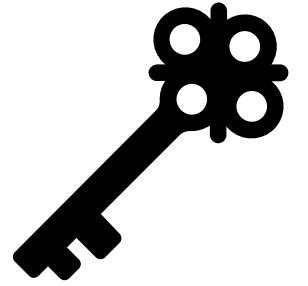
- ***Borrower’s Counsel:*** Lawyer responsible for protecting the interests of the Borrower
 - Negotiates transactions
 - Drafts Board resolutions & certain opinions
 - Provides corporate information to the working group
- ***Issuer’s Counsel: Lawyer***
 - Responsible for protecting the interests of the Issuer
 - Drafts resolutions, TEFRA hearing notice and certain opinions
- ***Bond Counsel: Representative for the bondholders***
 - Drafts several documents;
 - Reviews all transaction documents;
 - Delivers opinion on the tax-exempt nature of the bonds
- ***Underwriter’s Counsel:***
 - Draft the Official Statement, Bond Purchase Agreement and other underwriting documents;
 - Drafts an Opinion for Underwriter
- ***Bond Trustee (and Counsel):*** Bank or Trust Company
 - Holds the proceeds of the bonds and the funds established under the bond documents
 - Disburses proceeds; collects payments from Borrower; makes principal and interest payments to bondholders
 - Enforces Borrower’s obligations for the benefit of the bondholders.



ESTABLISH YOUR TEAM

- River City Science Academy (RCSA) Brief History
- RCSA Bond Financing Timeline
- Educating the team about Bond Financing
- Board and Leadership Team buy-in
- Start with your Board and Establish a Team
- Be realistic about the timeline
- Charter conference is an opportunity for networking!
- Complete your Background searches
- Acquire evidence of Prior Accomplishments!

KEY STAFF



Financial
Advisor

Legal
Counsel

Business
Office Staff

School
Leader

Board
President

Board
Secretary

Underwriter

Trustee

Bond
Counsel

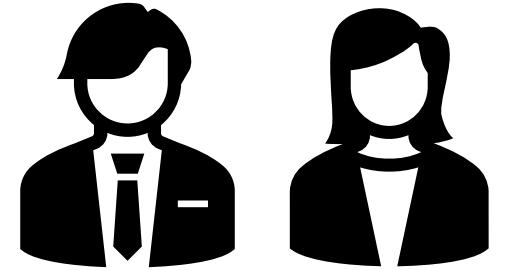
Issuer

ROLE OF SCHOOL STAFF: BEFORE & DURING

- Priority: Identify the project need and cost
- Bond Structure
- Update the Board periodically and layout expectations
 - Board resolutions
 - Rating (Fitch, Standard & Poor's Global, Moody's Investors Service) – RCSA Investment Grade BAA3
- Someone knows school history (usually school leader)
- Lots of data: usually prior 5-years
 - Financials, forecasts, enrollment, staffing, board and leadership background, academics, board policies, etc...
- Timeline and due dates
- Appendix A and Questionnaires
- Be ready for lots of Meetings and Presentations



ROLE OF SCHOOL STAFF: AFTER



If any, school projects follow-ups and fund requisitions

Payments

Know Reporting requirements and timelines (RCSA sample)

- Bond transcript _ 4500 pages 😊
- Quarterly, yearly, every five year, etc...

Make/request a to-do list

Auditor requests

Updates for any significant changes

Investor visits

Trust Indenture between Issuer and Trustee

- Defines terms for transaction.
- Interest rates and redemption dates.

Loan Agreement between Issuer and Borrower

- Provides for loan payments
- May contain payment schedule
- Financial and other covenants and reporting requirements
- Insurance Requirements-proof of insurance, insurance review, is there an insurance premium reserve?
- Capital Maintenance Assessment and Reserve Requirements
- Restrictions on Incurring Additional Indebtedness

Continuing Disclosure Agreement between Dissemination Agent and Borrower

- Overall reporting and disclosure requirements
- Still need to consult other documents

**ONGOING REPORTING AND DISCLOSURE
REQUIREMENTS-KEY DOCUMENTS**

Tax Certificate and Agreement between Issuer and Borrower

Post-Issuance Compliance Policy

**RESTRICTIONS ON USES OF FACILITIES FINANCED
WITH BOND PROCEEDS-KEY DOCUMENTS**

No religious use

No “private business use”

Unrelated trade or business use

Service Contracts

GENERAL
REQUIREMENTS
AND PROHIBITIONS



Identify Compliance
Director



What staff members need
to be trained?



How to ensure compliance
throughout term of bond?

COMMUNICATION AND TRAINING ON REQUIREMENTS



RICHARD MORENO
PRESIDENT
BUILDING HOPE
SERVICES
RMORENO@BHOPE.ORG



MELISSA GROSS-ARNOLD,
ESQ.
BOARD CERTIFIED SPECIALIST,
EDUCATION LAW
MELISSA@ARNOLDLAWFIRMLLC.COM



DR. DOGAN TOZOGLU
EXECUTIVE DIRECTOR
RIVER CITY SCIENCE
ACADEMY
DTOZOGLU@RIVERCITYSCIENCE.ORG