NEW MEXICO FINANCE AUTHORITY

Presentation to the
New Mexico Finance Authority Oversight Committee

Update on the Charter School Revolving Loan Fund

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Charter Schools - The Basics

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- Charter schools are public schools independently managed by a governing council that have flexibility on content and teaching methods.
  - Charter schools are funded with public dollars through many of the same mechanisms as schools operated by public school districts and have the same accountability when spending public dollars.
  - Charter schools are overseen by publicly-elected authorizers and are committed, through a public charter contract, to specific academic, financial and organizational performance. When charter schools fail to meet criterion specified in charter contracts, they are put on corrective action and may be ordered to close.
- Charters offer no cost education to any student that chooses to attend. Charters often seek to offer pioneering educational models including specialized pedagogy focused on arts, local culture and language, project-based learning, Montessori, blended learning and college prep.
- There are currently 100 charters throughout the state serving 29,016 students. ~70% of charters are in urban centers of Albuquerque (55%), Santa Fe (8%) and Las Cruces (7%), and the remainder in rural communities.

PUBLIC CHARTER SCHOOLS of NEW MEXICO

Sources: Public Charter Schools of New Mexico; New Mexico Public Education Department New Mexico Public Education Department Charter School Directory

New Mexico Charter Facilities Landscape

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- Securing quality educational facilities and expanding facilities to meet growing student populations and pedagogical needs is a challenge: relative to public school districts, charter schools lack comparable access to public funding resources to meet facility and student transportation needs.
- Charter school facilities needs vary largely depending on school size, pedagogy and geographic location.
- Projects range from shorter-term renovations and improvements, to longer-term expansion and acquisition of permanent facilities.
- In a recent survey by Public Charter Schools of New Mexico respondents indicated key challenges include:
  - lack of affordable financing
  - strained finances overall
  - lack of available educational facilities in rural areas
  - lack of facilities support from public school districts
  - insufficient cash to fund down payments

PUBLIC CHARTER SCHOOLS of NEW MEXICO

Source: Public Charter Schools of New Mexico;

NMFA Program Capabilities

- Multiple NMFA programs can finance charter school facilities projects, however capacity has been constrained by two principal factors: (1) the unique credit characteristics of charter school facilities projects, and (2) capital availability.
  - Charter schools (or authorizers, or public school districts on behalf of charter schools) are eligible to apply to the ***Public Project Revolving Fund (PPRF)*** to enter into lease purchase agreements (LPAs) to finance the acquisition of a permanent facility. Due to the uncertainty of future lease assistance revenues, these projects are challenging to underwrite on a cash flow basis. They are therefore underwritten based on appropriation risk, a risk category where PPRF has very limited capacity.
  - Under the ***Statewide Economic Development Finance Act,*** NMFA may act as a conduit for charter school non-profit foundations seeking to issue tax-exempt bonds to finance charter school facilities projects. Due to the uncertainty of future lease assistance revenues this capability has never been utilized.
  - The ***Charter School Facility Revolving Fund*** was created in 2022 and can lend to charter schools for the purpose of construction, expansion, renovation or to pay-off lease purchase agreements. This new program was capitalized with $10 million, sufficient capacity for one to three facilities transactions.
  - Also under the ***Statewide Economic Development Finance Act,*** NMFA has participated in charter school facilities financings utilizing new market tax credits and loan participations. There programs are less of a fit due to job creation criterion, where charter schools tend to rank lower than private sector economic development projects.

Credit & Structuring Challenges

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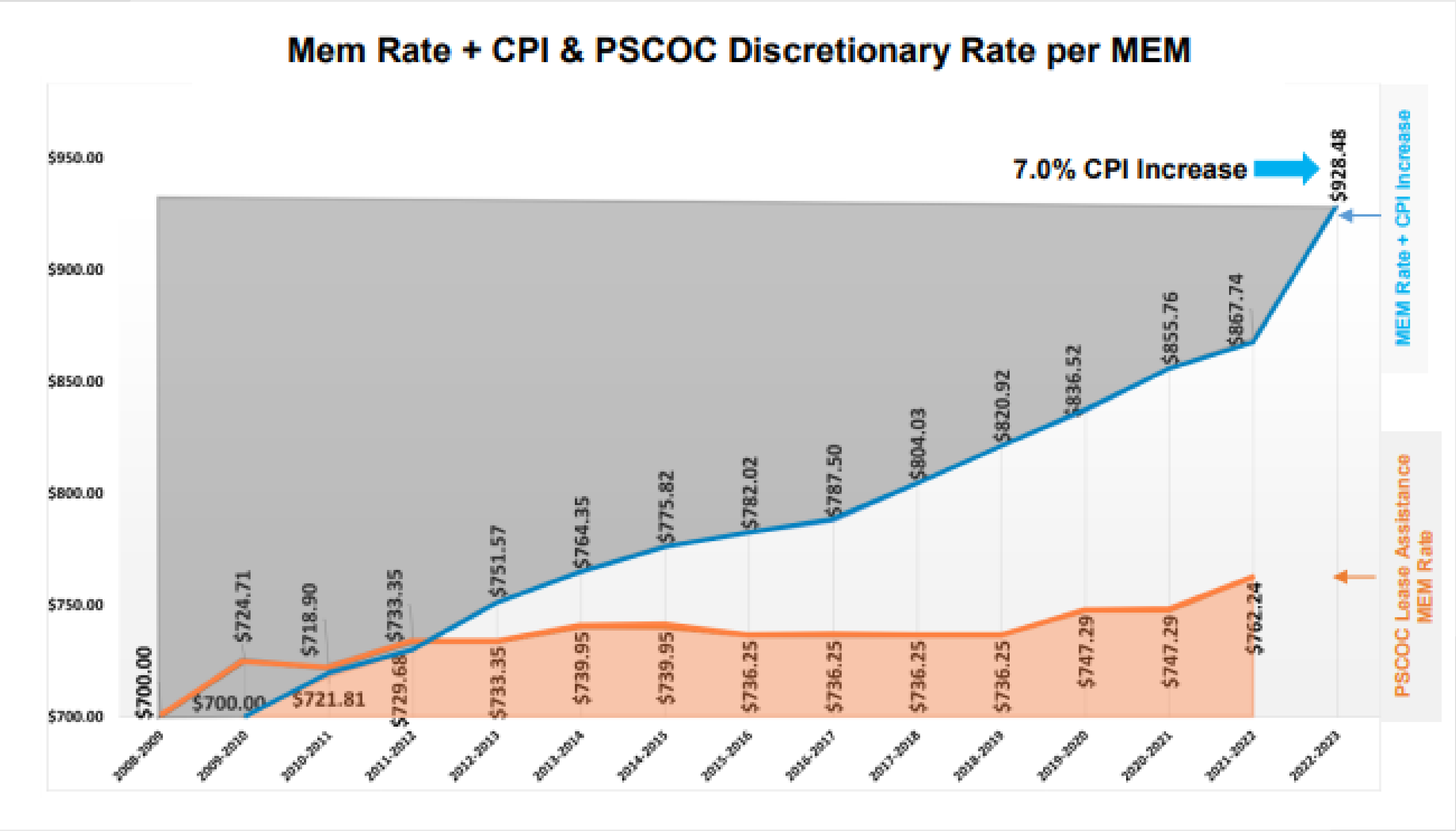
- Pursuant to the Bateman Act[1] it is unlawful for local school boards to become indebted beyond the current year. Therefore, in order to finance facilities projects, charter schools must enter into a lease purchase agreement (LPA).
- Lease assistance payments – the primary source of debt service – are subject to an annual discretionary Public School Capital Outlay Council grant award and funding process. Future annual per student MEM distribution amounts are subject to change.
  - In FY23, publicly funded lease assistance payments covered ~70% of total lease costs[2], leaving a funding shortfall charter schools must meet with operating funds intended for educational purposes.
- LPAs are collateralized by educational facilities, a niche asset with a limited secondary market, posing valuation and liquidation challenges.
- Charter school contracts may be suspended or revoked by an authorizer. Renewed charter school contracts have a maximum term of five years, creating potential for mismatch between the life of the borrower and loans of longer duration.
- Charter schools can lose lease assistance if they fail to meet standards for educational occupancy as determined by the relevant local authority.

(1) Link to full text of Bateman Act
(2) Source: Public School Facilities Authority

Historic Lease Assistance MEM Rate relative to CPI



Source: Public School Capital Outlay Council, October 11, 2022; meeting materials page 161

NMFA Charter Program Impact

Increasing transaction activity creates the following public benefits:

- **Save costs on public school facilities**
- **Improve quality of public educational facilities**
- **Improve access to specialized facilities**
- **Increase access to quality education throughout urban, rural and disadvantaged communities**

NMFA Charter Program Opportunities

- Improving credit characteristics (e.g. a guaranteed minimum lease assistance MEM rate, intercept, and similar mechanisms) could unlock significant capacity across multiple NMFA programs

  - The ***Charter School Facility Revolving Fund*** and ***Public Project Revolving Fund*** could operate in tandem to enter into LPAs with established charter schools (at least one renewal) to finance or refinance construction and acquisition of facilities.

  - Estimated total lending capacity of $250-300 million could be unlocked in second half of FY 2024.

  - Additionally, NMFA could activate its ability under the ***Statewide Economic Development Finance Act*** to act as a conduit for charter school non-profit foundations to issue tax-exempt bonds to finance facilities projects.

PCSNM – Legislative Priorities

- Improving credit characteristics via the Legislature
  - Mandating lease assistance in statute
  - Prioritizing funding for charter schools with active loans with NMFA
- Increasing funding in Revolving Loan Fund
  - Adding an additional $20m
  - In addition to solving for critical issues for charter school facilities, putting funds here are helpful for current budgeting scenario (non-recurring, can be recouped if unused)
- Creating an intercept of funding with the PSCOC