



NEW MEXICO
FINANCE AUTHORITY

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Presentation to the
New Mexico Finance Authority Oversight Committee

Update on the Charter School Facility Revolving Loan Fund

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October 9, 2024

House Bill 43/a

- ◆ House Bill 43 (HB 43/a) - '*Charter School Facility Improvements*' - was sponsored by Representatives Garratt, Dixon, Brown and Hernandez and Senator Correa Hemphill during the 2022 Regular Session
- ◆ The bill created the Charter School Facility Revolving Loan Fund within the NMFA to make loans to charter schools for the purchase, construction, expansion or renovation of facilities or to pay-off lease-purchase agreements
 - NMFA shall adopt rules to govern application procedures, requirements for disbursing loans and for determining eligibility
 - Applications must include:
 - Evidence lease purchase agreements are in accordance with the Public School Lease Purchase Act
 - Evidence a charter school's charter has been renewed at least once
 - A review of the last two audits of the charter school
 - Requires annual reports by each December 1st to the NMFAOC

Charter School Facilities

- ◆ Charter schools have existed in New Mexico for over twenty (20) years
 - There are currently ~100 charter schools throughout the state serving 32,054 students
 - ~70% of charters are in urban centers of Albuquerque (55%), Santa Fe (8%) and Las Cruces (7%), and the remainder in rural communities.
- ◆ Securing quality educational facilities and expanding facilities to meet growing student populations and pedagogical needs is a challenge for charter schools
 - 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 PCSNM facilities survey respondents indicated key challenges include: a lack of affordable financing; strained finances overall; lack of available educational facilities in rural areas; lack of facilities support from public school district; and insufficient cash to fund down payments

Charter School Facilities - Credit Challenges

- ◆ Pursuant to the Bateman Act¹ 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 Public School Capital Outlay Council (PSCOC) grant award and funding process. Future annual per student MEM distribution amounts are subject to change.
- ◆ In FY24, PSCOC lease assistance payments covered ~60% of total lease costs.² Facilities funding shortfalls are met with other operating funding, often funding originally 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.

1) [Full text of Bateman Act](#)

2) Calculated based on FY24 total lease assistance awards of \$21,866,558 on total lease payments of \$35,797,715 from the [12.6.2023 PSCOC eBook](#) pages 96-97.

Charter School Facilities - Credit Considerations

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School & Project

- ◆ Enrollment; size of current or projected student population
- ◆ Strength of administration, staffing, Board; community support for school
 - Overall financial health
 - Facilities expertise
- ◆ Educational quality; competitive environment for student attraction/retention
 - Charter contract renewals/track record
 - Performance compared to other schools in the community
- ◆ Facility project readiness
 - Total capital needs; ability to cover project cost overruns, maintenance costs
 - Site selection, lease terms, permitting
 - Construction risk; project management timeline and cost overruns

Structuring

- ◆ Contractual agreements and required approvals
 - Lease purchase agreement (LPA) must be approved by PED
 - LPAs have annual terms and PSCOC lease assistance payments are granted annually
 - Charter contracts have five-year terms
 - Affiliated foundations may act as landlords
- ◆ Relationship with authorizer, public school district, local county
 - Existence of mill levy / county level GRT
 - Availability of vacant school district facilities vs. new construction
 - Other measures of support/cooperation within District (transportation)
 - Charter granted via school district or PEC

Recent Developments

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- ◆ Legislation passed during the 2024 session:
 - House Bill 207 eliminated discretion for Public School Capital Outlay Committee to provide lease assistance to charter schools (if funding is appropriated by the Legislature, then it must be provided to the charter schools)
 - Included a number of charter school facilities projects on the PPRF Legislative Authorization List, which authorizes entities to apply to the PPRF for project funding
- ◆ Creation of the junior lien within the Public Project Revolving Fund expands program capacity for qualified entities with historically diminished access to PPRF funding due to credit considerations
 - Structuring/rating agency discussions throughout 2023
 - Creation of the junior lien approved by the NMFA Board in March 2024
 - Updated PPRF Rules approved by the NMFAOC in August 2024
 - Updated PPRF Loan Management Policies approved by the NMFA Board in August 2024

Charter Facilities Projects – Financing Options

- ◆ Refinancing Lease Purchase Agreements
 - Existing lease purchase agreements can be refinanced at a lower interest rate through the **Public Project Revolving Fund**
 - Permanent, long-term financing at a low fixed interest rate (post-construction period)

- ◆ Financing Construction/Renovation Needs
 - New projects financed by lease purchase agreements through the **Charter School Facility Revolving Fund**
 - Construction/renovation project financing
 - Shorter-term; transfer to PPRF upon project completion/post construction

Potential Impact & Next Steps

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- ◆ Charter School Facilities Projects – Potential Impacts
 - Save costs on public school facilities and facilities projects
 - Improve quality of public educational facilities
 - Improve access to specialized facilities
 - Increase access to quality education throughout urban, rural and disadvantaged communities

- ◆ Next Steps
 - Charter School Facility Revolving Loan Fund - Rule & Policy framework
 - Application and systems development
 - Collaboration with PSFA, PSCOC, PED and PCSNM
 - Targeting application launch before the end of 2024