

A Little Debt From Your Friend How CECFA can help finance facility improvements and construction

The Colorado Educational and Cultural Facilities Authority (CECFA) was established by the Colorado Legislature in 1981 to help finance facilities for cultural and educational organizations in Colorado and in 2000 across the country. Over the past thirty plus years, CECFA has issued more than \$6 billion in tax-exempt bonds to facilitate renovation and new construction for many dozens of schools, universities, museums, arenas, recreational facilities, performance venues, and offices. More importantly for League members, CECFA is the nation's largest issuer of tax-exempt bonds for charter school facilities, so we understand charter schools and have extraordinary experience in getting facilities projects financed.

As a charter school official, you may have wondered and/or despaired about how to spread your PPR even thinner to cover facilities improvements or additions. If your school is well-managed and has good financials and enrollment prospects, you might consider borrowing money to finance your facility changes. The costs of the new or improved facility could be repaid over time from the additional revenue (enrollment and fees) generated by the improvements. To be sure, a decision to borrow must be carefully made, and the range of options is fairly limited. This short article will summarize one borrowing option that is available in Colorado only through CECFA: tax exempt bond financing backed by Colorado's "Moral Obligation" credit enhancement program.

Let's imagine that your school has been in existence for five years. Let's say it has about 400 students, a wait list of two hundred more, and continued enrollment growth seems likely. Financials are solid, not tremendous, just solid, including an unrestricted reserve sufficient to cover about a month of operation. Things are good, but they could be better if only the school had a sports field, or newer classrooms, or more classrooms. Maybe a grade expansion or a new school building. If these kinds of changes can be supported through current and projected enrollment, the school may be able to attract an investor to purchase tax-exempt bonds issued by CECFA. Such bonds have an advantage over a taxable loan by offering lower interest rates and often over a traditional bank loan by offering a longer term. Interest rates can be lowered even further if your school (and the transaction) qualifies for the "Moral Obligation" credit enhancement program.

Under C.R.S. 22-30.5-407 and 408, the Moral Obligation program the State has created a reserve fund for the benefit of all schools participating in the Moral Obligation Bond program and has agreed to consider an appropriation to pay debt service on your bonds if that reserve fund is exhausted. The Moral Obligation Program allows the bond underwriter to charge the lowest interest rate to the borrowing school. More than 30 Colorado charter schools are enrolled in this program, which has catalyzed approximately \$400 million for facility financing. Thanks to a change in CECFA's statute last year, there is now an additional \$100 million that can be allocated to this program.

In order to qualify for CECFA's Moral Obligation program, a school must meet the following minimum requirements:

- Investment Grade Rating: A charter school which has an investment grade rating from a nationally recognized rating agency is eligible to use State's Moral Obligation program as credit enhancement for the bonds being issued on behalf of the charter school. CECFA will accept an application from a charter school for a moral obligation financing based on the representation signed by the school's investment banker or financial advisor that he/she reasonably expects that the school will obtain the required investment grade rating.
- Audited Financial Statements: A charter school must have been in existence for at least three years and submitted audited financial statements to CECFA for the most recent three years.
- Application and Review: Complete and submit the CECFA Standard Borrower Application and receive agreement from CECFA to issue the bonds and enroll the charter school in the Moral Obligation program. For more information on the application, please visit <http://www.cecfa.org/appprocess.html>.

Enrollment in the Moral Obligation program brings with it great responsibility, since the failure by the school to pay its bonds will result in a request to the State for payment which if not made may adversely affect Colorado's credit rating . Failure to make payments and otherwise comply with the program's requirements could jeopardize not only the borrowing school but also CECFA's capacity to issue bonds for other credit worthy charter schools, and possibly other educational and cultural institutions.

It should be noted that obtaining the investment grade rating has become more difficult in recent years as the ratings agencies active in this sector have shrunk to just S&P, which has also added requirements and reviews to its process. Nevertheless, CECFA encourages charter schools to evaluate their candidacy for this program. In the event that your school and/or transaction does not qualify for the Moral Obligation program, CECFA can still issue tax-exempt bonds for facility improvements and expansion, albeit at a rate higher than what would be available through the Moral Obligation program but lower than what would be available through a taxable loan.

CECFA's process to evaluate and issue tax exempt bonds is fairly straightforward and is the same for bonds issued under the Moral Obligation program or not. The CECFA process is described in detail at <http://www.cecfa.org/boardprocess.html>, but here are the highlights:

1. Submit an application for financing: Feel free to consult with CECFA staff for assistance.
2. Inducement Resolution: CECFA produces a Project Summary that includes general information about the borrower and informs the Board of Directors of the nature of the proposed financing. If the CECFA Board wishes to proceed, it will adopt an Inducement Resolution to declare the preliminary intent of the CECFA Board to issue bonds to finance the project, subject to completion of all legal documents.

3. Preliminary Agreement: After approval of the Inducement Resolution, the borrower and CECFA execute a Preliminary Agreement. The Preliminary Agreement describes the responsibilities and fees of CECFA. The Agreement must be signed and returned in order for CECFA to continue working on the transaction.
4. TEFRA Hearing: A TEFRA hearing should be completed and the State Treasurer's TEFRA approval must be signed prior to the Board's final review and approval. A TEFRA hearing is required by Federal law and is simply the opportunity for members of the general public to comment on the transaction. It is extremely rare for any testimony to be given at this hearing.
5. Final Review & Approval: The CECFA Board will entertain a final Financing Resolution only after all documents relating to the transaction are substantially complete.
6. Document Execution: Once the Financing Resolution is approved, the closing documents can be executed. Closings should be coordinated through the Executive Director.

We encourage you to review our website www.cecfa.org and to give us a call or email to discuss how CECFA can help realize your school's facility financing goals.

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