

POLICY AND PROGRAM SERVICES REPORT HIGHLIGHTS

Implementation of the Credit Enhancement for Charter School Facilities Program

The Credit Enhancement for Charter School Facilities Program was established in 2001 to address a critical problem faced by many charter schools – lack of suitable facilities and inability to obtain financing to secure suitable facilities. Unlike public schools, charter schools typically do not receive funding from their school districts to purchase, lease, or improve facilities. Moreover, charter schools generally cannot issue bonds backed by property taxes to finance facilities. Securing financing for facilities is particularly problematic for start-up and new charter schools because they lack tangible assets and an operating history that lenders can use when evaluating mortgage loan applications. As a result, charter schools frequently operate in temporary space that is poorly suited for delivering educational services.

In response to this situation, the U.S. Department of Education established the Credit Enhancement for Charter School Facilities Program. The program makes competitive grants to eligible public entities to provide credit enhancements to absorb some of the risk of making loans to charter schools. This report presents findings from a descriptive study that examined implementation of the program and documented loan activities facilitated by the program.

Study Design:

This study focuses on the nine organizations that received grants in FY 2002 through FY 2004. It was guided by the following research questions:

1. How does the program work in achieving its legislative purpose? Does the program as implemented provide for improved access of charter schools to capital markets for facilities? Does the program as implemented provide for better rates and terms on financing than would otherwise be available for the charter schools served by the program grantees?
2. Is the program serving communities with the greatest need for public school choice?
3. What is the relative efficiency of the models of service being used by grantees of the program?
4. What evidence is there of the use of innovative methods?
5. What are the major issues with program implementation? Do grantees and charter schools served have insights into how the program might be improved?

The study draws on information from the following sources: (1) program applications and annual performance reports submitted by grantees during the program's first three years; (2) discussions with grantees, a sample of unsuccessful applicants, representatives of key sectors of the facilities lending market, and staff of nine schools assisted by grantees; and (3) data from secondary sources that included the U.S. Census, the Common Core of Data (CCD), and the US Treasury website.

Key Study Findings

- Data from annual performance reports indicated that the grantees included in this study provided credit enhancements that facilitated a total of \$168 million in loans to 84 schools that served over 23,000 students. Demographic information obtained from the Common Core of Data, the U.S. Census, and representatives of assisted schools indicated that students in the assisted schools are more likely to be low-income and minority than are students enrolled in all charter schools and all U.S. public schools.
- According to grantees, commercial lenders, and other participants in the facilities lending market, many of the assisted schools would not have received facility loans *at any price* before the program, since lenders believed that these schools reflected a prohibitively high level of risk. With the credit enhancements made available by the Program, assisted schools received loans with rates and terms that were better than would otherwise be available.
- Although two grantees used a mix of approaches in providing assistance to charter schools, other grantees used one of two distinct service models. Analyses of loan-level data from performance reports and discussions with grantees and assisted schools suggested that the two approaches may provide a trade-off. Grantees using one model used program funds to enhance loans made by third parties. These grantees made loans more quickly after receiving grants, since they often used the enhancement for loans that already had been approved by lenders, subject to a credit enhancement. Grantees using the other model took the lead in evaluating applications and making loans to charter schools. After receiving grants, they took longer to make loans because they generally had to negotiate with investors to establish terms and conditions for the loan pools they created using investor funds. However, because these grantees set their own underwriting standards, they were able to make loans to more risky charter schools.
- Loan-level data and information provided by grantees and assisted schools indicated that grantees are using innovative methods that help charter schools, especially smaller and newer schools, tap into private sources of funds that previously were not available to them.