Idaho Charter Facility Ecosystem

10 Years of Evolution and Learning

The Facility Challenge

How does Bluum empower new charter schools to construct and own affordable, high-quality facilities as they open their doors – in the state with the lowest per-pupil funding in the nation?

Our Approach – After 10 Years – Three-Stage Financing 'Ecosystem'

<u>Address the Whole Facility Financing Ecosystem</u>: Develop creative, cost-effective financing solutions – that are right for your state - for each part of the 3-stage facility Ecosystem. In Idaho, grant support is also needed.

<u>Partners Matter–Quality Matters</u>: Bluum partners with philanthropy, the State of Idaho, the federal government, Building Hope and private lenders to finance facilities. Each step along the way has a high bar for entry (academics, operations, finances, leadership) – schools must earn the right to participate. This helps with underwriting and ensures we are launching high-performing schools.

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Stage 1: Predevelopment – Bluum Loan Guarantee Program

The Predevelopment Challenge

Proposed new schools do not have students (income) or a financial track record; they do not meet traditional underwriting metrics. Yet, these schools need low-cost funds (up to $700,000) to conduct due diligence on properties, hire architects, secure an owner's representative, develop a project budget, commit earnest money, etc. Schools perform these predevelopment activities to seek and secure construction financing. This is high-risk capital.

Our Predevelopment Approach – Loan Guarantee Backed by Federal Grant Funds and Fellowship Program

In 2022, Bluum secured a $3.5M USDOE Credit Enhancement (CE) Grant – Bluum's *Facilities for Our Future* Program.

- For schools that meet underwriting criteria (30 factors analyzed), Bluum guarantees up to $700,000 in predevelopment loans.
- Schools receives a 3% loan from Bluum's pre-established banking partner using pre-negotiated loan/guarantee documents.
- Bluum reviews and approves all loan disbursement requests (typically monthly) and provides technical assistance to school.
- No payments during loan term. Schools pay off the predevelopment loan when they secure construction financing.
- The bank releases Bluum's $700,000 guarantee. The funds recycle back to Bluum for redeployment.
- Program capacity is 5 loans at a time. 7 schools have utilized the program to date. Zero defaults.
- During the predevelopment period (Year -1), Bluum funds a 'fellowship' for the school leader. The fellow prepares the charter, prepares 5-year budgets in partnership with Bluum, and perfects the academic model = builds lender confidence for Stage 2.

Predevelopment → Build and Launch → Long-Term Financing

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Stage 2: Build and Launch – 5-Year Construction Loans

The Build and Launch Challenge

Charter schools receive approx. $380/student/yr. in state funds for facility debt; they pay the remainder of their facility debt using state operating funds. Idaho charters receive **no local funds** for facility financing or operations. Given that, charters must access *low interest loans* ***and*** *philanthropy* to prevent their facility debt service from severely impacting the quality of their educational programming and/or placing the school at risk of financial collapse as the school builds up enrollment in years 1-4.

Our Approach – Albertson Foundation Revolving Loan Fund (JKAF RLF) paired with State RLF (State RLF)

- In 2014, JKAF funded the $33.6M JKAF RLF, managed by Building Hope, to finance facility construction for qualifying charters.
- JKAF RLF provides 35% of construction financing at 3% interest and takes a subordinate position to attract senior lenders. Both loans are 5-year terms w 25-year amortization. Bluum ensures annual facility debt does not exceed 20% of revenues.
- 26 schools utilized JKAF RLF with zero defaults. In 2022, used this success to advocate for a state-funded RLF. Did not pass.
- In 2023, state legislature passed the $50M State RLF - $2.5M per school at .5% interest. State RLF loan is senior to JKAF RLF & subordinate to the senior (private) lender – aka 'three-tiered debt stack'. Result is a 4.2% blended rate v. bond rates of 7.5%.
- Plus: JKAF Grant + Bluum-managed federal CSP Grant = $3M in grant support to school = philanthropy is key.
- To access loans, schools meet underwriting criteria of 3 lenders) = high bar for entry = ensures strong operations, finances and academics.
- On a $16M facility build w 5-yr loan w 25-year amortization = 4.2% blended rate v. 7.5% bond debt = *$838,614 in annual savings*. ***See Slide 5***.
- In its first four years, the school has $3,354,456 more to spend on programming and building up financial strength.
- Bluum provides intensive support as partner schools launch/grow – back office, special education, board trainings, etc.
- With this support, in year 4, schools are well-poised to undertake the process of securing long-term bond debt.

Predevelopment → **Build and Launch** → Long-Term Financing

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Stage 3: Long-Term Financing – State-Backed Tax-Exempt Bonds

The Long-Term Financing Challenge

Securing bond financing with favorable terms was challenging for Idaho charter schools for most of the state's charter history, largely due to our low per-pupil funding. Schools that were able to secure long-term bonds faced high interest rates resulting in annual debt service loads that limited programming and negatively impacted financial stability.

Our Approach – Statutory Charter Facility Credit Enhancement Program (17 schools - No defaults)

- In 2019, Idaho passed the Charter School Facilities Program (Program) - the State 'enhances' facilities bonds for qualifying charter schools; high bar for entry in statute. In today's market, the Program decreases bond rates by 200 basis points.
- In 2019, Program capacity was $122M. Increased to $240M in 2021. In 2024, statute was amended to tie Program capacity to Program reserve amount. With $40M in reserve, Program capacity is approx. $750M and the state is well-protected.
- Schools accessing Bluum's Stage 1 and Stage 2 tools, including receiving robust Bluum technical support throughout and JKAF and federal CSP Grant awards of up to $2 million = meet the Program's high bar for entry.
- For $16M project with 35-year bonds = **<u>$780,000 in *annual* savings for school; $27M over 35 years.</u>** ***See Slide 5.***
- Bluum technical assistance continues to ensure high-performing academics, finances and operations over long term.

Predevelopment → Build and Launch → **Long-Term Financing**

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Bluum Ecosystem v. Stand-Alone Bond Financing

		With Bluum		Without Bluum	
Year -1	Predevelopment Loan	$ 700,000		$ 700,000	
	Predevelopment Interest	$ 21,000	3.0%	$ 70,000	10.0%
	Total Predvelopment cost:	$ 721,000		$ 770,000	
Year 0-4	Project Cost (Land & Construction)	$ 15,300,000		$ 15,300,000	
	Predevelopment Loan Repayment	$ 700,000		$ 700,000	
	Total Project Cost, Building:	**$ 16,000,000**		**$ 16,000,000**	
	Funds needed to purchase FF&E, Busses, Technology, Curriculum, and startup (Y0) staffing, without JKAF and CSP grants	Philanthropy		$ 3,000,000	
	Total Project & Startup Costs:	**$ 16,000,000**		**$ 19,000,000**	
	Predevelopment Interest Repayment	$ 21,000		$ 70,000	
	Bond Debt Reserve	$ -		$ 1,930,000	
	Bond Issuance Costs	$ -		$ 500,000	
	Bank Underwriting Fees & Legal	$ 229,500		$ -	
	Total Borrowing Need:	**$ 16,250,500**		**$ 21,500,000**	
	Bonds			$ 21,500,000	7.5%
	CDFI - Building Hope	$ 3,500,000	3.0%	$ -	
	State RLF	$ 2,500,000	0.5%	$ -	
	Primary Lender	$ 10,250,500	5.5%	$ -	
	Total Borrowing Provided:	**$ 16,250,500**	4.2%	**$ 21,500,000**	7.5%
	Annual Payments:	$ 1,090,166		$ 1,928,779	
	Annual savings, first five years:			**$ 838,614**	
Year 5-35	Remaining to Refinance, Y4	$ 13,750,500			
	Bond Debt Reserve	$ 1,146,500			
	Bond Issuance Costs	$ 500,000			
	Bank Underwriting Fees & Legal	$ -			
	Total Borrowing Need:	**$ 15,397,000**	5.5%		
	Annual Payments:	$ 1,147,836		$ 1,928,779	
	Annual savings, next 30 years:			**$ 780,943**	
	Total savings, 35 years:			**$ 27,621,360**	

Bluum schools = streamlined, quick process to secure low-interest funds. Others, very difficult – and expensive - to secure this high-risk capital.

The JKAF and CSP grants enable schools to purchase furniture, technology, busses, kitchen equipment, etc. – and to hire key school staff early. This model assumes other schools borrow/finance these funds via bond debt.

Model assumes non-Bluum schools secures bond financing at this stage; Bluum schools utilizes the JKAF RLF + State RLF + Private bank loan. Bluum school borrows $5.25M less.

Recent unrated charter facility bond deals are at 7.5% or above. The blended interest rate for the Bluum-supported school is 4.2% (on $5.25M less borrowed).

As the Bluum school launches (Year 1-4), the school saves $3,354,456 on facility-related expenses. Bluum schools direct these funds toward academic programing and strengthening finances in preparation for securing long-term bond debt.

Bluum schools enter the bond market at this stage, accessing the State Credit Enhancement Program. In today’s market the State CE Program decreases bond interest rates by at least 200 basis points = 5.5% v. 7.5% = $780,943 in annual savings on facility costs.

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