

ZIEGLER INVESTMENT BANKING

K-12 & CHARTER SCHOOL FINANCE Z-NEWS

Page 1 | December 2023

FEATURED ARTICLE

NAVIGATING THE CURRENT FINANCIAL LANDSCAPE: OPPORTUNITIES TO REPURCHASE BONDS

In an era marked by interest rate volatility and rapid market changes, non-profit charter schools face unique challenges and opportunities. Ziegler Investment Banking will host a webinar on [Thursday, December 14 at 2:00 PM ET / 1:00 PM CT](#) in helping charter schools make informed decisions of purchasing back outstanding debt in the secondary tax-exempt public markets. The webinar may be accessed through the button below.

JOIN WEBINAR »

The Fed funds rate, which saw its first increase in March 2022 since December 2018, is currently 5.33% — a level last observed in early 2001. This rise in rates has led to a shift in U.S. treasury yields and tax-exempt public fixed interest rates, directly affecting the financial strategies of charter school organizations that have outstanding tax-exempt debt or plan to issue tax-exempt debt.

The rapid rise in interest rates, combined with healthy reserves coming out of COVID, may provide an opportunity for charter schools to purchase their own outstanding debt and invest in themselves if they have public fixed rate bonds outstanding. Due to lower bond valuations and the liquidity needs of funds/investors, these bonds may be potentially purchased at a discount to their face values. This could present an opportunity for charter schools to reduce outstanding debt and annual debt service, enhance financial stability, and achieve greater refunding savings and more flexible terms.

The two main strategies for purchasing bonds in the secondary market include purchasing bonds at discounted rates and holding them as investments (“buy and hold strategy”) or canceling them to reduce debt obligations (“cancel strategy”). Each approach has advantages and considerations, such as the impact on the organization’s days cash on hand and overall credit profile. Ziegler’s investment banking team is here to help you decide on the right parameters and execute these strategies if you deem them appropriate.

To facilitate secondary market purchase, a charter school organization needs to:

- Determine the price it is comfortable paying and the amount it is willing to spend to buy back bonds;
- Work with its investment advisor to create an account to hold bonds and ensure that cash is available to make the purchase;
- Review the planned transaction with bond counsel, corporate counsel and its auditor to ensure compliance with tax regulations, bond documents and any potential disclosure requirements;
- Reach out to Ziegler to discuss parameters around which an organization is willing to purchase their bonds

Ideal candidates are bonds that have low coupon rates, longer-term final maturities and call dates at or beyond 2024. Below is an example of potential purchase prices based upon prevailing market conditions as of November 1, 2023.

Maturity	Rating	Call Date	Coupon Rate	Market Price ⁽¹⁾
01/01/51	BBB	01/01/28	4.00%	70 – 72%
01/01/51	BBB	01/01/28	5.00%	85 – 87%

(1) For illustrative purposes only.

By exploring secondary market bond purchases and adapting to the changing market conditions, charter schools, working with trusted partners like Ziegler, can create exciting opportunities to invest in themselves and their future.

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CAPITAL :: INVESTMENTS :: ADVICE

ZIEGLER FINANCING

ZIEGLER CLOSES FINANCING FOR AMERICAN LEADERSHIP ACADEMY IN QUEEN CREEK, ARIZONA

American Leadership Academy (“ALA”), a public Pre-K-12 school district, and Charter One, LLC, an all-inclusive Educational Management Organization, operate together 17 campuses that enroll over 12,000 students across Arizona. ALA proudly completed new improvements, including athletic facilities at two campuses and a new education building.

ALA’s construction project was financed with municipal bonds issued through The Industrial Development Authority of the County of Pima, and underwritten by Ziegler. The Series 2021 and 2022 bonds have a final maturity of 35 years with an overall True Interest Cost of 3.89%. Ziegler priced the Series 2022 Bonds in November 2021 subject to a 4-month forward delivery and closed in March 2022, completing the first forward refunding for a non-rated charter school.

\$141,505,000 Series 2023

ALA is proud to acquire the West Foothills facilities for \$60,817,565, the Anthem Expansion Facilities for \$23,510,527, and begin construction on a performing arts center for approximately \$18,250,000. The Series 2023 Bonds are nonrated and were issued through The Industrial Development Authority of the City of Sierra Vista. Ziegler structured the bonds to achieve a level aggregate debt service through final maturity on June 15, 2058, wrapping around the existing bonds and leases.

AMERICAN LEADERSHIP ACADEMY

“Ziegler took the time to understand our model and designed a creative plan of finance to lock in historically low-interest rates through a forward refunding structure that allowed us to close sooner than we had anticipated. If we had waited, then interest rates would have been too high for us to achieve any meaningful cash flow savings. We strongly recommend Ziegler for their creativity, market expertise, and commitment to the long-term financial success of your organization.”

– Bob Plowman, Chief Financial Officer

This client’s experience may not be representative of the experience of other clients, nor is it indicative of future performance or success.



THE MARKETS

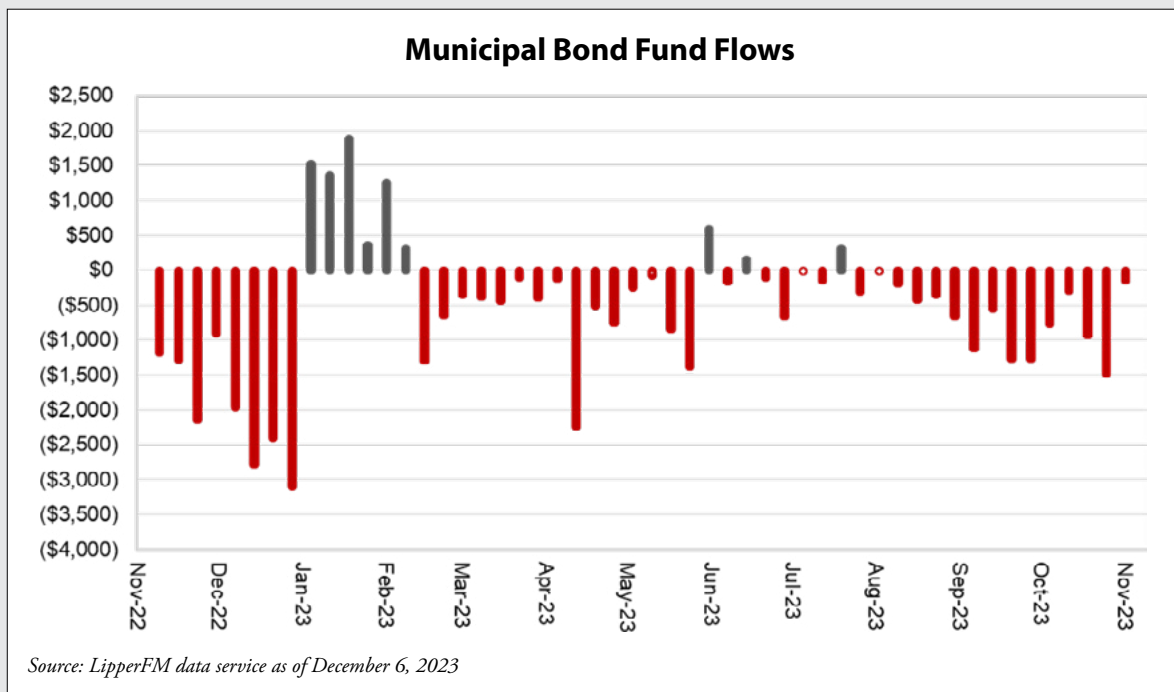
UPDATE: MUNI BOND FUND FLOWS

Muni funds have seen \$ 24.206 billion net outflows over the past 12 months. For the week ending December 1, 2023, municipal bond funds saw \$100 million of outflows. In 2023, there has been 10 weeks of inflows and 38 weeks of outflows. In 2022, there were five weeks of inflows and 47 weeks of outflows. In 2021, there were 47 weeks of inflows and five weeks of outflows.

The changing bank market landscape, marked by a transition from the LIBOR Index to the SOFR Index, has brought additional challenges. Banks have tightened their lending criteria for the charter school sector, impacting credit availability. This situation necessitates charter school organizations to be more strategic and innovative in managing their finances.

This has led to substantial changes in the bank lending environment, including:


- Increasing in credit spreads (amount banks charge in addition to index rate)
- Shortening commitment periods
- Proposing more restrictive financial covenants
- Increasing deposit requirements
- Tightening loan-to-value requirements



RECENT PRICINGS

- Unity Classical Academy, CO (6.94% / NR / 35 year)
- Riverwalk Academy Project, SC (7.38% / NR / 35 year)
- Pioneer Tech & Arts Academy, CO (7.56% / NR / 7 year)
- Colorado Skies Academy, CO (7.00% / NR / 7 year)


FEATURED FINANCINGS



**Unity Classical
Charter School**
A Challenge Foundation-Ç Academy
Unity Classical
Charter School
Steele Creek, North Carolina

New Money
NOVEMBER 2023

\$29,610,000



**Global Outreach
Charter Academy**
Jacksonville, Florida

New Money
NOVEMBER 2022

\$24,455,000



**Optima Classical
Academy at Gladiolus**
Fort Meyers, Florida

New Money
OCTOBER 2023

\$29,150,000

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