ZIEGLER INVESTMENT BANKING
K-12 & CHARTER SCHOOL FINANCE Z-NEWS
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FEATURED ARTICLE

NAVIGATING THE WATERS OF ESSER

In response to the challenges schools across the country faced during the COVID 19 pandemic, Congress provided additional federal funding to K-12 schools through the Elementary and Secondary School Emergency Relief Fund ("ESSER"). Funded in three tranches through the CARES Act, CRRSA Act, and ARP Act, ESSER funds presented both opportunities and challenges for our clients. To understand how charter schools are navigating the intricacies of ESSER, we recently met with Steve Robinson, the Chief Business Officer of Literacy First Charter Schools ("LFCS").

Founded in response to community needs, LFCS initially received its charter in 2001 and began in El Cajon, California with about 114 students from kindergarten to third grade. Today, the program encompasses four public charter school campuses located in El Cajon and La Mesa, California, as well as one distance learning program. LFCS believes that it enables students to become literate, self-motivated, lifelong learners by providing a multi-cultural, student-centered environment in which all students are held to high academic and behavioral standards, work in collaborative relationships, and perform service to the greater community.

While not eligible for ESSER I funds, LFCS received approximately $1.1 million from ESSER II and just under $2 million from ESSER III. Initially, Steve was taken aback by these substantial amounts but later came to recognize it as a once-in-a-lifetime opportunity to advance the school's mission and programmatic needs.

Maintaining Academic Integrity

A significant challenge during the pandemic was the rapid return of students to the campus. Schools in California closed their doors on Friday, March 13, 2020. By Monday, March 16, 2020, LFCS had established a distance learning plan, and by the following day, students began their online education.

In the fall of 2020, LFCS safely transitioned to 100% in-person teaching for grades K-5 and implemented a hybrid learning program for grades 6-12. By mid-April 2021, all grades had returned to 100% in-person teaching, almost an entire school year ahead of the local education districts.

During the pandemic, LFCS administrators and staff worked tirelessly to minimize disruptions to student learning. While data for the 2022-23 school year has not yet been released, 2021-22 CAASPP results indicate that LFCS's efforts to mitigate learning disruptions were not in vain. The chart below compares LFCS's historical test scores with those of the local area and the entire state.

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2022 CAASPP Data Test Data Comparison – Percentage of Students Scoring Standards Met or Exceeded				
ELA	**LFCS**	**CA – Statewide**	**Cajon Valley / GUHSD**	**LFCS over District**
3rd	62%	42%	30%	32%
4th	60%	45%	34%	26%
5th	67%	47%	36%	31%
6th	64%	45%	35%	29%
7th	69%	49%	42%	27%
8th	78%	47%	36%	42%
11th	81%	55%	59%	22%
Math	**LFCS**	**CA – Statewide**	**Cajon Valley / GUHSD**	**LFCS over District**
3rd	65%	43%	32%	33%
4th	59%	39%	29%	30%
5th	51%	32%	21%	30%
6th	59%	32%	23%	36%
7th	45%	32%	23%	22%
8th	48%	29%	18%	30%
11th	48%	27%	29%	19%

Source: LFCS Management

Allocation of ESSER Funds

One of the biggest concerns of LFCS during and after the pandemic was a shortage of staff. Steve said, “We felt that without our staff and teachers, we wouldn’t have a program, so we focused our funds on staff recruitment.” Thus, LFCS decided to allocate 70% of the funds for staff retention bonuses, providing much needed moral support. Staff are to be paid in October, January, and June, and each employee is expected to receive a total of $3,000 from the ESSER funds if they stay throughout the year. Although the impact of these bonuses is difficult to correlate directly to retention, the majority of LFCS teachers for the 2023-24 school year were with the school prior to the pandemic.

Designating 20% of funds for long-term facility improvement objectives, LFCS repaired a faulty HVAC system and aligned its infrastructure and capital improvement plans with strategic use of one-time funds and permissible purposes. While some ESSER funded capital improvement projects were part of existing capital improvement plans, all ESSER-funded capital projects were pre-approved by the California Department of Education and direct responses to COVID.

The remaining 10% was invested in technology. LFCS replaced computers and smart boards in the event of reverting to remote learning in case of another pandemic.

Administrative Considerations

One of the main challenges was ensuring LFCS complied with all the regulations and guidelines related to ESSER funds. Because ESSER funds were awarded based on participation in the Title I program, which was new to LFCS, the school had to quickly comply with all the Title I regulations and reporting requirements. With all the new federal revenue, the school had to track interest earned on federal funds and complete quarterly expense reports. Steve found the compliance and reporting on the Title I funds more challenging that those of the ESSER funds.

Laying the Foundation for a Successful Future

Steve approached the use of one-time income with great caution, ensuring it was spent only on one-time expenses. He warned that schools that commit one-time income to ongoing expenses would risk their long-term financial stability when the funding dries out.

LFCS projects that all its ESSER funds will be used by next September 2024, hopefully avoiding any interest costs arising from holding onto federal funds for too long. Steve has conducted extra due diligence to ensure that LFCS is on track in managing its ongoing expenses from a budgetary standpoint.

Steve also pointed out that ESSER had a positive impact on LFCS’s financial statements, which show that the school is currently in a much stronger cash position than when the pandemic began. By matching these one-time funds to one-time expenses, LFCS has been able to use ESSER funding to help establish a strong financial foundation for the school and its mission.

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THE MARKETS

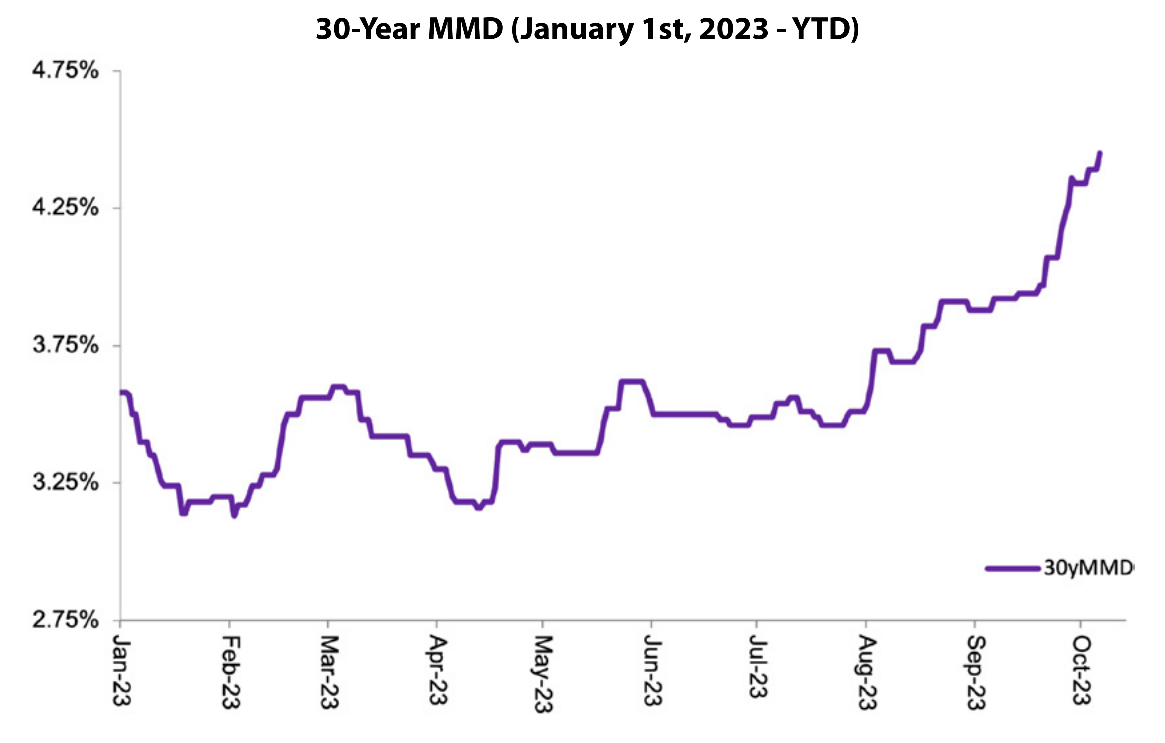
CHALLENGING DECISIONS IN RISING RATE ENVIRONMENT

Interest rates for all borrowers have continued to rise over the past 18-months, with a recent acceleration in the past two months. The US government's bellwether 10-year treasury bond has jumped from a 4.17% yield on September 1, 2023 to closing yield of 4.84% on October 24, 2023.

Along with the Treasuries, yields on tax-exempt bonds issued by charter schools have also increased. Rates for 30 to 40-year fixed rate structures are now in the 6.00% to 8.00% range, depending on the credit specifics of the school borrowing the funds. While those rates sound high, they are actually closer to historical norms, if one looks at interest rates over the past 50-years. For example, the average yield on said 10-year treasury bond is 5.96% when viewed over a 50-year span from 1973 to 2023, almost 100 basis points more than the current yield on said bond.

In the September FOMC meeting, the Federal Reserve decided to maintain the current Fed Funds rate, but their stance leans towards tightening monetary policy, suggesting the possibility of a rate hike by the end of the year. According to current projections, the benchmark Fed Funds rate is expected to peak this year in the 5.50%-5.75% range, a modest increase.

The market situation is challenging, but current forecasts and economic indicators suggest the possibility that interest rates may remain high for an extended period.This will require schools looking to borrow to recalibrate budgets. The Ziegler financing team can assess your financial situation and investigate how much the new interest rate environment applies to your institution.



Source: Bloomberg as of 10/6/23

ZIEGLER FINANCING

ZIEGLER CLOSES FINANCING FOR VALLEY CHRISTIAN SCHOOLS IN CHANDLER, ARIZONA

Ziegler is pleased to announce the successful closing of the Valley Christian Schools ("VCS" or the "School") $38,390,000 Series 2023A tax-exempt and 2023B taxable bond issue via the Maricopa County Industrial Development Authority.

VCS is an independent K-12 school that began operations in 1982, and today serves approximately 1,150 students in grades K-12. The School provides a distinctly Christian education with excellent academics, championship athletics, award-winning fine arts, cutting-edge STEM programs, and a strong supporting community.

The School has had a strong presence for many years at their flagship High School campus, located in Chandler, Arizona. Due to parent demand, in 2018 they added K-8 operations, with such new grades growing rapidly. Available facilities to handle such growth were at a premium. The School initially explored building a new K-8 campus next door to the High School, but there were certain cost and logistical challenges. As a result the K-8 operations had been conducted in both owned and leased locations in neighboring community of Tempe, Arizona.

In the 2022 the School was presented with the opportunity to purchase a 16-acre campus that was owned by Sun Valley Community Church. The location was perfect, as it was directly next door to the existing elementary school. A purchase contract was signed and after productive negotiations, both parties agreed on a sale that would include cash proceeds from the 2023 bonds and a property swap. Ziegler worked diligently to help shape the transaction for the public bond market. The transaction needed to close quickly, to allow the School to relocate their middle school students on the new campus for the Fall 2023 semester.

In June, the bonds were underwritten and sold by Ziegler. The School was able to secure their financing with a 35-year fixed rate, with a top tax-exempt bond yield of 6.325% on the 2058 term bonds. The structure worked out beautifully for the School. They obtained their needed funding on a timely basis, and before market interest rates moved higher, later in the summer.

For more information about Ziegler, please visit us at www.ziegler.com.

ABOUT ZIEGLER

Ziegler is a privately held, national boutique investment bank, capital markets, and proprietary investments firm. It has a unique focus on healthcare, senior living, and education sectors, as well as general municipal and structured finance. Headquartered in Chicago with regional and branch offices throughout the U.S., Ziegler provides its clients with capital raising, strategic advisory services, fixed income sales, underwriting, and trading as well as Ziegler Credit, Surveillance and Analytics. To learn more, visit www.ziegler.com.

FEATURED FINANCINGS

Lehigh Valley Dual Language Charter School
Bethlehem, Pennsylvania

Refunding

OCTOBER 2023

$8,300,000

American Leadership Academy
Mesa, Arizona

New Money/Refunding

AUGUST 2023

$141,505,000

Global Academy of South Carolina
Spartanburg, South Carolina

New Money Acquisition/Renovation

AUGUST 2023

$30,370,000

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