USDA FINANCING OF RURAL CHARTER SCHOOLS

FEBRUARY 2020

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

TABLE OF CONTENTS

PROJECT BACKGROUND

Since the first charter school law was established, charter schools have grown in number and in size across the country. Even with this growth, finding adequate and affordable facilities, as well as ways to finance those facilities, has continued to be a challenge, especially for rural charter schools. After decades of searching for the best solutions to these challenges, the United States Department of Agriculture (USDA) is one of the largest organizations to provide financing for charter school facilities. It surpasses most banks and even the Department of Education.

The USDA has two programs that support a range of community facilities, including charter schools. The USDA Rural Development's Community Facilities Direct Loan & Grant Program and their Community Facilities Guaranteed Loan Program provide important sources of facilities financing to rural communities and have proven effective sources of capital for rural charter schools. In 2018, funding from the Charter School Facility Center at the National Alliance for Public Charter Schools allowed Momentum Strategy & Research (Momentum) to compile and disseminate the findings of the USDA programs through this report, as well as through a series of state and national gatherings. Momentum has worked closely with USDA Community Facilities staff from the USDA national office since 2017 to document this experience.

The research plan behind *this report* reflects input received from various parties experienced in USDA financing, including schools, finance professionals, and USDA officials, working to improve the connection between USDA financing and rural charter school facility needs.

This report expands on preliminary research into USDA charter school transactions to supply school and transaction data for the variety of parties involved in USDA financing. While USDA has been financing charter schools since before 2008, this report updates and summarizes the period between 2008 and 2018 and profiles the 98 schools and accompanying transactions financed over that period, highlighting key findings and providing recommendations to strengthen the effectiveness of USDA's charter school financing.

USDA COMMUNITY FACILITIES GUARANTEED AND DIRECT LOAN & GRANT PROGRAMS

The USDA Rural Development's Community Facilities (CF) Direct Loan and Grant Programs and their Guaranteed Loan Program offer financing "to develop essential community facilities" that provide rural communities with important services (e.g., fire and rescue operations, health care, and libraries). Eligible CF borrowers include public agencies and nonprofits, and they must be located in a rural area and primarily serve the residents from that community. For purposes of CF financing, rural is defined as any city, village, township, town, or federally recognized tribal land with a population less than 20,000, based on the most recent U.S. Census.

Through the CF program, eligible entities can apply for a direct loan, grant, or loan guarantee to construct, purchase or improve an essential community facility. In some cases, borrowers will receive some combination of these financing options.

1. **DIRECT LOAN:** For eligible entities, low-interest financing provided through a competitive process.

2. **GRANT:** For applicants that are eligible for grant assistance, grants are available to fund between 35 percent and 75 percent of a proposed project, depending on the size and median household income of the community being served.

3. **LOAN GUARANTEE:** For private lenders providing loans to eligible borrowers who are unable to get the necessary commercial credit with reasonable terms without the guarantee.

1. USDA–CHARTER SCHOOL TRANSACTIONS 2008–18: UPDATE AND SUMMARY

In 2016, Momentum began researching charter school transaction data provided by USDA, including the number of transactions and loan amounts by state and year between 2008 and 2016. Throughout 2018, Momentum worked closely with USDA officials to update information from the 2016 report, confirming transaction amounts and dates and extending the period covered through 2018. We also confirmed the names and locations of the recipient schools. The results summarized here are drawn from a total of 169 transactions made between 2008 and 2018 that provided $573.8 million to 98 charter schools.

The 2018 update identified different school, loan, and transaction totals as compared to the initial data supplied by USDA in 2016, with 2018 totals approximately 20 percent lower. There are several reasons why the initial USDA reports involved a higher number of schools and dollar amounts than is reflected in the eventual totals. As will be discussed in the recommendation section below, confirming the final list of charter schools receiving USDA financing was more difficult than expected, as the USDA's reports of CF loans included several schools that were not charter schools and initially included transactions that were obligated but never closed.

School-by-school verification was also more complicated, as USDA records do not identify which school within a borrower network received the financing and uses official borrower names rather than school names in the official record. For non-network schools, the school was not always obvious given the borrower's name.

2. USDA–CHARTER SCHOOL TRANSACTIONS 2008–18: FINDINGS AND RECOMMENDATIONS

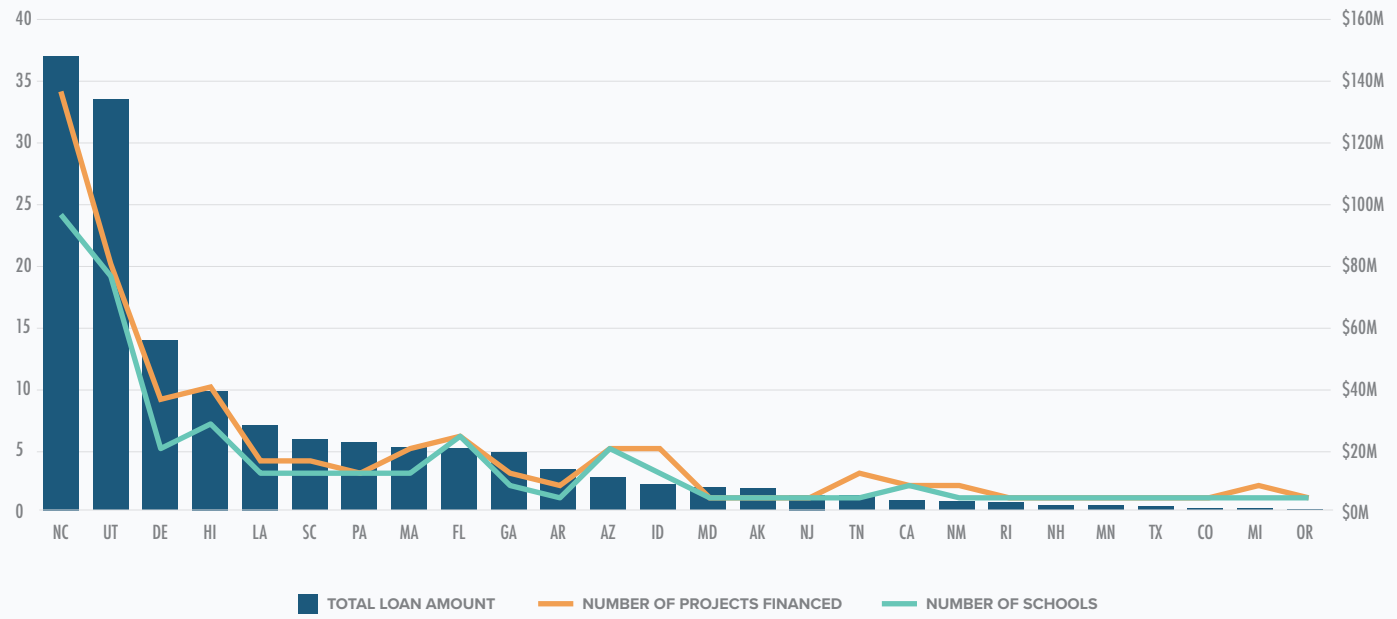
Findings

At various stages throughout the research process, project results were shared with key audiences, including USDA officials, charter school leaders, and the finance professionals involved in CF activities. Through that series of meetings, conference calls, and informal discussions, specific findings attracted the most attention or response, and they are presented below.

A **Financing activity has been relatively uneven across states.** Over the past decade, approximately 10 percent, or 98, of the nation's total rural charter schools (1,000 schools) have financed their facilities through the CF program. However, the activity is unevenly distributed across states.

As shown in Figure 2.1, over half of the charter schools that borrowed and almost two-thirds of the USDA dollars loaned took place in four states (North Carolina, Utah, Delaware, and Hawaii). The remaining 44 percent of schools and 35 percent of financing took place across another 22 states. The four states representing the majority of USDA transactions are home to only 12 percent of the total number of rural charter schools across all 26 states involved.

FIGURE 2.1 USDA ACTIVITY BY STATE



To further illustrate the point, Delaware has a total of 23 charter schools, and five of them received a total of $54.9 million in financing through 10 USDA transactions. By contrast, California, Colorado, Michigan, Minnesota, and Texas are home to a total of 2,500 charter schools, of which 336 are rural; fewer than 10 schools among them have been financed through USDA CF. Nationally, these five states account for 44 percent of the rural charter schools in the 26 identified states, yet they represent fewer than 10 percent of the transactions and less than 5 percent of the total amount financed. This also suggests a significant outstanding market for future financing.

TABLE 2.1 SCHOOLS SERVING NATIVE STUDENTS

STATE	PERCENT OF RURAL CHARTERS NATIONALLY	PERCENT OF ALL USDA RECIPIENTS	PERCENT OF RURAL CHARTERS IN STATE THAT ARE USDA RECIPIENTS
California	17.8%	2.1%	1%
Colorado	2.7%	1.0%	4%
Michigan	5.1%	1.0%	2%
Minnesota	3.9%	1.0%	3%
Texas	5.5%	1.0%	2%

B **Charter schools financed through USDA are relatively successful.** Based on publicly available data, charter schools financed through USDA are doing relatively well, as measured by enrollment growth, academic performance, and financial performance.

SCHOOL ENROLLMENT GROWTH

USDA recipient schools have experienced enrollment growth over time, on average. Of the identified USDA recipient schools, 75 percent grew in enrollment from 2013-14 to 2017-18, as shown in Figure 2.2. Interestingly, in most cases, they are in rural communities that present opportunities for enrollment growth, even if the communities around them have declining populations. In fact, 24 of the schools were in counties with declining populations, yet 88 percent of those schools still grew in enrollment.

ACADEMIC PERFORMANCE

For the schools with available state academic performance ratings, less than 10 percent were rated as below average between 2013-14 and 2017-18. As seen in Figure 3, between 60 percent and 70 percent of recipient schools were rated average each year, while 20 percent to 30 percent of the recipient schools were rated as above average.

FIGURE 2.2 ENROLLMENT CHANGE FROM 2013–14 TO 2017–18

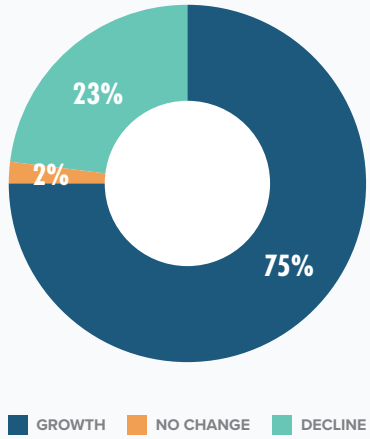
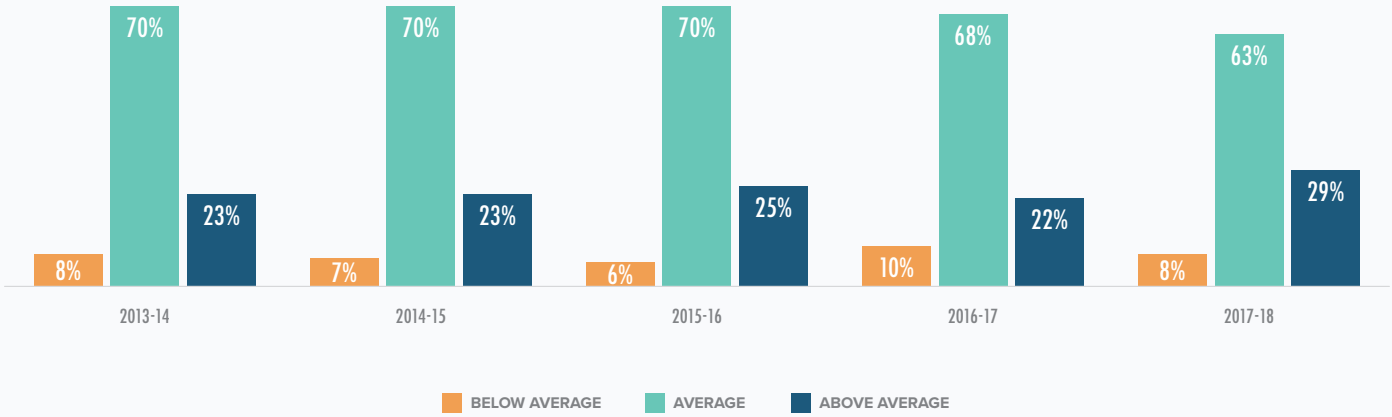
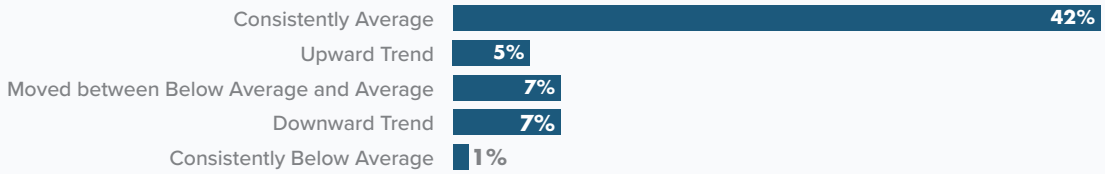


FIGURE 2.3 ACADEMIC PERFORMANCE RATINGS BY SCHOOL YEAR



Academic Performance Trends: 67 percent of the schools had at least three years of academic performance ratings available with which to determine academic performance trends. As shown in Figure 2.4, of these schools, only one school was consistently rated as below average. 15 percent were consistently rated above average, and 42 percent were consistently rated as average. Almost a quarter moved between average and above average ratings depending on the school year, and 5 percent experienced an upward trend in ratings. 7 percent of the schools moved between average and below average ratings, and another 7 percent experienced a downward trend in ratings.

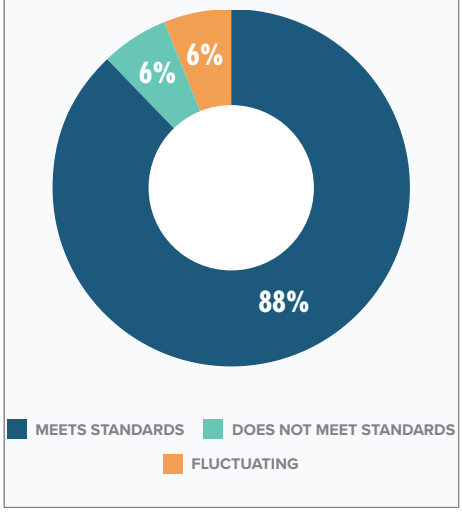
FIGURE 2.4 ACADEMIC PERFORMANCE RATING TRENDS



FINANCIAL PERFORMANCE

At least one year of financial health performance ratings were available for 53 percent of the recipient schools. More than half of the schools with ratings had at least two years available. As shown in Figure 2.5, most schools met or exceeded standards (consistently if multiple years of data), while only 6 percent of the schools did not meet standards. Another 6 percent had fluctuating ratings, where they did not meet standards at least one year.

FIGURE 2.5 FINANCIAL HEALTH PERFORMANCE RATINGS



C **Larger rural charter schools are heavily represented among USDA financing recipients.** Charter school recipients of USDA financing are larger than the typical rural charter school. The average enrollment of recipient schools (as of 2016-17) was 456, higher than the national average for both rural charter schools (244) and all charter schools (441).

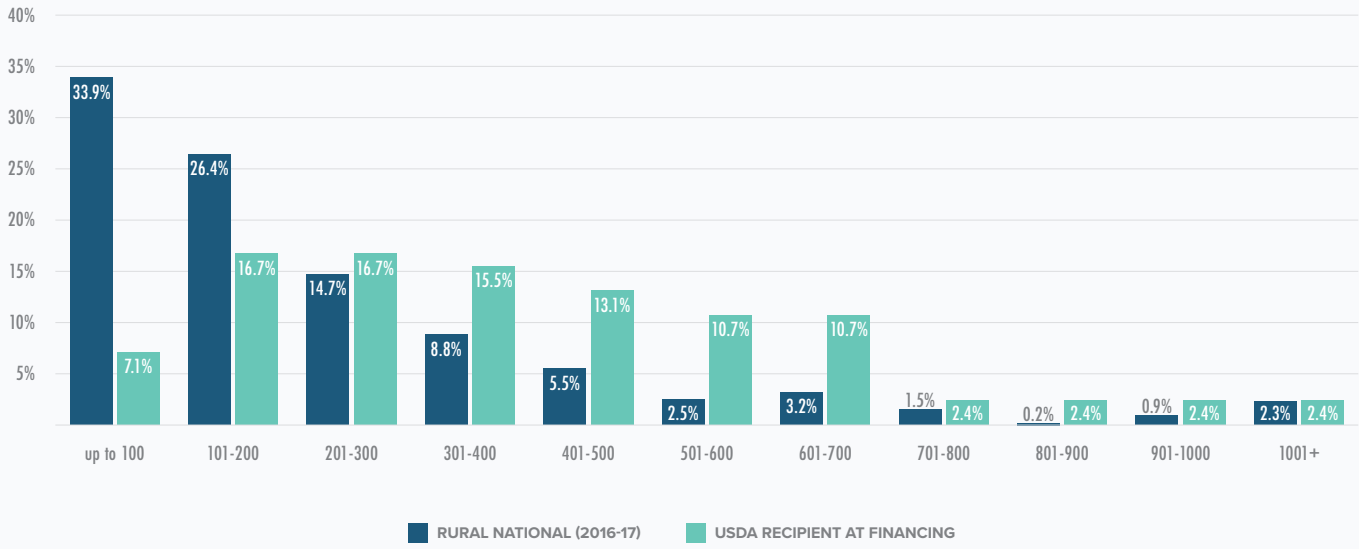
ENROLLMENT AT THE TIME OF FINANCING

Schools of all sizes have received USDA financing in the last decade, as shown in Figure 2.6; however, only 7 percent had 100 or fewer students at the time of financing, compared to the almost 35 percent of rural charter schools of that size nationally in 2016-17.

Similarly, about 17 percent of USDA recipients had 101-200 students enrolled at financing, compared to over 25 percent of rural charter schools

nationally. As enrollment increases, the percentage of schools within each size category receiving USDA financing also increases, while the proportion of rural charter schools nationally decreases. Sixty-six percent of the USDA recipients had 201-700 students at the time of financing, compared to 35 percent of the rural charter schools in 2016-17. Almost 10 percent of the USDA schools had more than 700 students enrolled compared to the 5 percent of rural charter schools nationally.

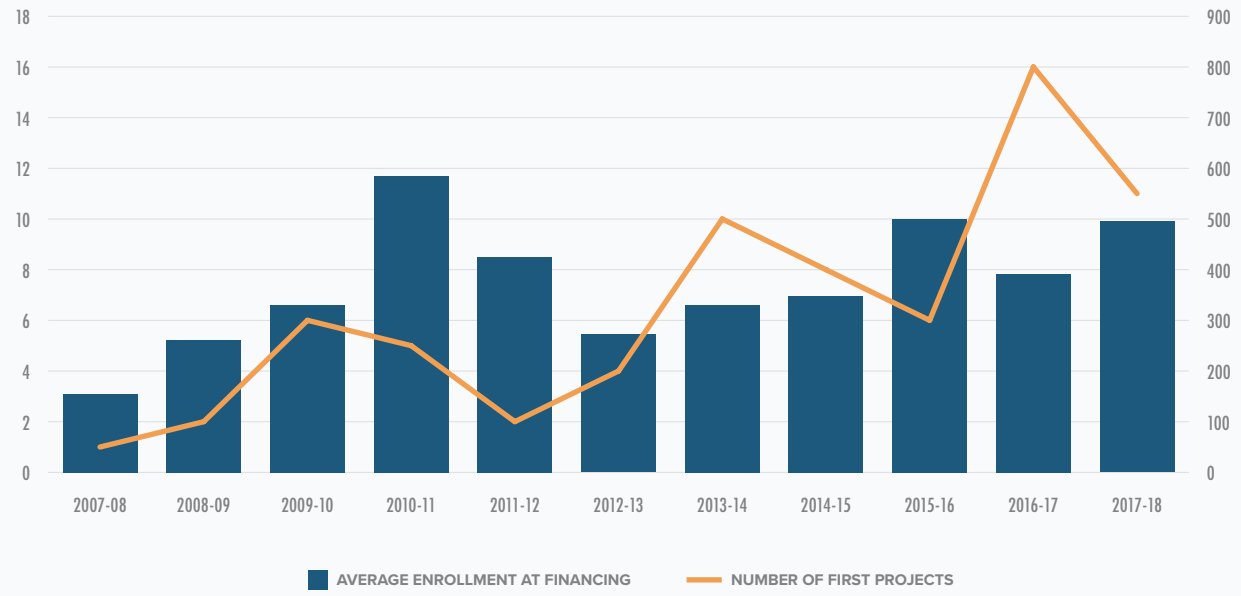
FIGURE 2.6 ENROLLMENT AT TIME OF FINANCING FOR USDA RECIPIENTS VS. ALL RURAL CHARTERS IN 2016–17



INCREASES IN ENROLLMENT AT THE TIME OF FINANCING

As shown in Figure 2.7, average enrollment at the time of financing has increased over the years, with an average enrollment of 261 for schools financed in 2008-09 compared to an average enrollment of 495 for schools financed in 2017-18.

FIGURE 2.7 AVERAGE ENROLLMENT AND NUMBER OF PROJECTS BY YEAR OF FINANCING



Recommendations

1. **Improve the content, reliability, and accessibility of USDA–charter school financing program data.** Better and more publicly-accessible information will improve the viability of nearly every recommendation below. Charter schools represent a significant potential market for USDA lending, and to the extent USDA wants to prioritize charter schools into the future, improving the availability of valuable information is a great place to start. Examples include coding to distinguish between charter and other non-district operated schools (i.e., private schools) that can access USDA-financing and including relevant transactional information in the main database. Better records and tracking can also facilitate improved monitoring of underperforming or struggling schools and reporting on the status or outcome of each loan.

2. **Improve dissemination of guidance and best practices to all USDA offices.** For example, CF guidance suggests that borrowers need five years of operations to be eligible for financing, with some exceptions approved through the national office. It is likely that some states have not considered deviating from that guidance. By contrast, more than half of Utah's 19 schools were open fewer than five years at the time of their first financing. It does not appear as though Utah's successful experience with financing schools before five years is widely known across other state offices. Similarly, the five-year contracts under which charter schools commonly

operate have been cited as a barrier to lending in some states, where other states have clearly resolved any such concerns. USDA should consider updating its guidance to clarify that there is flexibility to offer grants to schools open fewer than five years and generally disseminating updated information about the administration of the grant in the context of serving charter schools.

3. **Streamline the feasibility study requirement.** The scope and accompanying cost of pre-financing feasibility studies are widely cited as excessive and even prohibitive by schools and the finance professionals working with them. It is not clear that the information required for feasibility studies makes for stronger schools or better loans. Reiterating the point of recommendation 1 above, better data from transactions to date stands to improve the effectiveness of information required in feasibility reports. USDA should examine the requirement and evaluate what is appropriate for charter schools.

4. **Plan ahead and be persistent.** The financing process can take a while, though perhaps not as long as is sometimes mentioned by lenders who are perhaps more accustomed to private sector lending timelines. What is clear from all involved is that schools should give themselves more time than they might anticipate, and they should persevere and persist throughout the process. More than once, schools reported that their transaction took longer than necessary because they did not follow up on materials they submitted, questions they asked, and so forth. Both schools and USDA officials stressed that schools should not let the first roadblock become a barrier. Review the CF Program Guidance Book for Applicants to learn more about the process.

5. **Expand the marketplace and network with schools.** The success and volume of charter school transactions in the top states provides evidence of the market's potential elsewhere. The important role finance professionals play in developing and supporting state markets was apparent throughout the research. As a result, states with limited markets to date can be seen as opportunities for organizations willing to commit to expanding those opportunities to reach out to potential borrowers and inform them of this potential funding opportunity, as well as to guide them through the process. Small rural schools often do not have the necessary expertise, knowledge, or general information to even begin the CF process, let alone complete the process.

Next Steps

This report represents an important first step to understanding the profiles of borrower schools, their performance trends, and how that information informs future financing. Beyond generalized observations about the overall group of

charter school borrowers, research to date cannot speak to individual school performance, including specific predictors of either struggling or successful schools. Additional research into school performance patterns can support efforts to improve the use of feasibility studies and USDA risk management, expand financing opportunities for smaller and less-resourced schools and communities, and improve charter school access in underrepresented markets.

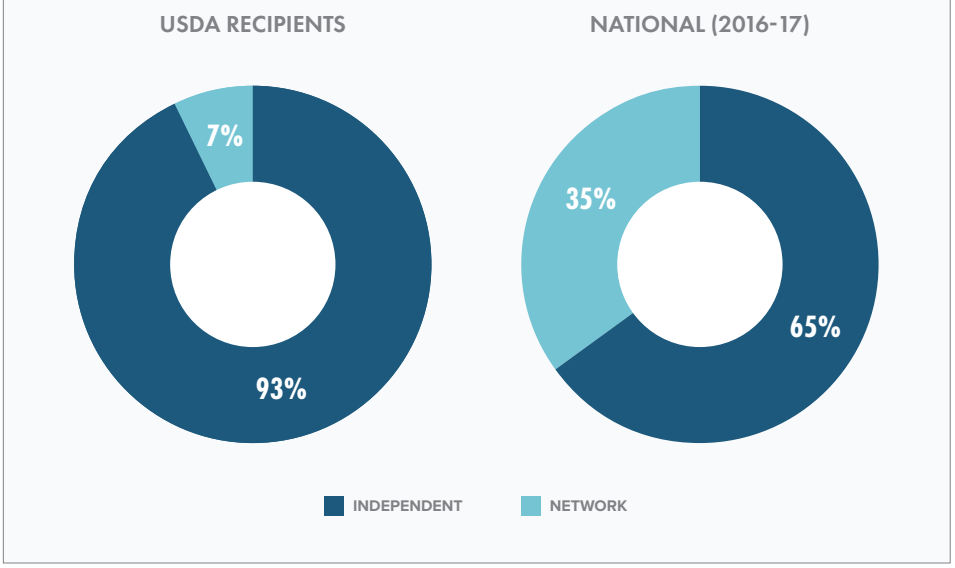
3. USDA–CHARTER SCHOOL TRANSACTIONS 2008-18: SCHOOL PROFILE

This section and the one that follows, concerning school profiles and transaction profiles, provide interested audiences with a picture of the 98 identified borrower schools and the transactions through which they received their schools' financing.

Schools by Affiliation: Network versus Independent

Schools affiliated with a larger school management organization are referred to as network; those listed as independent are not. The USDA records generally list each school's management organization as the borrower. Seven of the 98 borrowers manage a network of schools, representing 7 percent of the identified USDA recipients. For comparison purposes, 35 percent of charter schools nationally are part of a network. The seven networks are in Utah (3), North Carolina (2), Arkansas (1), and Arizona (1). See Figure 3.1 below.

FIGURE 3.1 USDA BORROWERS BY NETWORK AFFILIATION



Where it was unclear which campus within a network was the recipient of the financing, those schools were not included in the analyses below requiring specific named schools. Thus, the remaining analyses were completed for 91 of the recipient schools, or fewer if the necessary information was not publicly available.

Schools by NCES Locale

The CF program defines rural as any city, village, township, town, or federally recognized tribal land with a population less than 20,000, based on the most recent U.S. Census. Across the nation, eligible areas coincide with different NCES Locale codes, or "a general geographic indicator that categorizes U.S. territory into four types of areas: City, Suburban, Town, and Rural. Each type of area contains three subtypes," according to the NCES Education Demographic and Geographic Estimates Program's Locale Boundaries User's Manual.

Figure 3.2 shows the breakdown of recipient charter schools by NCES locale. Over half of the recipients are in either the Rural Fringe or Rural Distant locales. Another third of the recipients are in Suburb Large, Town Distant, and Town Fringe. The final 15 percent are in areas considered Suburb Midsize and Small, Rural Remote, Town Remote, and even City Small.

FIGURE 3.2 NCES LOCALE

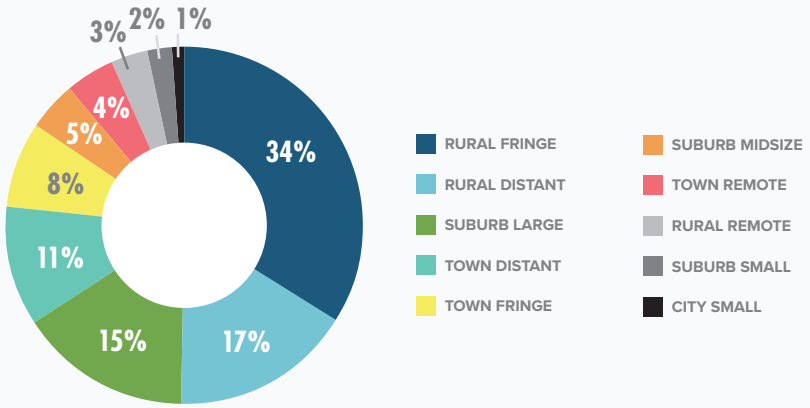


Table 3.1 provides an example of recipient schools within each NCES locale and the total number of identified recipients within each NCES Locale.

TABLE 3.1 USDA RECIPIENTS BY NCES LOCALE

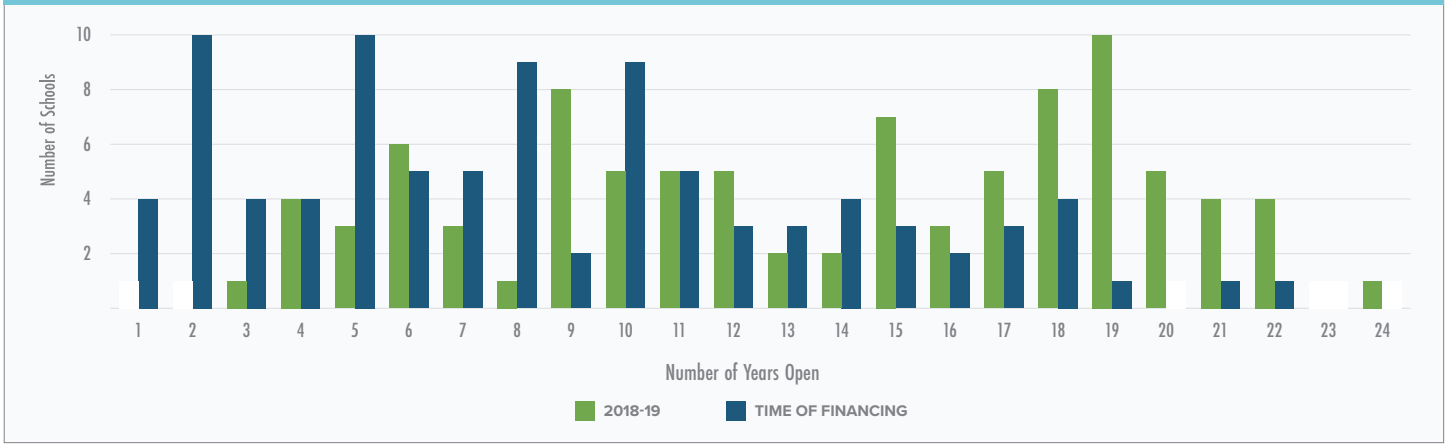
NCES LOCALE	NUMBER OF SCHOOLS	SAMPLE RECIPIENT SCHOOL IN THE LOCALE	CITY, STATE
Rural Fringe	31	Sussex County Charter School for Technology	Sparta Township, New Jersey
Rural Distant	15	Arapahoe Charter School	Arapahoe, North Carolina
Suburb Large	14	Ivy Academy Chattanooga	Soddy Daisy, Tennessee
Town Distant	10	Forrest Bird Charter School	Sandpoint, Idaho
Town Fringe	7	CS Lewis Academy	Santaquin, Utah
Suburb Midsize	4	CORE Charter School	Marysville, California
Town Remote	4	Kula Aupuni Niihau A Kahelelani Aloha	Kekaha, Hawaii
Rural Remote	3	Pataula Charter Academy	Edison, Georgia
Suburb Small	2	Chesapeake Public Charter School	Lexington Park, Maryland
City Small	1	Sebastian Charter Junior High School	Sebastian, Florida

Schools by Age at Financing and Today

Figure 3.3 shows the distribution of the ages of recipient charter schools at the time of financing (the first time) and as of the 2018-19 school year. At first financing, the average school age was 8.67 years. Over half of the schools had been open between 6 and 15 years when they were first financed. Thirty-five percent of schools had been open for five years or less and 13 percent for more than 15 years.

From 2008 to 2012, all the schools financed had been open 15 years or less. The 12 schools that had been open 16 years or more were financed after 2012. Based on further exploration of the data, this seems to be attributable to time alone, not to a change in policy or expectations; of the schools that were open for 5 years or less, 69 percent were financed between 2013 and 2018.

FIGURE 3.3 NUMBER OF YEARS OPEN OF USDA RECIPIENT SCHOOLS



Between 2010 and 2018, North Carolina and Utah financed eight and 12 schools, respectively, that were open for five years or less. Those schools represent 33 percent and 63 percent, respectively, of the recipient schools in their state. The second year of operation was the peak time for both states to finance schools. Utah financed seven in its second year, while North Carolina financed three. North Carolina also financed three schools in its tenth and eighteenth years. Delaware, Florida, Hawaii, Idaho, Massachusetts, and Michigan each financed one school with less than five years of operation. Arizona, New Hampshire, South Carolina, and Tennessee financed at least one school during its fifth year of operation.

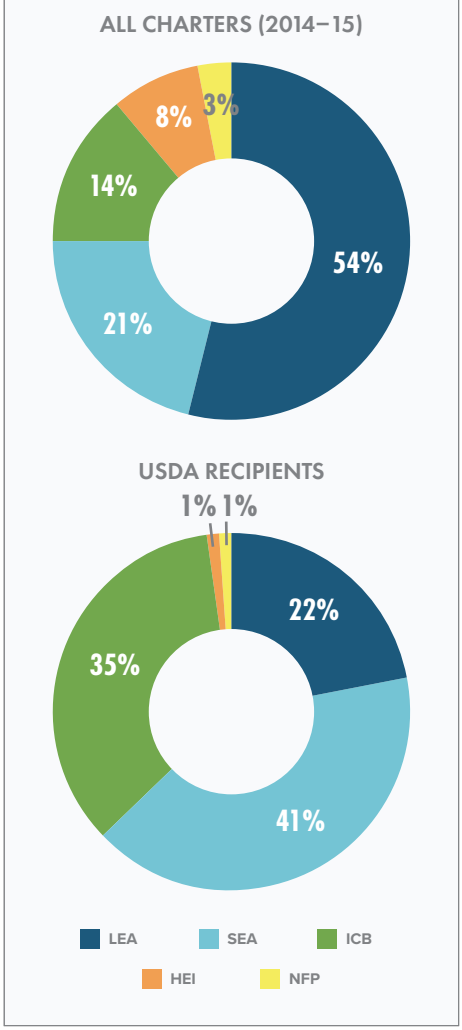
As of 2018-19, USDA recipient schools had been open an average of 13.6 years. Almost half of them (44 percent) had been open for 16 years or more; 47 percent of them had been open between six and 15 years, and 9 percent had been open for five years or less.

Schools by Authorizer Type

An authorizer is an entity or body that is given authority by the state legislature to grant interested groups the right to open and operate a charter school through an application process and continued review through the life of the charter.

As shown in Figure 3.4, three-fourths of the USDA recipients are authorized by a statewide authorizing entity, either a State Education Agency or an Independent Chartering Board. This is more than double the national rate and can be attributed to the large number of borrowers from North Carolina, Delaware, Utah, and Hawaii, as these are states where the predominant or only authorizer is a statewide entity.

FIGURE 3.4 USDA RECIPIENTS VS. ALL CHARTER SCHOOLS BY AUTHORIZOR



Schools by Enrollment, Growth, and Expansion

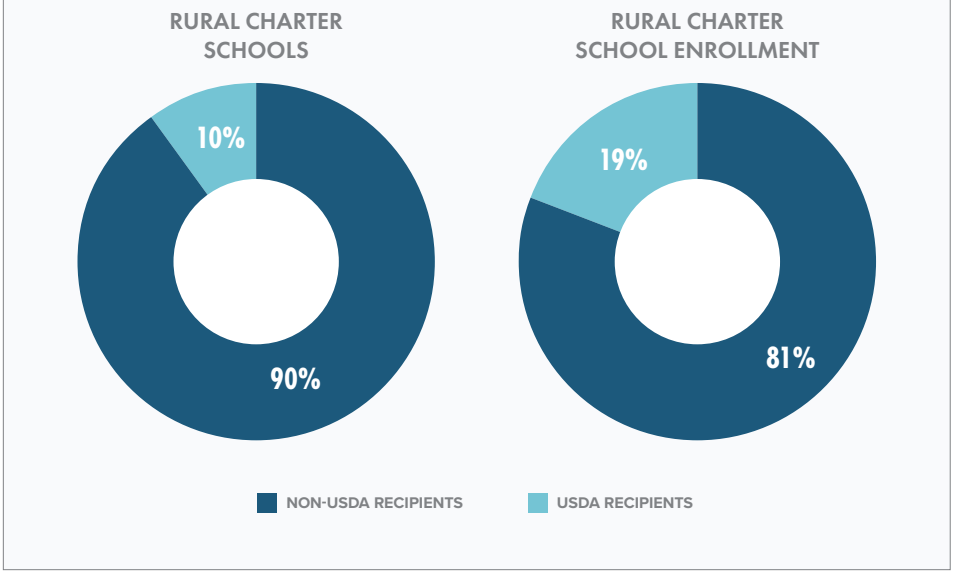
This report features school enrollment data as a school profile metric. Growth (or potential growth) is also included as one of the measures of successful schools (see Section 5 below). Enrollment growth among recipient schools is provided below, both where schools have or have not expanded the grade ranges they serve, and through the lens of local population growth.

ENROLLMENT OF USDA RECIPIENTS VERSUS CHARTER SCHOOLS NATIONALLY

Across the 98 schools included in this report, the average enrollment as of 2016-17 was 456, which is larger than the averages of both rural charter schools nationally (244) and all charter schools nationally (441). Figure 6 illustrates how these larger enrollments mean that while only 10 percent of rural charter schools have received USDA financing, 19 percent of rural charter school students have benefitted from the financing.

Overall, charter school borrowers have increased their enrollment over time. Among recipient schools, 75 percent grew in enrollment from 2013-14 to 2018-19. The remaining 25 percent of schools saw no change or a decrease in enrollment.

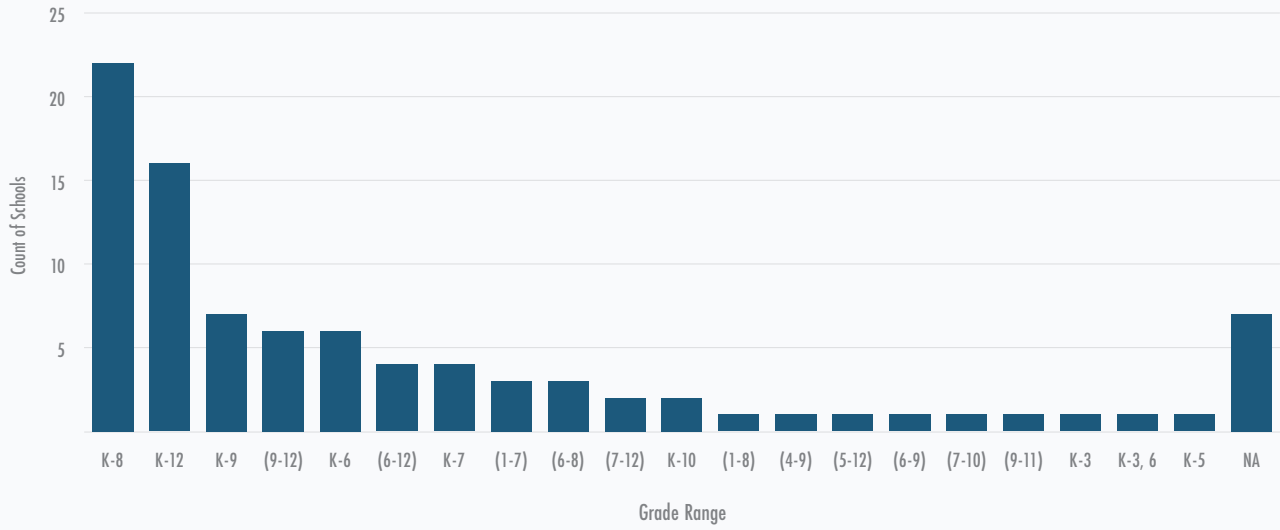
FIGURE 3.5 USDA RECIPIENTS VS. NATIONAL CHARTER RATES



GRADES SERVED AND EXPANSION TRENDS

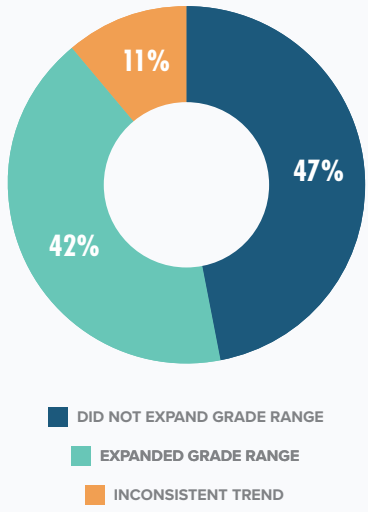
As shown in Figure 3.6, while K-8 and K-12 schools account for a combined 42 percent of the USDA recipients, schools of all grade ranges are represented among USDA borrowers.

FIGURE 3.6 GRADE RANGE AT FINANCING



Comparing the grades served from the year of financing through 2017-18, 47 percent of the recipient schools did not change the grades they serve, 42 percent of the schools expanded the grades served by at least one grade level, and the remaining 11 percent showed inconsistent trends, such as grade expansion in one year followed by scaling back in a subsequent year. See Figure 3.7 to the right.

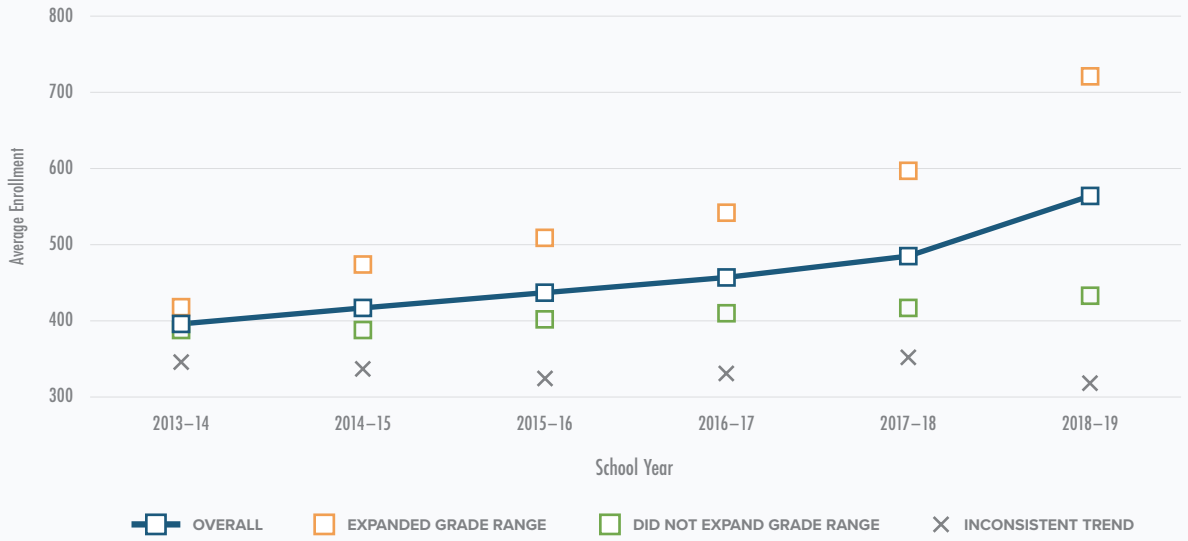
FIGURE 3.7 EXPANSION TRENDS



SCHOOL BY ENROLLMENT GROWTH TRENDS

Overall, most schools that received USDA financing are growing, even if they have not expanded grades served. Schools that expanded the grades they serve experienced the largest growth over time and have higher average enrollment in general and across all school years reviewed (Figure 3.8). However, schools that did not expand the grades they serve also experienced enrollment growth, on average, from 2013-14 to 2018-19. Among schools with inconsistent trends (such as adding a grade one year only to remove it in a subsequent year) showed wavering and eventually declining enrollment.

FIGURE 3.8 AVERAGE ENROLLMENT GROWTH BY GRADE RANGE TREND

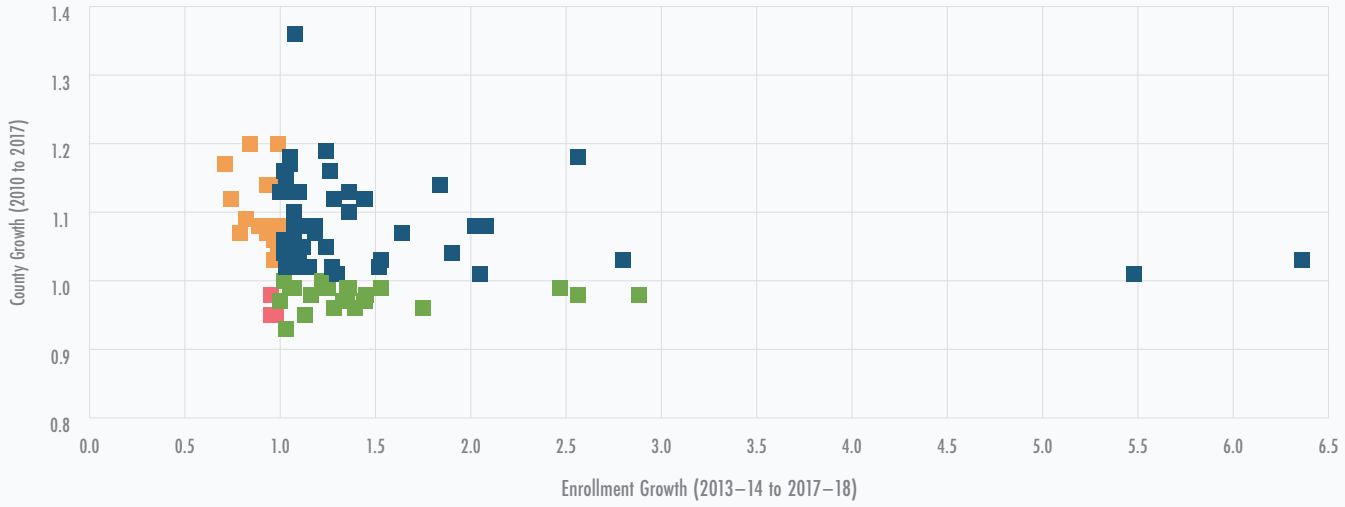


COUNTY GROWTH VERSUS ENROLLMENT GROWTH

School growth is linked to the surrounding communities and the opportunity for expansion. However, while recipient county growth was almost stagnant on average (1.06), the recipient charter schools experienced greater growth than the communities around them, on average (1.37).

Twenty-four of the schools were in counties with declining populations, yet 88 percent of them still grew in enrollment. Eighteen of the schools experienced enrollment decline while their county population grew. Most schools were in counties with growing populations, and they also experienced growth; however, the mutual growth does not seem to have a meaningful correlation due to large variation in the individual relationships, including two outliers with substantial enrollment growth. These different groups are represented in Figure 3.9 (red = county and enrollment decline; green = county decline and enrollment growth; orange = county growth and enrollment decline; blue = county and enrollment growth).

FIGURE 3.9 COUNTY GROWTH BY ENROLLMENT GROWTH



Schools by Local School-Age Population

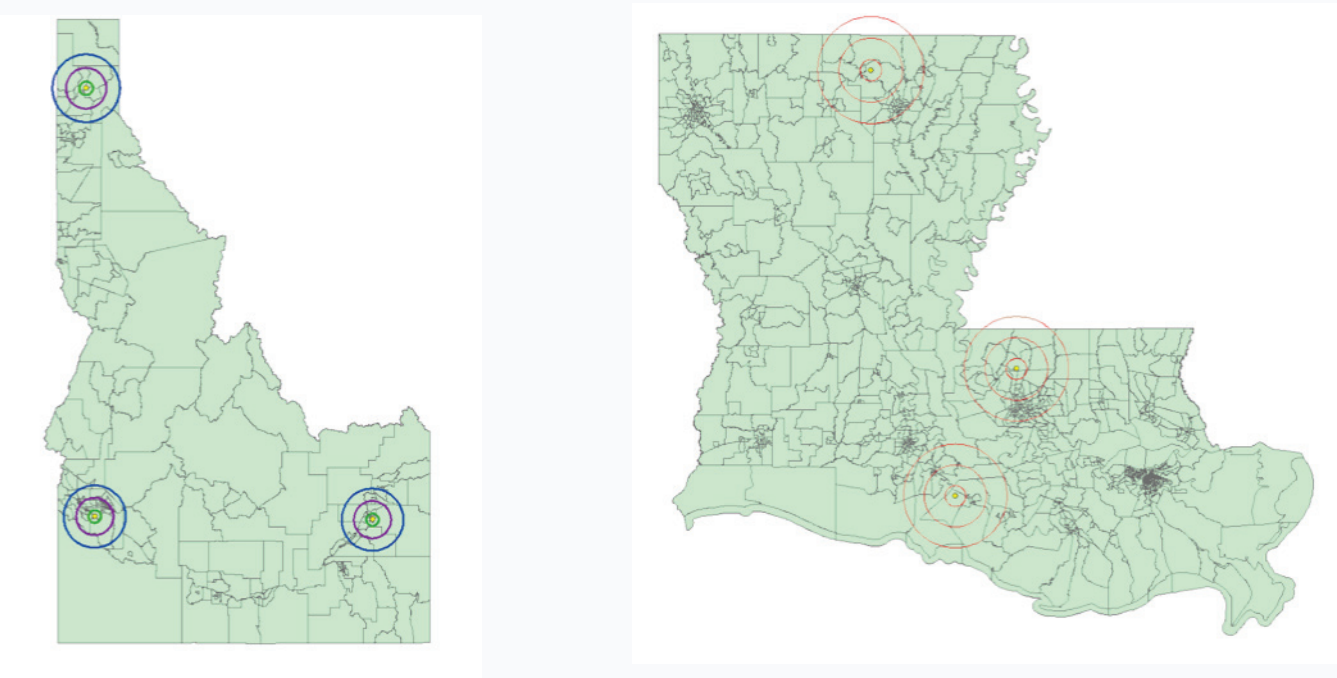
The relationship between charter school viability and enrollment relative to the local population is common anywhere, perhaps more so in rural communities. The analysis below reviews USDA recipients against the local school-aged population, as well as the proximity and number of local schools.

ENROLLMENT TO AREA PREVIEW

Enrollment relative to local school-age population was calculated using geographic information system (GIS) mapping tools and census tract data of the number of school-age children (ages 5 to 17) within certain radii of the recipient schools. When merging files, if the census tract was partially in the buffer, that area was included in the total count. Thus, local school-age population figures may be slightly larger than actual counts; however, that overage may be mitigated by the fact that 18-year-olds were not included due to census variable categories.

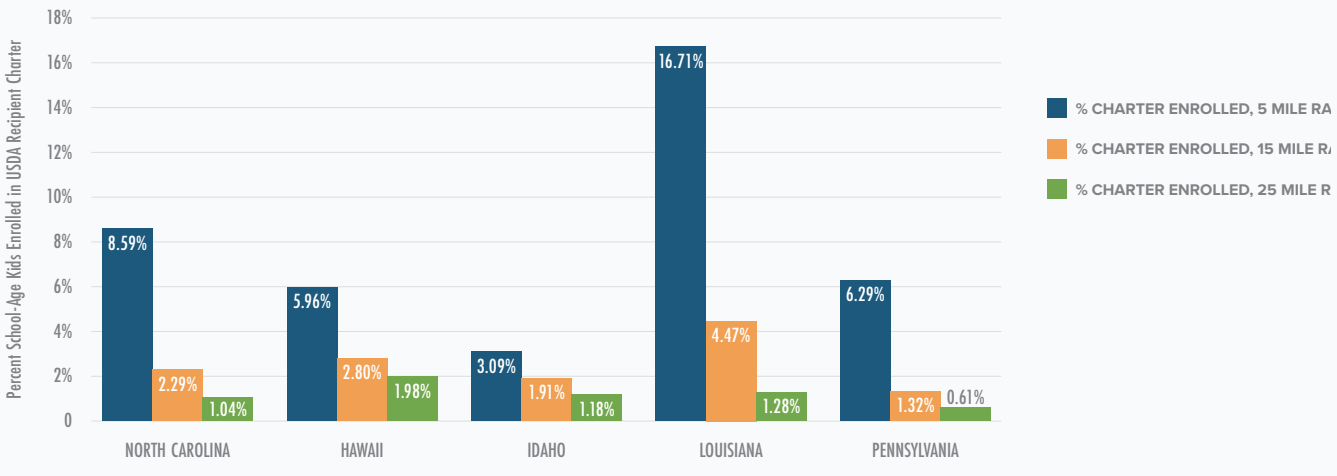
This GIS mapping technique is labor-intensive, and so we applied it to a limited number of states that account for 42 percent of the 98 schools (Hawaii, Idaho, Louisiana, North Carolina, and Pennsylvania). Figure 3.10 below includes illustrations from two of the states showing radii of 5, 15, and 25 miles around each school's geolocation.

FIGURE 3.10 MAPS OF IDAHO AND LOUISIANA INDICATING THE 5, 15, 25 MILE RADIUS AROUND EACH SCHOOL



As shown in Figure 3.11, the financed schools enroll relatively small percentages of the overall local population. For example, current USDA recipients have enrolled between 0.61 percent and 1.98 percent of the school-age children within 25 miles of their respective schools. Similarly, within 15 miles of their respective schools, recipients have enrolled between 1.32 percent and 4.47 percent of the school-age children.

FIGURE 3.11 AVERAGE PERCENT OF 2017–18 ENROLLMENT BY SCHOOL-AGE STUDENTS WITHIN 5, 15, AND 25 MILE RADII OF SCHOOL



NUMBER AND PROXIMITY OF LOCAL SCHOOLS

Google Maps supplied data to determine distance to nearby public schools, based on schools that serve similar grade ranges. If the school was K-8 or K-12, the closest elementary was used as the local school. The number of miles between the school of interest and the local school was determined by driving miles. As shown in Figure 3.12, on average, the closest local school was 3.64 miles away, with the recipient middle schools being the furthest away from their closest local counterpart (4.95 miles away on average).

FIGURE 3.12 CLOSEST PUBLIC SCHOOL TO USDA RECIPIENT

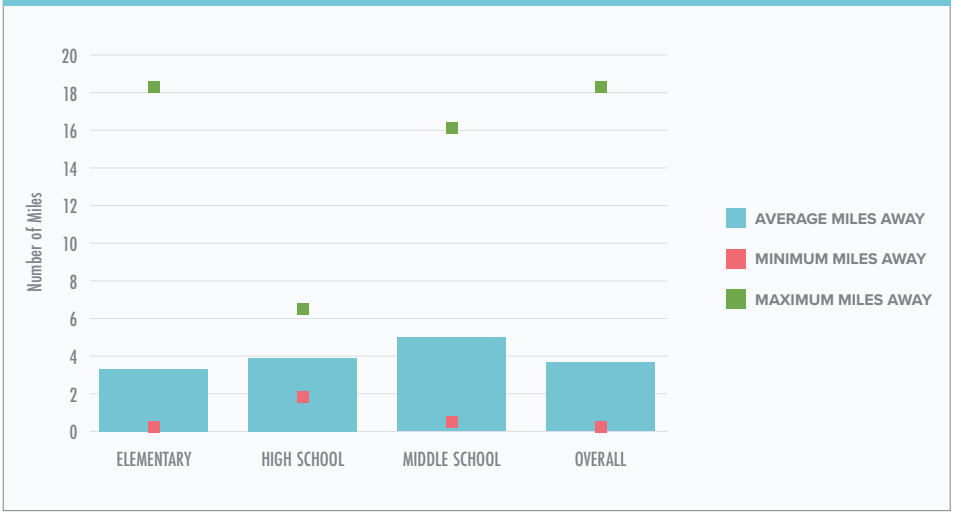
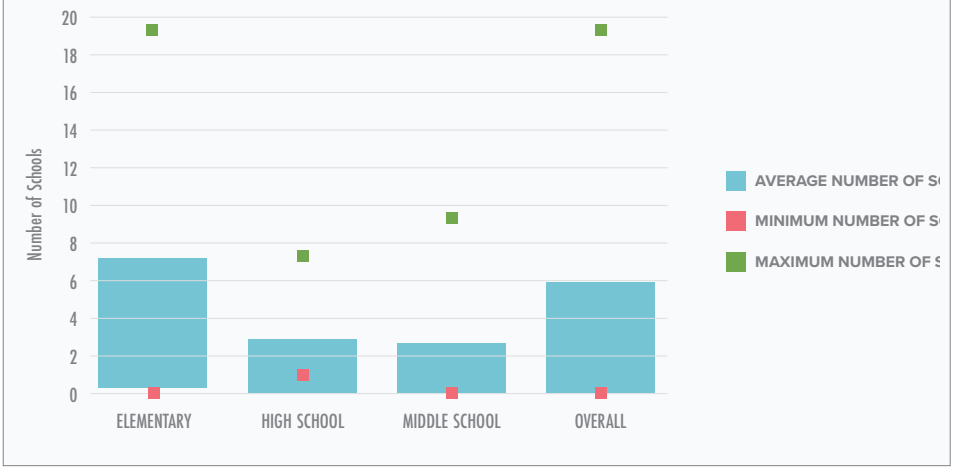


FIGURE 3.13 NUMBER OF PUBLIC SCHOOLS WITHIN 10 MILES OF USDA RECIPIENT



Similarly, using Google Maps helped establish the number of public schools within 10 driving miles. On average, there were six relevant schools within 10 (driving) miles of the USDA recipient school. The number of schools within 10 miles ranged from 0 to 19. As expected, middle and high schools had fewer counterparts within 10 miles.

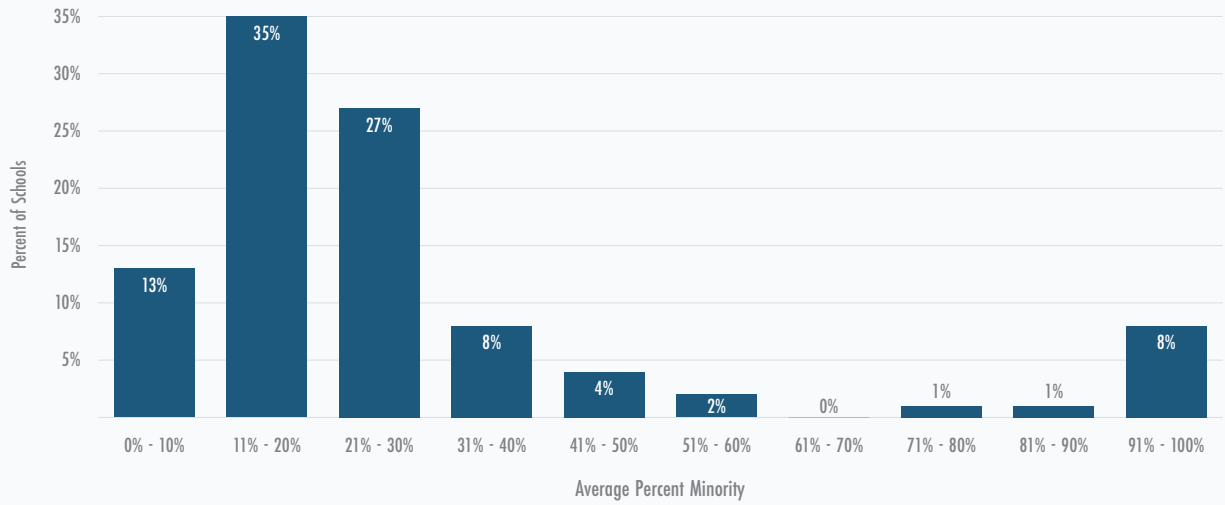
School Demographics

This report provides student demographics as a school profile metric, including student minority rates and free and reduced lunch (FRL) rates to provide a fuller picture of the recipient schools.

STUDENT ETHNICITY

Figure 3.14 shows the average student minority rates from 2013-14 to 2017-18. Thirty-five percent of recipient schools had an average of 11 percent to 20 percent minority students; 27 percent of borrowers had 21 percent to 30 percent minority students on average. Ten percent of recipients had over 70 percent minority students on average.

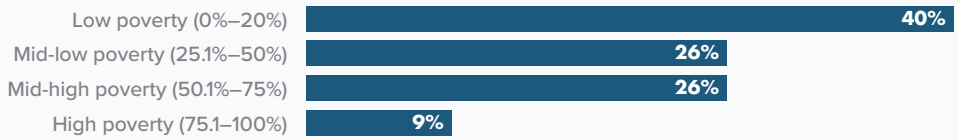
FIGURE 3.14 AVERAGE PERCENT MINORITY STUDENTS



FREE AND REDUCED LUNCH RATES

Figure 3.15 shows the average free and reduced lunch rates from 2013-14 to 2018-19, by concentration of poverty levels as defined by NCES. Just over half of the recipients are either mid-low or mid-high poverty, while 40 percent are low poverty and 9 percent are high poverty.

FIGURE 3.15 AVERAGE FREE AND REDUCED LUNCH RATES

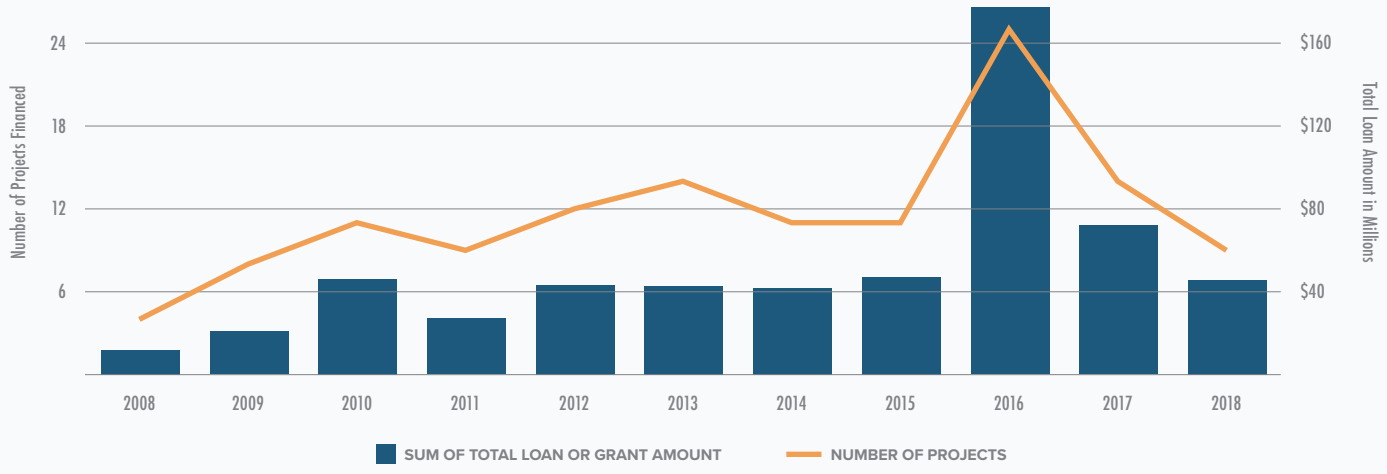


4. USDA–CHARTER SCHOOL TRANSACTIONS 2008-18: TRANSACTION PROFILE

Between 2008 and 2018, the USDA Community Facilities Program financed 128 rural charter school projects through 169 transactions. (In some cases, larger projects are broken into smaller transactions due to transaction limits of $10 million.) Overall, the program provided $573.8 million in financing to 98 rural charter schools across 26 states. Individual transactions ranged from $21,049 to $9.9 million.

As shown in Figure 4.1, there has been an overall increase in both the number of USDA CF loans to charter schools and in the amount financed, with a large spike in 2016. (One USDA official noted that this was due to a spike in overall USDA funding in 2016.) The average loan amount has also increased over time, from $2.9 million in 2008 to $5 million in 2018.

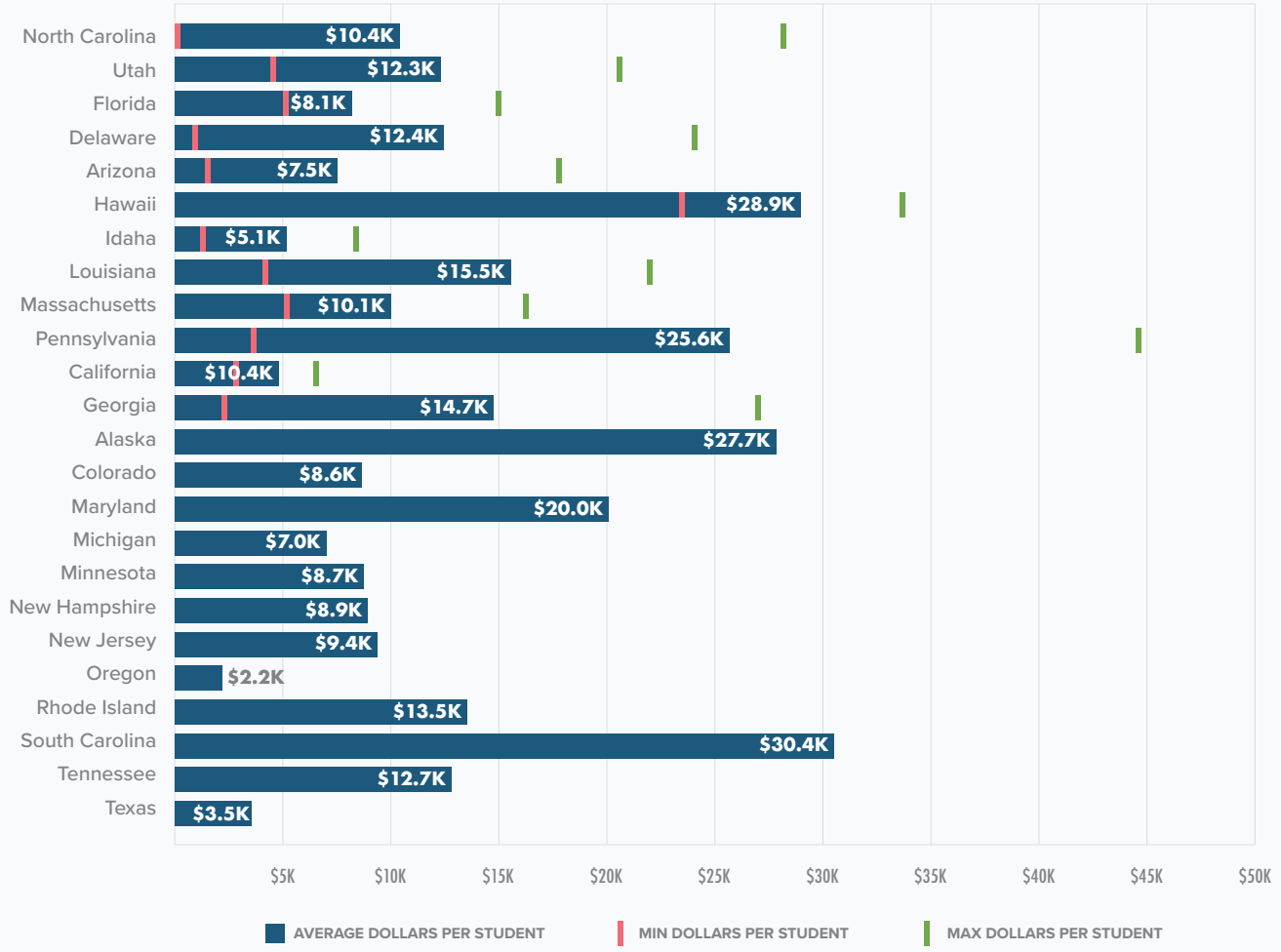
FIGURE 4.1 TRANSACTIONS BY YEAR



Transaction Dollars Per Student Enrolled

Using the enrollment at the time of first financing, the average transaction dollars per student enrolled is $12,044, with a range of $229 to $44,568.29. As shown in Figure 4.2, South Carolina, Hawaii, Alaska, and Pennsylvania had the largest average dollars per student among recipient states.

FIGURE 4.2 TRANSACTION DOLLARS PER STUDENT ENROLLED BY STATE

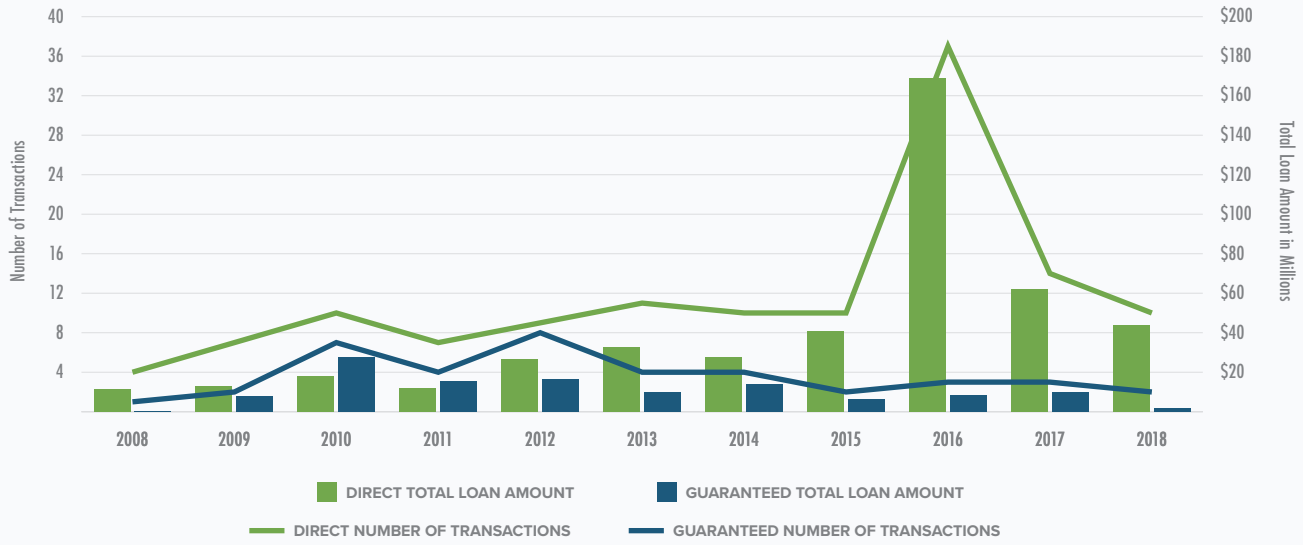


Community Facilities Loans by Program

The CF program consists of both direct and guaranteed loans. Rural charter schools are more likely to receive a direct loan, accounting for 76 percent of the 169 transactions and 79 percent of the total loan amount. Direct loan transactions averaged $3.5 million while guaranteed loan transactions averaged $2.9 million.

As shown in Figure 4.3, the number and total amount of direct loans have increased over the years reviewed (with the expected spike in 2016), while the number of guaranteed loans peaked in 2012 and has since decreased to levels similar to those in 2008.

FIGURE 4.3 DIRECT VS. GUARANTEED LOANS—NUMBER OF TRANSACTIONS AND TOTAL LOAN AMOUNT BY YEAR



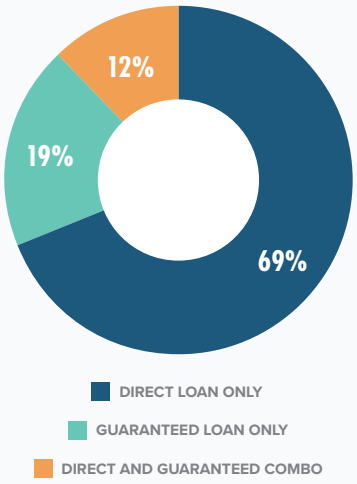
COMBINATION OF DIRECT AND GUARANTEED LOANS

As shown in Figure 4.4, 12 percent of the USDA recipient charter schools received both direct and guaranteed loans at the same time, in what is essentially a combination package. On average, the direct loans in these combinations were larger ($4.4 million) than the guaranteed loans ($3.8 million); however, the guaranteed loans in these packages were larger than the overall guaranteed average ($2.9 million). Utah used this combination loan package eight times, while North Carolina, Idaho, Delaware, and New Jersey used it one to three times each for a total of seven additional combination packages.

PROJECT AVERAGES

Overall, projects (combined transactions) ranged from $51,568 to $18 million, with an average of $4.5 million. Direct loan projects averaged $4.4 million compared to the guaranteed loan projects' average of $2.4 million. The combination packages (direct and guaranteed loans) averaged $8.1 million.

FIGURE 4.4 TYPE OF USDA LOAN



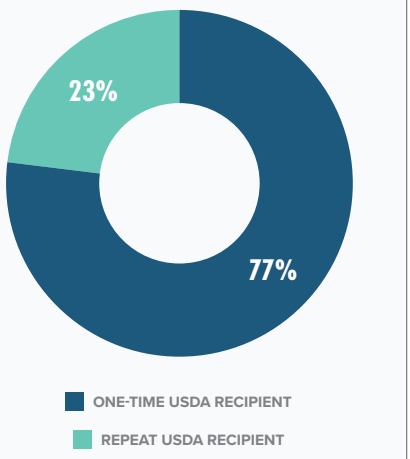
ONE-TIME VERSUS REPEAT USDA RECIPIENTS

Of the 98 schools, 77 percent received USDA financing once. The other 23 percent were repeat recipients receiving USDA financing on two to four separate occasions. On average, 3.4 years passed between the first and second financing, as well as between the second and third financing. The two schools that received a fourth loan each did so within a year of the third financing.

A quarter of the repeat recipients had a larger second loan than the first loan, and four of five schools received a third loan larger than the previous two. Thus, the third loan was the largest of all the loans received for these schools.

COMBINATION PACKAGES: Of the 15 combination transactions from above, 11 were one-time recipients, while the remaining four schools received an additional loan either before or after the combined transaction (from one to 10 years between the loans).

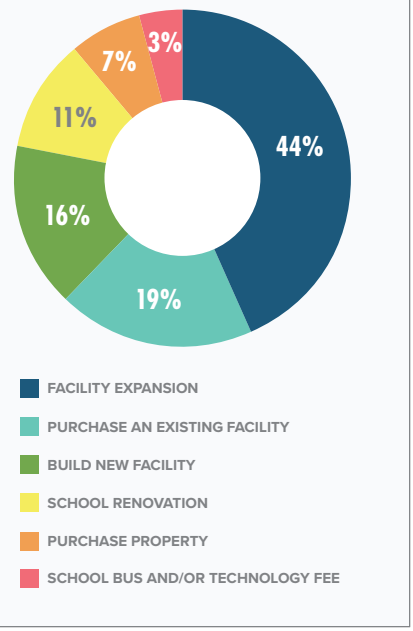
FIGURE 4.5
ONE-TIME VS. REPEAT USDA RECIPIENTS



Project Uses

Additional USDA data identified project uses for 44 percent of the projects. As shown in Figure 4.6, the most common uses of the loans were to expand existing facilities, purchase an existing building, or build a new facility. Other uses include renovating a school, purchasing property, and purchasing school buses or technology.

FIGURE 4.6
PROJECT USES OF USDA LOANS

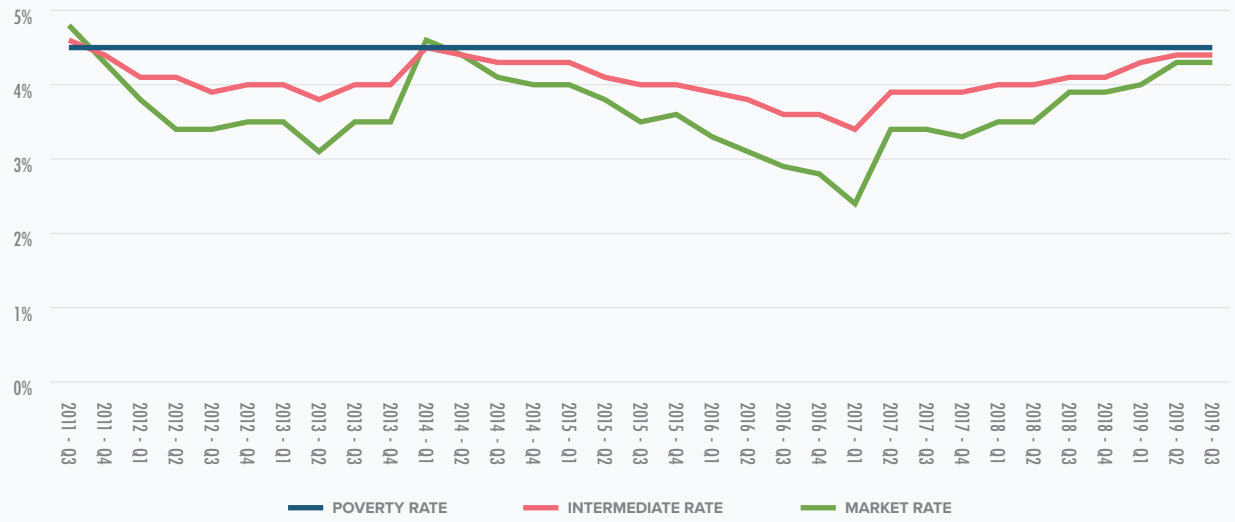


Transactions by Community Facilities Interest Rates

The USDA utilizes three different interest rates. The market rate is set using the Bond Buyer 20 index. The poverty rate is calculated using a specific formula; however, with a floor built into the calculation, the poverty rate has not changed over the last eight years, as seen in Figure 4.7. The intermediate rate is halfway between the poverty and market rates.

Because of the floor on the poverty rate, the market rate is typically below the poverty rate. Applicants to the CF program get the lowest rate they qualify for. Since the third quarter of 2011, the market interest rate has ranged from 2.38 percent to 4.75 percent, with an average rate of 3.34 percent. As of the fourth quarter of 2019, the interest rate is 3.5 percent (not shown in the graph). The current interest rate is available at the Community Facilities Direct Loan & Grant Program website.

FIGURE 4.7 COMMUNITY FACILITIES DIRECT LOAN & GRANT PROGRAM INTEREST RATES FROM 2011 TO 2019



Transactions by Time to Financing

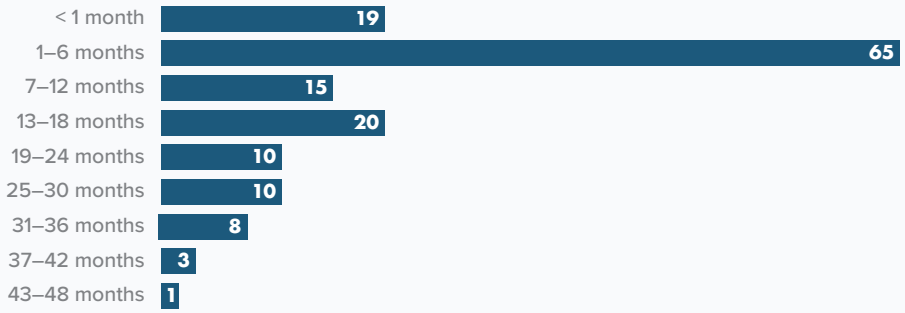
The most consistent measure of "time to financing" is the duration between obligation and closing dates. From USDA records, the obligation dates for 151 of the 169 financed transactions could be matched with their respective closing dates. On average, schools received financing 10 months after obligation; however, 61 percent of the transactions were financed within nine months of their obligation date.

As shown in Figure 4.8, almost half of the transactions were financed between one and six months of obligation and an additional 19 transactions (13 percent) were financed within a month. These 19 transactions were in nine different states and occurred between 2010 and 2018.

Five of the transactions took longer than three years to be financed. Those schools were in North Carolina, South Carolina, and Hawaii. The transactions were obligated in either 2012 or 2013 and were finally financed in 2016.

Of the states with the largest USDA activity, Utah had the shortest turnaround of 1.61 months on average (28 transactions); Delaware took an average of 11 months (10 transactions); and Hawaii took just under a year (12 transactions). North Carolina took the longest. with an average of 16 months between obligation and financing (39 transactions). All four states had at least one transaction that was financed within a month of obligation.

FIGURE 4.8 NUMBER OF MONTHS BETWEEN OBLIGATION AND FINANCING



5. USDA–CHARTER SCHOOL TRANSACTIONS 2008-18: DEVELOPING INDUSTRY METRICS

An initial priority of this report was to begin developing industry metrics, or indicators of school success, to inform the decision-making process for all involved in facilities financing. This section provides a preliminary scan of the performance among charter school borrowers in the USDA portfolio.

Multistate performance analysis across nearly 100 schools comes with significant limitations, and while the findings allow schools to be categorized into higher or lower performing groups, none of it is intended to be used as evidence of any individual school's performance. Instead, the performance ratings identify groups of schools whose performance and profiles can be compared for patterns that may help inform future financing. The analysis is based solely on publicly available, school-level data about academic performance, financial health, and enrollment patterns.

Preliminary Findings

As noted in the Findings in Section 2, public charter schools financed through USDA are relatively successful, as measured by enrollment growth, academic performance, and financial performance.

1. **School Enrollment Growth:** On average, USDA recipient schools have experienced enrollment growth over the years reviewed. Of the identified USDA recipient schools, 75 percent of them grew in enrollment from 2013-14 to 2017-18.

2. **Academic Performance:** For the schools with available state academic performance ratings, less than 10 percent were rated as below average ; between 60 percent and 70 percent were rated average; and 20 percent to 30 percent were rated above average between 2013-14 and 2017-18. Of the schools with at least three years of ratings, 15 percent were consistently rated above average; 42 percent were consistently rated as average; and only one school was consistently rated below average. Another 5 percent of schools experienced an upward trend in ratings. The remaining schools wavered between ratings from year to year or had a downward trend in ratings.

3. **Financial Performance:** At least one year of financial health performance ratings was available for 53 percent of the recipient schools, and over half had at least two years available. Eighty-eight percent of schools met or exceeded standards (consistently if multiple years of data), while only 6 percent of the schools did not meet standards. The final 6 percent had fluctuating ratings, where there was at least one year of not meeting standards.

Using the three key indicators above and applying certain criteria could provide guidance in determining potentially successful borrowers. Additional research needs to be conducted to determine the best indicators that may predict which schools will be successful borrowers.

ACKNOWLEDGMENTS

This report is possible thanks to funding from the National Alliance's Charter School Facility Center and invaluable collaboration from Alton Kimura, Senior Loan Specialist, Community Facilities Programs, National Office, and his team in the U.S. Department of Agriculture.

An informal group of schools, support groups, and finance professionals provided feedback, advice, and guidance throughout. Thanks to Brittany Bennett (Self-Help), Russell B. Caldwell, Michael Chamberlain (U.S. Department of Education), Jane Ellis (Colorado Charter Facilities Solutions), Jim Goenner (National Charter Schools Institute), Clifton Jones (U.S. Department of Education), Kendall Massett (Delaware Charter Network), Mark Medema (National Alliance), Dave Patterson (Charlton Heston Academy), Dan Quisenberry (Michigan Association of Public School Academies), Terry Ryan (Bluum), Cheryl Weathersby (Pataula Charter Academy), Nicholas Watson (California Charter Schools Association).

The geographic information system (GIS) analysis could not have been performed without the support of the GIS librarians from Michigan State University who offered guidance and support throughout the analysis.

AUTHORSHIP

This report is produced for the Charter School Facility Center at the National Alliance for Public Charter Schools by Momentum Strategy & Research (Jim Griffin and Brooke Quisenberry). Momentum is focused on informing policy through collaborative research in areas including student performance, charter school facilities, and rural schools. In recent years, Momentum has been part of an informal network of schools and rural community leaders (under the name Rural Charter School Collaborative) working to strengthen rural charter school opportunities.

APPENDIX A

DISSEMINATION ACTIVITIES

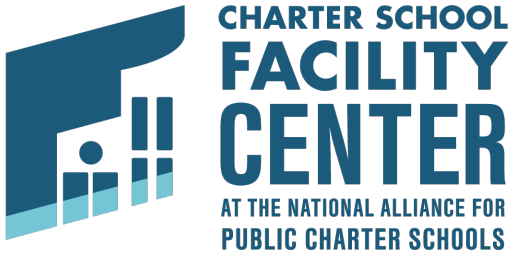
1. Lansing, Michigan, on April 17, 2019
   Findings to date presented at a Facility Center event held in partnership with the National Charter Schools Institute

2. Sacramento, California, on May 9, 2019
   Findings to date presented at a Facility Center event held in partnership with the California Charter Schools Association

3. Las Vegas, Nevada, on July 1, 2019
   Findings presented at the National Alliance for Public Charter Schools Conference featuring Alton Kimura (USDA Community Facilities program) and Jane Ellis (Colorado Charter Facilities Solutions)

4. Fruitland, Idaho, September 30, 2019
   Report released at Facility Center event in partnership with Bluum and Building Hope

ENDNOTES



Charter School Facility Center at the
National Alliance for Public Charter Schools
1425 K Street NW, Suite 900
Washington, DC 20005
202.289.2700

publiccharters.org
@charteralliance
facebook.com/charterschools
@charteralliance