



NEW MEXICO  
**FINANCE AUTHORITY**

# Public Project Revolving Funds for Charter School Lease-Purchases

Presentation to Legislative Oversight Committee

September 30, 2013

## PPRF Charter School Lease Purchase Portfolio Expected Value of Gain or (Loss)

### Assumptions:

**\$ 40,000,000** = Charter School Lease Purchase Loan Portfolio Size -- 20 Year Loans

### Odds:

\$ 30,000,000	=	<b>75%</b>	=	Charter School meets PPRF obligations	
\$ 10,000,000	=	<b>25%</b>	=	NMFA required to convert Charter School collateral to take out loan	
- \$ 3,165,000		<b>30%</b>	=	Collateral Sale Exceeds Amounts Owed	
	= +	\$ 330,000	<b>10%</b>	= Collateral Sale Exceeds Amounts Owed by	<b>10%</b>
	= +	\$ 2,835,000	<b>90%</b>	= Collateral Sale Exceeds Amounts Owed by	<b>5%</b>
- \$ 4,445,000		<b>70%</b>	=	Collateral Sale Falls Short of Amounts Owed	
	= +	\$ 1,260,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>10%</b>
	= +	\$ 1,120,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>20%</b>
	= +	\$ 735,000	<b>15%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>30%</b>
	= +	\$ 630,000	<b>15%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>40%</b>
	= +	\$ 350,000	<b>10%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>50%</b>
	= +	\$ 350,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>75%</b>
=		<b>\$ (2,390,000)</b>	=	NMFA Expected Value of Loss from Charter School Lease Purchase Lending	

## PPRF Charter School Lease Purchase Portfolio Expected Value of Gain or (Loss)

### Assumptions:

**\$ 40,000,000** = Charter School Lease Purchase Loan Portfolio Size -- 20 Year Loans

### Odds:

\$ 36,000,000	=	<b>90%</b>	=	Charter School meets PPRF obligations	
\$ 4,000,000	=	<b>10%</b>	=	NMFA required to convert Charter School collateral to take out loan	
- \$ 1,266,000		<b>30%</b>	=	Collateral Sale Exceeds Amounts Owed	
	= +	\$ 132,000	<b>10%</b>	= Collateral Sale Exceeds Amounts Owed by	<b>10%</b>
	= +	\$ 1,134,000	<b>90%</b>	= Collateral Sale Exceeds Amounts Owed by	<b>5%</b>
- \$ 1,778,000		<b>70%</b>	=	Collateral Sale Falls Short of Amounts Owed	
	= +	\$ 504,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>10%</b>
	= +	\$ 448,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>20%</b>
	= +	\$ 294,000	<b>15%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>30%</b>
	= +	\$ 252,000	<b>15%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>40%</b>
	= +	\$ 140,000	<b>10%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>50%</b>
	= +	\$ 140,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>75%</b>
=		<b>\$ (956,000)</b>	=	NMFA Expected Value of Loss from Charter School Lease Purchase Lending	

## PPRF Charter School Lease Purchase Portfolio Expected Value of Gain or (Loss)

### Assumptions:

**\$ 40,000,000** = Charter School Lease Purchase Loan Portfolio Size -- 20 Year Loans

### Odds:

\$ 36,000,000	=	<b>90%</b>	=	Charter School meets PPRF obligations	
\$ 4,000,000	=	<b>10%</b>	=	NMFA required to convert Charter School collateral to take out loan	
- \$ 2,110,000		<b>50%</b>	=	Collateral Sale Exceeds Amounts Owed	
	= +	\$ 220,000	<b>10%</b>	= Collateral Sale Exceeds Amounts Owed by	<b>10%</b>
	= +	\$ 1,890,000	<b>90%</b>	= Collateral Sale Exceeds Amounts Owed by	<b>5%</b>
- \$ 1,270,000		<b>50%</b>	=	Collateral Sale Falls Short of Amounts Owed	
	= +	\$ 360,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>10%</b>
	= +	\$ 320,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>20%</b>
	= +	\$ 210,000	<b>15%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>30%</b>
	= +	\$ 180,000	<b>15%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>40%</b>
	= +	\$ 100,000	<b>10%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>50%</b>
	= +	\$ 100,000	<b>20%</b>	= Collateral Sale Falls Short of Amounts Owed by	<b>75%</b>
=		<b>\$ (620,000)</b>	=	NMFA Expected Value of Loss from Charter School Lease Purchase Lending	

# NMFA Charter School Financing Policies

## Key Provisions:

- Evidence the Charter School has been renewed at least once
- Last 5 years of Quarterly Reports to PED
- Evidence of public review of the budget incl/ lease payments
- **Minimum debt service coverage of 1.1X**
- **75% loan-to-value collateral ratio acting under Board**
- **80% loan-to-value collateral ratio acting under District**
- **Lease payment security deposit = one year lease payments**
- Evidence of repairs and maintenance
- **Repair & Replacement Fund** (unspecified terms)

# How to impact Odds of Loss

**Tighten Quantitative Policies. For example:**

- **Minimum lease revenue debt service coverage 1.1X**
- **Plus: Net System Revenue coverage of 1.3X**
- **70% loan-to-value collateral ratio acting under Board**
- **75% loan-to-value collateral ratio acting under District**
- **Repair & Replacement Fund = 1 Year lease payments**

**NUMBER OF STATE SUPPORTED SCHOOLS IN THE STATE**

DISTRICT	STATE CHARTERS	2008-2009	2009-2010	2010-2011	2011-2012
ALBUQUERQUE	Academy of Trades and Technology			X	X
	ACE Leadership High School			X	X
	Albuquerque Inst. for Mathematics & Science (AIMS) at UNM			X	X
	Albuquerque School of Excellence			X	X
	Albuquerque Sign Language Academy (The)			X	X
	Amy Biehl Charter High School			X	X
	Cesar Chavez Community School		X	X	X
	Cien Aguas International School		X	X	X
	Cottonwood Classical Preparatory School	X	X	X	X
	Creative Education Preparatory Institute #1		X	X	X
	East Mountain High School			X	X
	Gilbert L. Sena Charter (formerly CEPI #2)		X	X	X
	GREAT Academy (The)				X
	Horizon Academy West	X	X	X	X
	International School at Mesa del Sol (The)		X	X	X
	La Promesa Early Learning Center			X	X
	La Resolana Leadership Academy				X
	Learning Community Charter School (The)				X
	Media Arts Collaborative Charter School	X	X	X	X
	Montessori Elementary			X	X
	New America School (The)		X	X	X
	New Mexico International School				X
	New Mexico School for the Arts				X
	North Valley Academy	X	X	X	X
	Ralph J. Bunche				X
	South Valley Preparatory School			X	X
	Southwest Intermediate Learning Center			X	X
	Southwest Primary Learning Center			X	X
	Southwest Secondary Learning Center			X	X
	Tierra Adentro			X	X
	Village Academy			X	X
	ALMA D'ARTE Charter High School		X	X	X
	J. Paul Taylor Academy				X
LOS LUNAS	School of Dreams Academy		X	X	
QUESTA	Red River Valley Charter School			X	
RIO RANCHO	ASK Academy (The)			X	
SANTA FE	MASTERS Program (The)			X	
	New Mexico School for the Arts		X	X	
SILVER CITY	Aldo Leopold High School		X	X	
TAOS	Taos Academy		X	X	
	Taos Integrated School of the Arts		X	X	
<b>TOTALS</b>		<b>4</b>	<b>12</b>	<b>33</b>	<b>41</b>



NUMBER OF CHARTER SCHOOLS IN THE STATE

DISTRICT	CHARTERS	2001-		2002-		2003-		2004-		2005-		2006-		2007-		2008-		2009-		2010-		2011-		2011-	
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2010	2011	2012	2010	2011	2012	2011	2012	2011	2012	2011	2012
CARLSBAD	Jefferson Montessori Academy			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
CIMARRON	Moreno Valley High School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
CLAYTON	Amistad Charter School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
DEMING	Deming Cesar Chavez Charter High School																								
ESPAÑOLA	Cañiños Charter School (formerly Cañiños De Los Niños)																								
	Espanola Military Academy																								
GADSDEN	Anthony Charter																								
GALLUP	Middle College High School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
JEMEZ MOUNTAIN	Lindrieth Area Heritage Charter School																								
JEMEZ VALLEY	San Diego Riverside Charter School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Walatowa Charter High School																								
LAS CRUCES	Alma D' Arte Charter High School																								
	La Academia Dolores Huerta																								
	Las Montañas Charter School																								
LAS VEGAS CITY	Bridge Academy Charter High School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
QUESTA	Red River Valley Charter School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Roots and Wings Community School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
ROSWELL	Sidney Gutierrez Middle School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
SANTA FE	Academy for Tech. & Classics			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Charter School 37																								
	Monte del Sol Charter School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Tierra Encantada Charter School (formerly Charter School 37)																								
	Turquoise Trail Elementary			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
SILVER CITY	Aldo Leopold High School																								
SOCORRO	Cottonwood Valley Charter School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Anansi Charter School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
TAOS	Taos Municipal Charter School			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Vista Grande High School																								
WEST LAS VEGAS	Rio Gallinas School																								
TOTALS		20	27	34	44	52	61	64	63	59	48	45	44	44	45	44	44	45	44	44	45	44	44	44	44

## **SECTION 8. CHARTER SCHOOL FINANCING POLICIES**

### **Section 8.1 Overview:**

The Charter School Financing Policies provide guidance to NMFA staff and its Applicants regarding the use of the PPRF to provide lease financing for charter school facility acquisitions in a manner that is responsive to the needs of the charter schools while protecting the long-term financial health and capacity of the PPRF.

### **Section 8.2 General Considerations:**

Charter school financings and other land secured transactions introduce an element of risk that the PPRF is unaccustomed to taking and the NMFA will limit this exposure to transactions that demonstrate a strong managerial and board staffing, to strong collateral coverage and to entities with a demonstrated track record to deliver quality education

#### **A. Application Requirements**

Applications for lease-purchase financing assistance may be filed by the School District acting as the chartering authority on behalf of a charter school or by the charter school itself, acting under the authority of the charter school's board of directors. In addition to the application materials required by Section 1.2 of these Loan Management Policies, the NMFA requires the following materials prior to approving a PPRF loan for a Charter School facility acquisition:

1. evidence that the Public Education Department has approved the terms of the proposed lease-purchase arrangement and that the charter school is approved for funding through the Program;
2. evidence that the charter has been renewed at least once pursuant to § 22-8B-12 NMSA 1978
3. a business plan that includes the mission and history of the school, resumes of leadership, cash flow projections and evidence of outside support;
4. audits of the charter school and chartering authority for which the charter school is a component unit, the latest of which must be current for the fiscal year ended not less than twenty-four (24) months prior to submission;
5. last five (5) years of quarterly reports to PED; and,
6. evidence of annual lease payments budgeted in chartering authority, including evidence of public review of the budget;

## B. Lease Purchase Underwriting

The NMFA will analyze each application to determine whether there is adequate collateral value in the proposed project to undertake the financing and to ensure there is sufficient cash flow coverage arising from the operations of the school or available from the state-supported rent assistance to repay the loan. If either the collateral value or repayment sources are insufficient, the NMFA will not provide PPRF lease purchase assistance for the project.

1. Administrative Capacity. The Authority will evaluate the Applicant's administrative capacity to carry out and operate the Public Project and to meet its payment obligations on the requested Financial Assistance.
2. Financial Position and Loan Repayment. The NMFA will evaluate each Applicant's financial position to assess the Applicant's ability to meet its payment obligations over a term not to exceed thirty (30) years on the requested lease-purchase financing assistance with a minimum coverage debt service coverage of 1.1x from one or more of the following revenues:
  - i) Money from the school's general fund;
  - ii) investment income actually received from investments;
  - iii) loans, grants or lease payments received from the public school capital outlay council pursuant to the Public School Capital Outlay Act;
  - iv) fees and assessments received by the school district;
  - v) proceeds from the sale of real property and rental income received from the rental or leasing of school property;
  - vi) amounts irrevocably pledged by private parties for this purpose; and
  - vii) any other legally available funds.
3. Collateral Value. The NMFA may approve lease-purchase assistance upon determination that repayment is adequately secured by a first mortgage on the proposed facility and that it has adequate market value to protect the PPRF against declines in property valuations, including evidence that the property is zoned for appropriate adaptive reuse, including commercial use, as determined by the NMFA.

Using a recent appraisal, acceptable to the NMFA, the minimum loan-to-value collateral coverage will be as follows:

- i) A 75% loan-to-value collateral ratio for the facility if the Applicant is the charter school itself acting with the authority of its board of directors; or,
- ii) 80% loan-to-value collateral ratio for the facility if the Applicant is the chartering school district acting on behalf of the charter school and which school district agrees that, should the charter school's charter be revoked or not renewed, that the school district would make a good faith effort to identify another qualified charter school to lease the facility or, if qualified, assume the lease-purchase financing itself.

### C. Lease Purchase Provisions

To protect the PPRF from declining collateral value, the NMFA will require its charter schools borrowers to agree to certain provisions as a condition of closing. As such, the lease purchase agreements shall include the following:

1. Lease payment security deposit, similar to a debt service reserve fund, equal to one year of lease payments which may be funded from the lease financing;
2. Notification provisions which require the charter school notify the NMFA immediately of any adverse action taken by the public education department or chartering authority;
3. Evidence of Repairs and Maintenance. In addition to contributing to the Repair and Replacement Fund, the NMFA will require ordinary maintenance of the facility be performed and that annual reports of such maintenance be supplied to the NMFA; and,
4. Annual submission of:
  - i) audited financial records of the charter school;
  - ii) adequate hazard and liability insurance; naming the NMFA as an additional insured;
  - iii) title or legal occupancy arrangements; and
  - iv) evidence that the charter school meeting accountability standards.

**Adopted: February 2011**