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NMTCs Paired with TEBs to Finance Charter School Facilities

By Anne Townsend, Staff Writer, Novogradac & Company LLP

On April 26, the Academy of Learning and Leadership (ALL), a charter school in Milwaukee, Wis., announced the completion of \$11 million in new markets tax credit (NMTC) and tax-exempt bond (TEB) financing for its facilities in the Lindsay Heights neighborhood. The funds are being used to refinance the initial school building and to complete and furnish a second school building located on the same campus.

ALL currently operates from a single, 30,000-square-foot building owned by the Boys and Girls Club of Greater Milwaukee (B&GC), and a 21,000-square-foot addition owned by the academy. The addition was completed in 2003 with financing from local banks.

The school's current expansion plan includes the construction of two additional buildings to facilitate small "learning communities" of between 210 and 245 students in each structure. ALL's ultimate aim is to serve 630 students and their families in three small schools on the campus adjacent to the neighborhood Boys and Girls Club. This deal marks phase two of construction toward the overall goal, and the school intends to educate 210 additional students in its new building starting in the fall of 2007.

John Buck, of Buck Financial Advisors LLC in Englewood, Colo., works closely with the financing of charter schools and led the team that made this innovative financing structure possible. "One of the most difficult problems faced by public charter schools is the financing of buildings," Buck said. "We believe this is the first time TEB financing has been combined with the NMTC program to finance a charter school facility."

The Redevelopment Authority of the city of Milwaukee issued \$8.5 million worth of TEBs that were combined with funds generated by \$11 million in NMTCs through Community Development Funding (CDF), a community development entity (CDE). The remainder of the funds were taxable, in accordance with the 103 regulations regarding how much TEB funding a not-for-profit borrower can access. AG Edwards & Sons Inc. provided the tax-exempt financing; TransCapital syndicated the tax credit equity. Members of the financing team also included the law firms of Quarles and Brady LLP, Gonzalez, Saggio & Harlan, and Kutak Rock LLP. Eppstein Uhen Architects designed the three-school campus, and Berghammer Construction Corporation will build the new structure.

Brian Curd, of Bathgate Capital Partners LLC, advised the parties on the tax credit structuring. "It was clear to us from the get-go that given the area demographics and the commitment of this school to make its charter happen, this was a perfect fit for NMTC financing," Curd said. "It is keeping kids and families in the area. It is keeping teachers at the school and keeping them employed."

ALL is located in northern Lindsay Heights, which is known as one of the roughest neighborhoods in Milwaukee; 95 percent of the school's nearly 100 percent African-American student population qualify for free or reduced-cost lunches through the National School Lunch Program. "We are truly a community school, and 80 percent of our students come from within a mile radius of our school," said Dr. Camille Mortimore, executive director of ALL. "The vast majority of our students walk to school and most of our kids come from our neighborhood."

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"Public education in Milwaukee has gone through decades of challenges, just as urban education has throughout the country, and this is a particularly stressed area," she said. "Very low numbers of African American children are graduating from high school — my guess is that about 34 percent of African-American children graduate from high school in Milwaukee. Finding solutions to bring new kinds of schools into the community is an important part of solving the problem. So the experimentation of schools like charter schools help to create a solution, and NMTCs are a perfect fit for that." ALL is an independent public charter school authorized by the City of Milwaukee; it is not part of the traditional public school district.

Mortimore also discussed the role of schools in the development of distressed areas. "It seems that the only reason to be using NMTCs shouldn't be business, because schools are essential to the redevelopment of our cities," she said.

Straightforward bond financing would not have accomplished the overall financing goals of ALL, so the credit enhancement provided by the NMTC was central to the project's success. "This deal truly needed both the economic benefits of the NMTC and the lower tax-exempt rates versus traditional taxable alternatives in order to be affordable for the school and to be able to build all of the necessary infrastructure for phase two," Curd said.

The school is also doing things to help offset infrastructure needs through its partnership with the neighborhood B&GC of Greater Milwaukee, Buck said. "The partnership allows them to use the B&GC space, including the gym, pool and cafeteria, as well as additional classroom space," he said. "So in addition to the NMTC and Bonds relationship, the relationship between the B&GC and the school is innovative and probably warrants the replication in other capacities throughout the country."

Buck also explained that charter school debt is serviced by state allocations to schools based on the number of students that show up for class each semester. "As long as the kids show up, there is an ability to service the debt of the facility," he said. "That is something that investors pay a great deal of attention to. We have done 25 to 26 deals for charter schools, so we've gotten to know the investors and the market pretty well and we're able to put this deal in context of what they're used to seeing even though it was a unique structure."

Buck also noted that the people behind ALL helped to make this deal a good fit. "This was probably the right school to be doing this the first time due to background, experience and also temperament of those involved at the school," he said.

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"It is a tribute when the financial community can step up and do this," Mortimore said of the investors that supported her cause. "It takes people with more of a risk mentality and there is a group of investors who are clearly interested in social entrepreneurship. Our children should have the opportunity to go to school in beautiful places — these investments provided hope and change." ❖

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