

**EXPANDING GROWTH  
OPPORTUNITIES FOR  
QUALITY SCHOOLS:  
State of Arizona Programs  
to Support Access To  
Lower Cost Funding for  
Facilities**

**ARIZONA CHARTER SCHOOL ASSOCIATION  
Business Summit – November 2016**

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# Overview of Arizona Public School Credit Enhancement Program



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# STATE OF ARIZONA CREDIT ENHANCEMENT PROGRAM

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## Overview & Goals

- Governor Ducey committed to broadening access to in-demand, high-performing schools for all of Arizona's K-12 students by helping Arizona's best public schools replicate and expand.
- One barrier for expansion is the cost of capital construction.
- The Arizona Public School Credit Enhancement Program is designed to improve a participating school's credit rating on bonds issued for facilities, enabling financing at lower interest rates and resulting in lower borrowing costs.
  - Credit enhancement is the lending of one entity's credit or resources to lower the risk and increase the credit quality and lower the cost of another entity's obligation
  - Highly rated municipal/tax-exempt entities often have access to bond insurance, letters of credit and other enhancement vehicles to improve the credit on their obligation
  - Several states have forms of credit enhancement for qualified charter school bonds (Colorado, Texas, Utah).

Make More Quality Seats Available for Unmet Demand

# STATE OF ARIZONA CREDIT ENHANCEMENT PROGRAM

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## How the Program Works

- Public schools commonly issue bonds to finance school construction. The interest rates they pay depend on investors' assessments of the risks associated with the bonds and vary from school to school.
- The Arizona Public School Credit Enhancement Program (Program) will reduce borrowing costs by making bonds less risky for investors by ensuring that bonds will be repaid even if the school is not able to make a payment. The Program creates an "insurance fund" for the purpose of repaying participating public schools' principal and interest payments on debt-financing in the event a school defaults. *The State of Arizona is not liable for any school default nor does it have any impact to the State's credit rating.*
- The Program is funded at a fixed and limited amount of \$100 million -- derived from two sources: a) \$20 million previously appropriated for this purpose and b) \$80 million from the state treasurer's pool of investments. It is expected that the \$100 million in the Fund will enhance approximately \$350 million of bonds issued by public schools' participating in this program.
- The Public School Credit Enhancement Program has received preliminary indication from Standard & Poor's that bonds issued by eligible schools would be assigned a credit rating of "AA-", higher than the rating of any Arizona charter school organization.
  - *The savings in interest costs could either serve as a benefit to the taxpayers (district general obligation bonds) or be reallocated for school instructional or operational expenses, such as classroom-related expenses or soft capital (charter schools).*
- Eligible schools who wish to finance new construction or refinance existing school construction debt must submit an application to the Credit Enhancement Eligibility Board.
  - The Credit Enhancement Eligibility Board will review applications and approve school program participants.
  - The Governor's Office of Education will provide administrative support.

State Program Backing to Reduce Borrower Costs for Eligible Borrowers/Facilities

# STATE OF ARIZONA CREDIT ENHANCEMENT PROGRAM

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## School Eligibility for Achievement District

- To be eligible to participate in the credit enhancement program, schools must be admitted as a member school in the Achievement District. The eligibility criteria include:
  - The assignment of a letter grade of A, or an equivalent successor classification, pursuant to section 15-241.
  - Proven instructional strategies and curricula that demonstrate high academic outcomes.
  - Verifiable enrollment demand, including the placement of prospective pupils on waiting lists.
  - A sound financial plan that contemplates operational costs and future enrollment growth.
  - A commitment to provide technical assistance, including business services, curriculum development and teacher training, to an underperforming school in the state.

**High Performing and High Demand Schools are Eligible**

# STATE OF ARIZONA CREDIT ENHANCEMENT PROGRAM

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## Program Eligibility & Requirements

- The Credit Enhancement Eligibility Board (Board) will be comprised of the Governor, Treasurer and the Director of the Arizona Department of Administration (or their designees).
- The decision to accept or reject a school's application for the program will be made by the Board. The application form and process will be designed by the Board and based on general guidelines and requirements established in law.
- The Board will use various metrics to evaluate applicants, including:
  - Membership in the Achievement District (see above).
  - Applicant's financial position, including evaluation of financial metrics such as day's cash on hand, debt service ratio, etc.
  - Terms of the proposed financing.
  - Whether the financing has a fully funded debt service reserve fund (charter schools are required to have a debt service reserve fund to be able to sell bonds)
  - Value of property pledged as collateral.
  - Impact of the proposed financing on the overall enhancement fund leverage ratio (no more than 25 percent of enhanced financings in aggregate may have an underlying credit quality of less than BB-)
- Charter schools are required to pay an annual participation fee equal to or at least .25% of the school's total outstanding principal that is enhanced through the Program. Participation fees will be set by the Board.

Proven School Operators with Eligible Projects Can Access Enhancement

# STATE OF ARIZONA CREDIT ENHANCEMENT PROGRAM

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## Timeline for Implementation

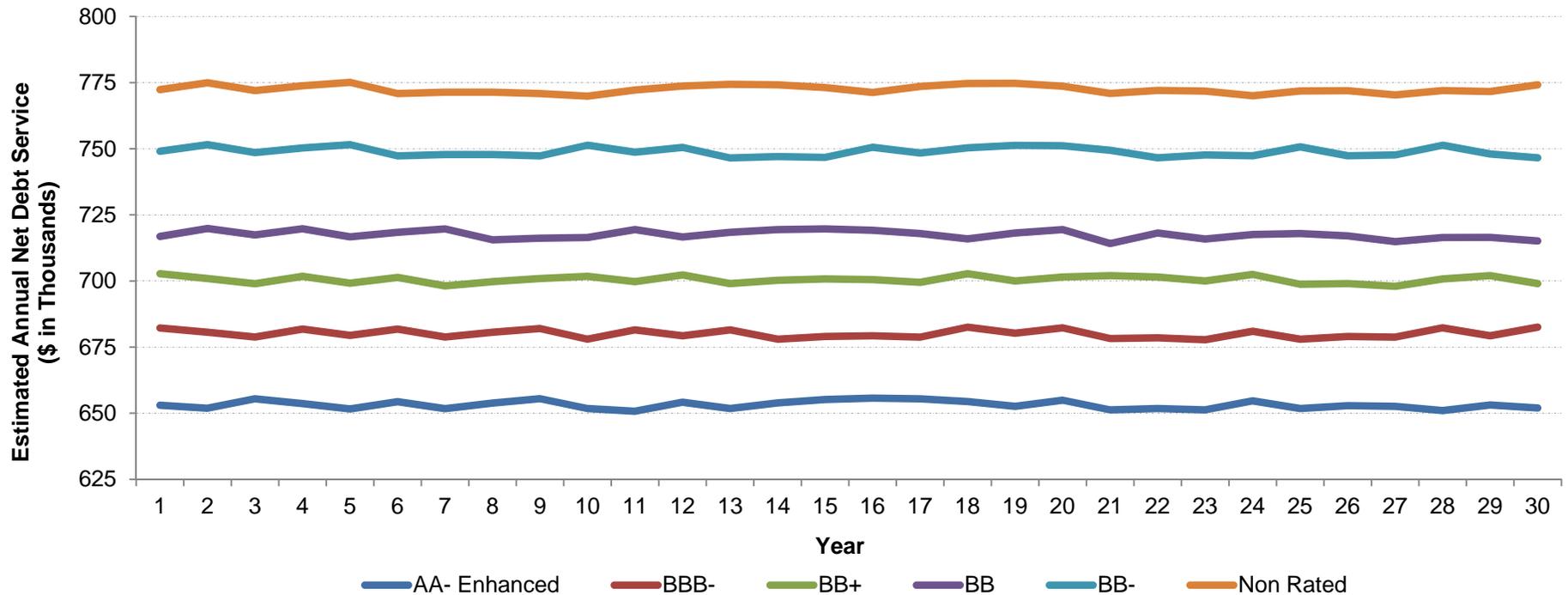
- June - October 2016 Development of Program Rules and Documentation (application forms, technical assistance documents)
- November 2016 Credit Enhancement Board Meeting to initiate rulemaking and collect public comment for 30 days
- December 2016 Revision of Program Rules and Documentation (based on submitted public comment)
- January 2017 Credit Enhancement Board Meeting (Date TBD) to adopt final rules
- January 2017 Application Period Begins (Online Submissions Only)

Program to Commence in 2017

# STATE OF ARIZONA CREDIT ENHANCEMENT PROGRAM

## Potential Enhancement Benefit

- The table below exhibits projected differences in annual bond payments between a AA- enhanced rated issue and issues of various credit ratings typical for Arizona charter schools
  - Payments are based on estimated current market rates as of 11/14/2016, so results may differ based on actual market conditions at the time of issuance of any enhanced bonds.
  - Potential net benefits may increase with higher levels of interest rates



Benefits/Savings Are Generated From Lower Interest Rates for Higher Rated Enhanced Bonds

**Arizona Industrial  
Development Authority**



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