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New York Charity Joins in Record Bond Binge for Charter Schools.

A New York City charity for poor children is selling municipal bonds for the first time in its 162-year history, joining a record borrowing spree for charter schools across the U.S.

The Children's Aid Society is selling \$36.6 million of debt Thursday for a new a six-story building to house its school in the South Bronx, one of the nation's poorest communities. The non-profit is using its own money to guarantee the bonds will be paid, providing added security to investors.

"The best and most reliable path out of poverty for children is educational achievement," Dan Lehman, Children's Aid's chief financial officer, said in an interview.

Bond sales by U.S. charter schools are on pace to break the \$1.9 billion record set last year as turmoil in Greece helps hold interest-rates near a five-decade low. The borrowing reflects the swelling enrollment in the taxpayer-funded schools, which are independently run and provide an alternative for parents of children in poorly performing districts.

Charter schools have issued \$1.14 billion of municipal bonds in 2015, up from \$1.09 billion in the same period a year earlier, according to data compiled by Bloomberg.

Sales have more than doubled over the last four years, setting records every year since 2012, according to a survey to be released next week by Local Initiatives Support Corporation, a New York non-profit.

Yield Appetite

The issuance has benefited from demand for high-yielding bonds, the decision by some states to guarantee the debt, and the successful track records of established schools.

"Schools five or 10 years ago couldn't get to the market because they were too new," said Wendy Berry, a financial adviser to charter schools and former Moody's Investors Service analyst who wrote the Local Initiatives survey.

Charter schools receive public funding based on how many students enroll. The debt is among the riskiest in the \$3.6 trillion municipal-bond market because the schools can close if enrollment drops or they lose their charter.

Of 818 charter deals since 1998, 41 have defaulted, a rate of 5 percent, according to the survey.

Waiting List

Susan Courtney, who helps oversee \$15 billion of municipal bonds at Prudential Investment Management in Newark, New Jersey, said she favors larger charter schools with an proven record.

"You want to see steady enrollment trends — you want to see a decent waiting list," said Courtney,

who isn't planning on buying the Children's Aid bonds. "Obviously we're also focused on the management and the board."

Children's Aid was founded in 1853 by social reformer Charles Loring Brace, who wanted to provide services for poor and homeless children in a setting other than poorhouses and orphanages.

It opened its school in 2012, part of an expanding movement in New York. Enrollment in city charter schools has increased ten-fold in the past decade to more than 80,000 students, according to the New York City Charter School Center, an advocacy group. Almost 50,000 children are on waiting lists.

Children's Aid currently teaches about 280 students, in kindergarten through third grade. It will use the proceeds of the bond sale for a new building that will allow it to expand.

New Building

The group has already bought and demolished an abandoned theater, with plans to replace it with a 73,300-square-foot school set to open next year. The building will accommodate about 420 students as the school plans to expand to the fifth grade, said Lehman, the chief financial officer.

Unlike most charters that rely on revenue from enrollment to repay bondholders, Children's Aid has promised to fund the debt regardless of the school's performance.

That led Standard & Poor's to rate the bonds A+, based on the non-profit's "niche status," long record of successful operations and favorable fundraising trends. Similarly rated 30-year municipal debt yields about 4 percent, according to data compiled by Bloomberg.

Children's Aid receives grants from more than 150 corporations and foundations and has over 140 government contracts that brought in about \$75 million of revenue in fiscal 2014, according to a pre-sale presentation for the bonds. The contracts include administering health and foster-care programs.

\$300 Million

The charity had about \$300 million in cash and investments at the end of April.

It isn't the first to guarantee a charter-school bond to convince investors to accept lower yields. In April 2014, Texas for the first time backed such a deal with the state-run pool that insures school debt. Utah and Colorado also have programs that support charter-school bonds with their obligation to pay the debt, said Berry, the financial adviser.

As a first-time issuer, putting Children's Aid Society's credit on the line shows the organization's commitment to paying the 30-year debt, Lehman, the chief financial officer, said. Children's Aid will pay principal and interest 90 days in advance of the due date. It also promised to keep unrestricted investments on hand that are sufficient to pay off the debt.

"This was something that we have proposed and put out there, so that everyone would recognize, 'Hey, we're serious about this and we're going to make good on our money,'" Lehman said.

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