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Municipal Bond Analysts Seek Greater Transparency from Charter Schools.

We are well aware that charter schools open and close, sometimes for academic reasons, sometimes for financial reasons. Unfortunately, some of these schools are financed with municipal bonds, which makes them a risky endeavor. The story below is behind a pay wall. I subscribed to The Bond Buyer so I could read it in full. It shows why the NAACP and other organizations are calling for charter school accountability and transparency. It is not good for either municipal finance or for children to have schools that close in the middle of the year without warning.

Recently, the National Federation of Municipal Analysts urged charter schools "to provide detailed financial, academic, and staffing information in primary and secondary disclosure documents." This is the first time that the NFMA has made disclosure recommendations for charter schools.

"The charter school sector has been very active in the last … four to five years [and] it traditionally has not had a lot of public rating coverage," said Gilbert Southwell, vice president at Wells Capital Management and co-chair of the NFMA disclosure subcommittee that drafted the paper. "[The RBP] is both educational for our membership but also helps to establish our disclosure expectations when we're looking at these deals."

Dean Lewallen, vice president and senior analyst at AllianceBernstein L.P. and co-chair of the subcommittee with Southwell, said the RBP is the product of a year-long vetting process with a variety of market participants and thus reflects "an industry consensus."

The document's recommendations begin with key information that should be included in a primary offering statement (POS). According to the RBP, a charter school's POS should disclose all material financial agreements, including the proposed indenture, loan agreement, capital leases, management agreements, and tax regulatory agreements. It should also include information from twelve other broader topics, like descriptions of facilities and their financing, pledged revenues, and projected cash flows. NFMA also wants descriptions of debt service, repair and replacement, operating and deficit, as well as insurance and property tax reserve funds.

The RBP lists disclosures in a successful charter school POS related to academic performance as well as school management and operations.

"A charter school's academic performance has been identified as an especially important factor in charter school long-term stability and success," NFMA said in its RBP. "Consequently, the POS should disclose all relevant aspects of the charter school academic performance."

Such disclosures should include information covering regulatory authorities that have jurisdiction over the charter school, along with the school's curriculum and education programs at varying grade levels and how those programs satisfy applicable educational standards, the RBP says. Information on how the school tests students to measure academic growth as well as how recent school data stacks up against historic measurements should be presented in an easily accessible way for investors, NFMA said.

In terms of school staff and management, an effective POS should provide detailed information in eight key areas, according to NFMA, including: charter board membership, compensation, and tenure; information available on the school's website; management qualification, experience, and compensation; third-party manager control, compensation, and replacement; and charter school teaching faculty, classroom ratios, and teachers' union affiliation. Additionally, the POS should have information regarding teacher and staff compensation, including retirement benefits, any complaints and claims the school is facing, as well as operating and funding information related to extracurricular activities.

Another important area for disclosure has to do with the school's facilities, NFMA said. A POS should contain information about the size, capacity, and condition of facilities, including equipment, along with descriptions of future capital improvement needs, insurance support, and transportation and parking capabilities for students and staff, respectively.

On the financial side, charter schools should be taking seven areas of potential funding into account when creating their primary disclosures. Any POS should include discussion of audited financial statements and interim financials, current budgetary processes, financial covenant compliance and projections, and existing banking relationships, according to the RBP. State aid and other governmental support should also be listed along with information about planned future debt and reliance on endowments, fund drives, contributions, and gifts.

Disclosures that describe a school's location, enrollment, potential competition from other schools in the area, and future projections on such topics are also important, NFMA said.

The organization included separate but related suggestions to consider credit risks and continuing disclosure.

"Credit risks involved in charter school acquisition financing are numerous and often the source of significant concerns," the group said in the RBP.

Several credit risk areas the group recommended a school disclose in a POS are the: suitability and condition of a new facility and equipment; facility acquisition price; and facility construction costs.

NFMA said in its RBP that until fairly recently, most continuing disclosure agreements (CDAs) for charter school financings did not provide much more investor disclosure than a year-end audit.

"The NFMA believes that charter school continuing disclosure needs to be far more complete, robust, and timely to reflect credit characteristics and risks specific to the sector," the group said.…

NFMA also recommended what schools should disclose in its quarterly reports, which it said should be filed between 45 and 60 days after the end of each quarter. The group listed examples of special events and information that may not be produced on a routine schedule but should be made known "promptly" when available, such as mid-year cuts in state or local funding.

NFMA urges charter schools to hold at least one live conference call per year to discuss data and the school's current status. It also lists a number of instances, like a charter non-renewal, that may not be considered material events under the Securities and Exchange Commission's Rule 15c2-12 on disclosure, but should be promptly reported to the Municipal Securities Rulemaking Board's EMMA system anyway.

The RBP makes five additional recommendations, such as that charter schools be aware that borrowers need to be educated on the importance of continuing disclosure and that all disclosure should be posted to EMMA.

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