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Charter Schools Are an Opportunity for Impact Investors.

High interest rates are a barrier to buying new facilities, even though such loans have proved a safe bet.

With more than three million students in charter schools nationwide, and an estimated five million families who would send their child to a charter if a spot were available, why aren't many more of them opening? One reason is the higher cost of capital they bear compared with traditional public schools. While both types of school receive public funding for operating expenses, charter schools cannot issue general-obligation bonds to purchase or construct their properties. That forces charter schools to find facilities, and the funds to renovate or build them, on the open market.

Charter schools enter the market at a distinct disadvantage. When they do find a site and draw up plans for a new school building, the organizers often find interest rates far steeper than those enjoyed by traditional public schools—about 1.5 percentage points higher. That's because teachers unions and other advocacy groups dissuade school districts from sharing the proceeds of their bonds or guaranteeing charter-school bonds. The extra interest charter schools pay consumes dollars they could otherwise spend to hire more teachers, increase salaries and buy resources for students.

Yet compared with many real-estate investments, charter schools are an extremely safe bet. A 2011 report on charter-school loan performance from Ernst & Young's Quantitative Economics and Statistics Practice assessed 430 outstanding and paid-off loans totaling \$1.2 billion. Only five loans, which amounted to 1% of the set in dollar terms, ended in foreclosure. And just 0.2% of the total loan amount was reported as being written off. Among outstanding loans, only eight (3.6%) had been delinquent for any period of more than 60 days.

This strong performance makes charter schools an ideal opportunity for impact investing. Impact investors are those who aim to "do well by doing good"—i.e., generate a measurable social benefit along with a commensurate financial return.

While impact investors are already funding auxiliary features of education like tutoring programs, few have gotten involved in core activities like helping schools buy their physical plants. Historically, supplemental funding for schools has come in the form of donations and grants. Yet supporters of charter schools could have a greater impact by making larger, lower-cost loans that would allow the schools' organizers to finance capital expenditures at lower rates of interest than are available on the open market.

Low-interest investors would help charter schools spread and flourish in the long term. The infusion of affordable capital would make it possible to extend spots to many of the students waiting to enroll in charter schools. Millions of dollars in interest could be saved and reinvested to pay teachers and spend on student learning—more spending in the classroom, rather than on it. The discrepancy between charter schools' high cost of capital and their demonstrated stability and low default rate is exactly the sort of gap impact investors should naturally seek to fill.

Investors in social causes have made valuable contributions in recent decades to fields like public

health that had long been occupied exclusively by nonprofits, but too many investors seem to focus more on improving their public image instead of finding the areas with the greatest potential impact. This may have dissuaded some from funding charter schools, which have lost some of their luster among political liberals because of the supposed threat they pose to traditional public schools.

Charter schools are an untapped opportunity for impact investors. Investors in charter schools have the satisfaction of knowing that their investments would finance expenses that donors can't cover with gifts, and can rest comfortably in the knowledge that their investments are very likely to pay off. What's more, they can help meet a goal that should be beyond the divisiveness of politics: better education for America's children.

The Wall Street Journal

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Oct. 27, 2019 4:44 pm ET

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