ED ABSTRACT NARRATIVE

Organization Name: Local Initiatives Support Corporation
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Project Title: SchoolBuild Capital Fund

Local Initiatives Support Corporation (LISC) proposes to develop and demonstrate an innovative credit enhancement initiative to assist charter schools in accessing private sector capital to acquire, built and renovate facilities across the nation. LISC is requesting $12 million to support the development and expansion of charter schools through a new fund being created by LISC’s Charter School Financing group. This project will advance ED’s commitment to increasing student choice by addressing the largest barriers to charter school growth: lack of appropriate facilities exacerbated by lack of access to adequate, affordable financing.

The $12 million requested will be used to facilitate financing by leveraging new sources of capital, encouraging private lending, and other activities that directly promote lending to, or for the benefit of, charter schools. LISC will create a $60 million “SchoolBuild Capital Fund” which will leverage $150 million in private capital to support thirty schools. The Fund will target schools based on a “needs index” that factors in 1) the need for school choice in the community where the school will operate, 2) the demographic profile of the student population (to align with LISC’s mission of catalyzing opportunity for low-income students), 3) the favorability of facilities access in the school’s state and/or district, and 4) the school’s access to financing based on its credit profile and operating environment. LISC will offer a full suite of loan products ranging from predevelopment to permanent financing to meet the diverse needs of charter schools. The SchoolBuild Capital Fund will help charter schools access financing needed to assess sites and acquire, construct or renovate facilities.

The ED funds will be used in two phases to achieve maximum leverage and impact. During the first phase, the credit enhancement will leverage shorter-term LISC capital to facilitate private lending to charter schools on flexible, favorable terms. Once a portfolio of loans has been originated, there will be a second phase in which LISC will employ its ‘AA’ Standard and Poor’s rating to undertake a longer-term bond offering backed by the credit enhancement pool. This two-stage financing model allows for an efficient matching of capital with the needs and risks associated with charter school development: private non-profit capital to build a portfolio of loans which carry higher risk in the early years (i.e. due to construction risk, renewal risk, enrollment risk), followed by “mainstream” private sector capital available to a seasoned, credit-enhanced portfolio of loans and resulting in the lowest overall borrowing cost to schools.

LISC has experienced great success in assisting charter schools in obtaining financing for their facilities. LISC has received a total of $41.4 million in grant awards from ED and has successfully implemented these awards using a range of market-driven strategies. LISC has also contributed to the research and dissemination of best practice through pioneering studies on the facility financing landscape and charter school bond issuance, and most recently the launch of an award-winning online portal, “SchoolBuild: From Idea to Construction”, which aims to make charter school real estate projects easier to complete by increasing access to the capital markets, updating sector data in real-time, and lowering the cost of capital through transparency and competition.