Charter School Tax-Exempt Bond Sector: 2020 Year in Review

Record Volume Issued - $4 Billion Threshold Pierced

Record Number of Issuances - Almost 200 Distinct Transactions

Wendy Berry
wendy@eqfund.org
518-461-7155

2020 Dashboard:

Ratio	2019	2020	% Change	Direction
Total Volume ($000)	$3,723,783	$4,285,372	15.1%	↑
Transaction #	154	194	26.0%	↑
% Transactions Rated	33.8%	41.8%	23.7%	↑
% of Transactions Rated IG	18.8%	17.0%	-9.6%	↓
% of Rated Transactions Rated IG	55.8%	50.6%	-9.3%	↓
% Par Rated	47.2%	42.6%	-9.7%	↓
% Rated Par Rated IG	71.4%	59.5%	-16.7%	↓
Median COI	3.0%	3.9%	29.6%	↑
Median Underwriter's Spread	1.45%	1.25%	-13.8%	↓
# of Distinct Lead Underwriters	22	14	-36.4%	↓
Largest Transaction ($000)	$214,165	$127,450	-40.5%	↓
Smallest Transaction ($000)	$4,350	$2,360	-45.7%	↓
Median Par ($000)	$16,215	$16,236	0.1%	↑
# of States with Transactions	25	28	12.0%	↑
% of Transactions Issued Out of State	22.1%	14.4%	-34.8%	↓
% of Transactions with MAs	48.9%	55.8%	14.1%	↑
Median Long Bond Yield to Call	4.5%	4.375%	-2.8%	↓
Median Spread		310		

2020 Highlights:

- Annual record year of charter school tax-exempt bond volume of almost $4.3 billion—a 14.6% increase over 2019's activity; the number of transactions, 194, was likewise up substantially over the prior year, i.e., by 24.7%, which represented another record. These figures exclude the growing taxable charter school market as well as transactions that were issued on behalf of developers and/or landlords. Including those deals would add more than $500 million to the annual volume.
- Largest deal was $127,450,000 Mater Academy of Florida, a benchmark figure much lower than recent years;

- Florida edged out Texas as the state with the most volume and the most transactions, i.e., over $820 million issued via 27 issues, representing 19.2% and 14.1% of all 2020 volume and transactions, respectively;
- Charter schools in 25 jurisdictions came to market in 2020, including four not on the list in 2019 (Delaware, District of Columbia, Georgia, and Rhode Island);
- Top five states (Florida, California, Colorado, Arizona, and Texas in that order) accounted for 62.9% of issuance based on transaction count and 57.7% based on volume;
- For the first time, Florida topped the lists for both number of transactions (27) and total volume ($821 million);
- Based on transaction count, 58.2% of issues were sold without ratings and 57.4% of total volume was unrated;
- Charters relied on 14 distinct lead investment banks to place their bonds, however more than 70% of deals were executed by five highly experienced banking firms. i.e., Baird, D.A. Davidson, Truist, RBC, and Ziegler;
- Median yield to call was 4.375%; and
- Median spread to MMD was 310 basis points.

Sector Trends as 2020 Changes the Landscape

The timing of this report allows for the identification of the historic influence of the pandemic on the charter bond market. These trends reflect the activity in 2020 and begin to report on the activity in 2021. Charter school bond issuance trends recently observed and expected to continue include:

General Charter School Sector:

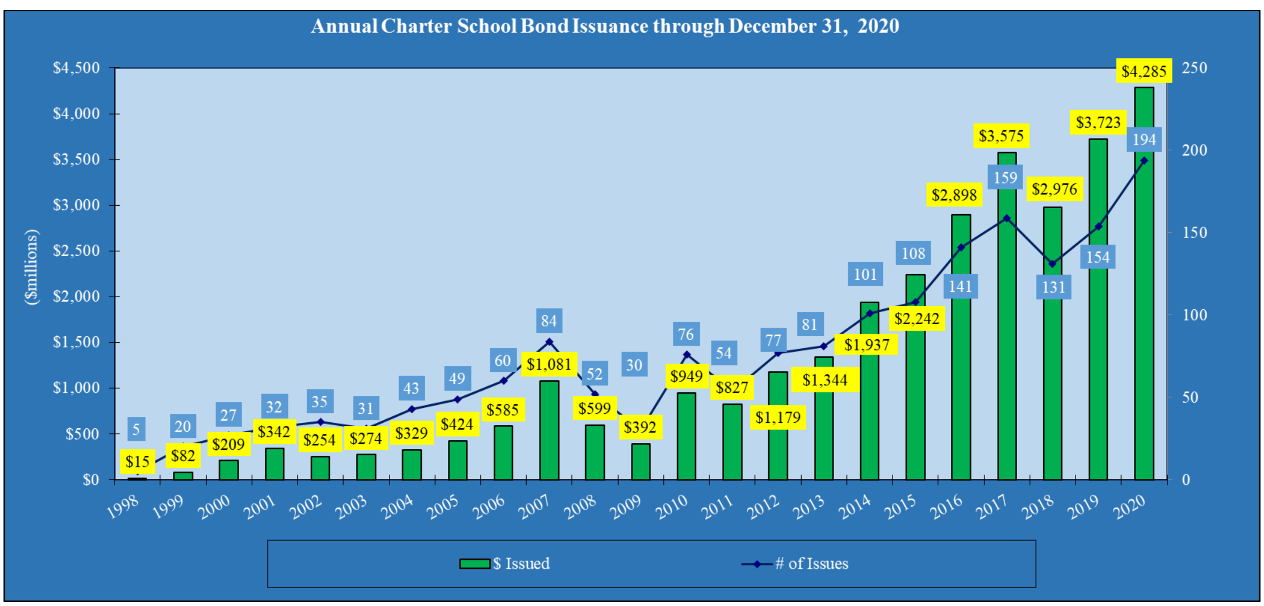
- Charter school enrollment rose by nearly 240,000 students from SY2019-20 to SY20-21 according to the National Alliance for Public Charter Schools, representing a 7% increase mostly at the expense of district school student count.
- Charter school academic accountability was made much harder by the absence of Spring 2020 standardized testing for all states. Even for those states that resumed testing in Spring 2021, many of the results were based on a much lower number of test takers and may be less reliable indicators of school success and individual student achievement;
- Results for many schools, particularly those in underserved communities, were materially weaker than pre-COVID testing years given the loss in learning most students experienced attending school remotely due to the pandemic; and
- Charter school balance sheets were unexpectantly boosted by federal aid, including Paycheck Protection Program (PPP) loans and ESSER funding.

Charter School Bond Sector:

- Annual sector issuance of $4 billion plus with the first half of 2021 showing more than $2.5 billion—despite the continued ban on advanced refundings in the tax-exempt market;
- Continuation of strong demand for charter school paper evidenced by investors willing to finance earlier stage schools; and
- 2020 saw **the d**ebut of the Idaho Public Charter School Facilities Program that is rated A+ by S&P based on the State's moral obligation pledge. This new program enhanced a single transaction in its inaugural year.

2020 Overview

Despite the onset of the global pandemic in the first quarter of the year, the 2020 charter school tax-exempt bond sector registered another record volume year with issuance exceeding $4.2 billion—up from just over $3.7 billion in 2019, representing a healthy 15.1% increase. This past year's record volume was the eighth annual record out of the last nine years. In the 23 years of charter school bond issuance in 1998, there have been only five years (2002, 2008, 2009, 2011, and 2018) where volume declined. The average annual growth rate of the sector since inception has been 18.7% with a median annual growth rate of 24.2%. Over the past decade, these benchmarks were 18.0% and 19.6%, respectively.



2020's $4.285 billion of charter school issuance comprises 194 distinct transactions—up from 154 in calendar year 2019, an extraordinary increase of 26%. The 194 transaction count was also a record—beating the prior high benchmark of 159 issues in 2017, representing an increase of more than 20%. This record was somewhat surprising due to the unusual nature of 2017 where the overall market was supercharged by federal tax law changes, i.e., the December 31, 2017, sunset of advanced refundings. Of course, COVID effects resulted in a number of schools pausing their plans to purchase, expand, or build new facilities. Without a clear timeframe in place for students to return to in person learning, it made accessing the capital markets for new or refunding opportunities much more difficult.

Moreover, the spike in interest rates that took hold due to COVID also sidelined some deals. Indeed, the standard municipal market index, MMD, was at an all-time low for a 30 year maturity, i.e., 1.38%, on March 9, 2020. By the end of the following week on March 20, 2020, it had spiked 199 basis points to 3.37%.

The range in transaction par amount was not nearly as wide in 2020 as in prior years—spanning from just $2.36 million to $127.45 million. The smallest transaction of $2.36 million was issued by the Public Finance Authority (WI) on behalf of Coastal Preparatory Academy in North Carolina. This deal was one of nine transactions below $5 million in 2020—significantly more issuance than 2019 when only one transaction was below $5 million.

On the other end of the spectrum was the $127,450,000 deal issued by the Florida Development and Finance Corporation and sold by Truist and PNC in October 2020 on behalf of Mater Academy in Florida. Unlike prior years with several megadeals of over $100 million, Mater Academy was one of only two issued in 2020 that together accounted for $252.6 million. Indeed, transactions above $100 million represented only 5.9% of total par—well below the 2019 portion that represented 17.2% of annual volume.

There were also 14 deals issued with par amounts between $50 million and $100 million, totaling $947.3 million. The top 10 transactions last year totaled $872.5 million, representing 20.4% of the entire annual volume—down from 29% of total par in the prior year. And unlike in prior years where Texas charter schools dominated the top 10 issues, Florida claimed that distinction in 2020 with half of the top 10 transactions executed on behalf of charter schools in the Sunshine State, including Renaissance School that accounted for two of the largest transactions of the year.

	State	Project	$ Par Amount (millions)
1	FL	Mater Academy (Florida)	$127,450,000
2	NY	Family Life Academy Charter School	$125,105,000
3	FL	Renaissance Charter School, Inc.	$96,015,000
4	FL	Franklin Academy Foundation	$88,665,000
5	CA	Edkey Charter Schools	$87,035,000
6	TX	Cumberland Academy Inc.	$75,790,000
7	TX	YES Prep Public Schools Inc.	$71,585,000
8	CA	High Tech High Learning	$71,225,000
9	FL	Renaissance Charter School	$66,180,000
10	FL	Florida Charter Educational Foundation, Inc.	$63,450,000

The bulk of charter school bond volume, however, continues to range between $10 million and $25 million. Indeed, there were 92 distinct transactions within this range totaling almost $1.5 billion and representing about half of all transactions.

Following closely behind in terms of volume was the category between $25 million and $49.99 million, with 39 distinct transactions and totaling almost $1.3 billion of par.

Next was the small transaction category, i.e., defined as those "below $10 million", which had 47 transactions (up from 30 in 2019) with a par amount totaling approximately $338 million. This broad range of dollar amounts results in an average par transaction amount of $22.1 million—down from $24.3 million in 2019 and a median transaction amount of $16.2 million—the same benchmark as a year ago.

Issuance Continues to be Highly Concentrated in a Handful of States

Charter schools in 28 jurisdictions came to market in 2020—up from 25 in 2019. Five new states that had been dormant saw charters access the capital markets in 2020, i.e., Arkansas, Idaho, Illinois, Missouri, and Wisconsin. States that had activity in 2019 but none in 2020 were Oregon and Rhode Island.

STATE	#	% of TOTAL TRANSACTIONS	$	% of TOTAL PAR
Arkansas	2	1.0%	$51,855,000	1.2%
Arizona	14	7.2%	$281,936,764	6.6%
California	23	11.9%	$489,242,084	11.4%
Colorado	24	12.4%	$447,210,284	10.4%
Delaware	1	0.5%	$20,040,000	0.5%
District of Columbia	3	1.5%	$124,825,000	2.9%
Florida	27	13.9%	$820,942,499	19.2%
Georgia	1	0.5%	$11,825,000	0.3%
Idaho	5	2.6%	$42,005,000	1.0%
Illinois	1	0.5%	$9,050,000	0.2%
Indiana	2	1.0%	$28,255,000	0.7%
Louisiana	1	0.5%	$17,500,000	0.4%
Maryland	1	0.5%	$26,000,000	0.6%
Massachusetts	8	4.1%	$139,825,000	3.3%
Michigan	6	3.1%	$71,640,000	1.7%
Minnesota	7	3.6%	$88,845,000	2.1%
Missouri	2	1.0%	$14,541,608	0.3%
Nevada	6	3.1%	$146,980,000	3.4%
New Jersey	3	1.5%	$83,165,000	1.9%
New Mexico	2	1.0%	$25,335,000	0.6%
New York	6	3.1%	$257,281,583	6.0%
North Carolina	12	6.2%	$222,970,000	5.2%
Pennsylvania	6	3.1%	$188,510,000	4.4%
South Carolina	3	1.5%	$36,889,500	0.9%
Texas	14	7.2%	$434,575,892	10.1%
Tennessee	1	0.5%	$16,991,883	0.4%
Utah	12	6.2%	$163,025,000	3.8%
Wisconsin	1	0.5%	$24,110,000	0.6%
	194	100.0%	$4,285,372,097	100.0%

2020 saw Florida leapfrog other very active charter school states, including Texas, Arizona, and California to top of the list in terms of both volume—a landslide at over $820 million—and number of issues at 27. Indeed, the number of Florida transactions was up 80% from the prior year and volume was up 170% for the same period. Driving this growth is the continued robust population growth of the Sunshine State—which just displaced New York as the third most populous state in the country, along with the overall expansion of charter schools in Florida. Of note, Florida wasn't even included in the top five states based on volume as recently as 2018.

Besides Florida, the bulk of charter school bond issuance continued to be heavily concentrated in only a handful of other states. The top five states in transaction count represented 53.1% of all activity—virtually no change from 2019, while the top five states on a volume basis totaled 58.1% of total par. This volume concentration represents a modest decline from 2019 when the top five states accounted for 62.9% of total annual issuance.

The top five transaction states were Florida, California, Colorado, Arizona, and Texas in that order. After Florida's record 27 transactions, Colorado charter schools executed the greatest number of transactions, 24 in 2020 (similar to its 20 deals in 2019), followed by California at 23 (more than doubling from 11 in 2019). Texas had 14 transactions (down slightly from 15 deals in 2019) as did Arizona—down from 22 in 2019.

STATE	MEDIAN PAR
District of Columbia	$40,690,000
Pennsylvania	$32,970,000
New Jersey	$29,595,000
New York	$27,246,076
Texas	$26,997,946
Maryland	$26,000,000
Arkansas	$25,927,500
Wisconsin	$24,110,000
Nevada	$20,645,000
Delaware	$20,040,000
Florida	$17,500,000
Louisiana	$17,500,000
California	$16,350,000
North Carolina	$15,850,000
Colorado	$15,195,000
Indiana	$14,127,500
Massachusetts	$12,920,000
New Mexico	$12,667,500
Georgia	$11,825,000
South Carolina	$11,805,000
Utah	$10,992,500
Michigan	$10,895,000
Minnesota	$10,895,000
Arizona	$10,445,000
Illinois	$9,050,000
Idaho	$8,250,000
Missouri	$7,270,804

Other states with noteworthy year over year increases in the number of transactions were Idaho (5)—up from 0, Massachusetts (8)—up from 4, Michigan (6)—up from 3, and Utah (12)—up from 6 in 2019. One notable decrease was Arizona (14)—down from 22.

On a volume basis, no state came close to the $820 million of bonds issued on behalf of Florida charter schools in 2020. Indeed, this single state volume represented 19.2% of total annual issuance—a benchmark that only Texas has exceeded in recent years.

Well behind Florida, in second place for volume, was California with approximately $490 million—up materially from the $297 million issued in 2019, and representing 11.4% of total 2020 par. The top five states rounded out with Colorado at $447 million (10.4% of total par), Texas close behind at $435 million (10.1% of total par), and Arizona at $282 million (6.6% of total par).

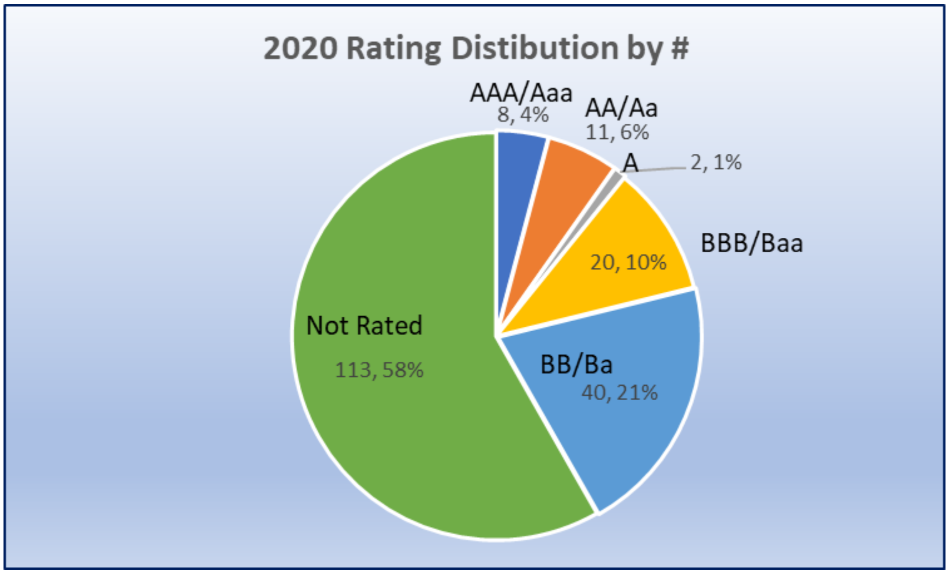
In 2020, of the schools with publicly available information, only 27 went out of their home state to issue bonds. Specifically, 14.4% of the number of transactions were issued by conduits for out-of-state charter schools—down materially from the 23% of deals that went out of state in 2019. The vast majority of these transactions, 20, were issued by Public Finance Authority in Wisconsin with the remaining seven executed by two separate Arizona conduits. These extra-territorial deals represented over $540 million, or 12.6% of total volume—down from $680 million and 18.3% in 2019.

Charters in the following states sought out-of-state conduit issuers to access the tax-exempt bond market: Arizona (1 out of 14), Colorado (3 out of 24), Georgia (1 out of 1), Nevada (6 out of 6), New Mexico (2 out of 2), North Carolina (12 out of 12), and Texas (1 out of 14). Charter schools typically opt to utilize an out-of-state issuer due to ease or cost savings, while others are forced to use an out-of-state entity due to local opposition or stringent conduit requirements, e.g., minimum rating levels.

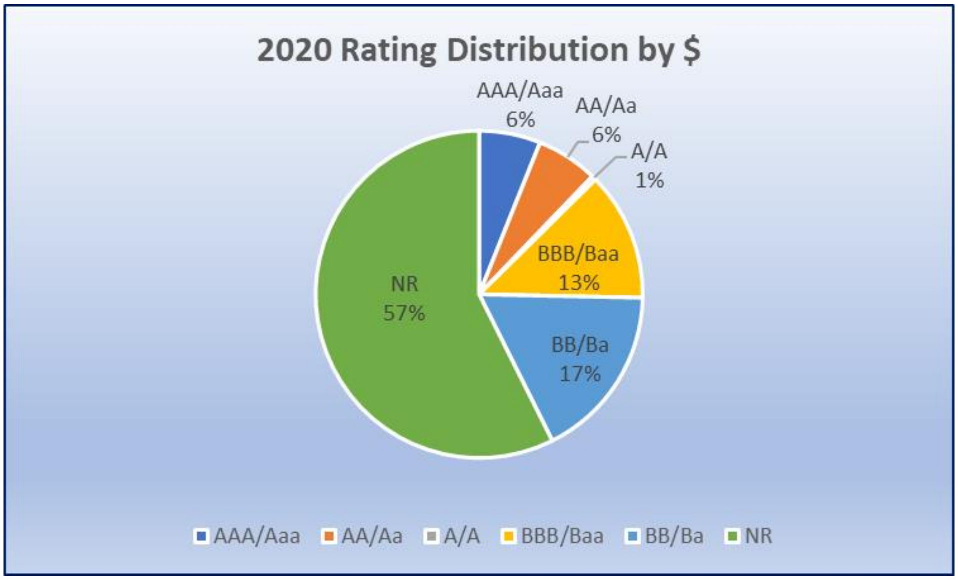
While the overall median par amount was $16.2 million, individual state medians varied greatly depending on jurisdiction. Charter schools in the 27 states that accessed the municipal market in 2020 had medians that ranged from a low of $7.2 million for two deals in Missouri to a high of $40.7 million for the District of Columbia based on three transactions. Other states with median par amounts of more than $20 million were: Pennsylvania at $33 million (6 issues); New Jersey at $29.6 million (3 issues); New York at $27.2 million (6 issues); Maryland at $26 million (single issue); Arkansas at $25.9 million (2 issues); Texas at $27 million (14 issues); Wisconsin at $24.1 million, Nevada at $20.6 million (6 issues); and Delaware at $20 million (single issue).

Although Sector Continues to Be Mostly Unrated, Percentage of Rated Transactions Increased Compared to 2019

With 81 transactions rated and 113 unrated in 2020, the charter school sector continued to see the vast majority of deals go to market without ratings. For the year, 42.3% of the number of transactions went to market with a rating—up materially from 34.4% in 2019. While higher than last year, these metrics highlight the solid appetite investors continued to have in 2020 for unrated paper that prevails in today's market. Moreover, the rating category with the highest number of rated deals, 40, were below investment grade—all in the "BB"/"Ba" categories from S&P and Moody's, respectively. The vast majority of these below investment grade ratings, 23, or 58% of ratings below BBB-/Baa3, were in the highest category at BB+/Ba1 followed by 13 at the mid BB/Ba2 category and finally, there were four BB- assessments assigned.



On a volume basis, the numbers were almost identical, i.e., the percentage of rated 2020 volume was 41.8%. Specifically, just over $1.8 billion of total par, went to market rated while $2.4 billion, representing 57.4%, was unrated. These metrics contrast with last year's when a somewhat higher 47.6% was rated.



One of the primary reasons why so many charter school transactions borrow on an unrated basis continues to be strong demand for high yield municipal debt. As a result, sector investors continue to purchase unrated bonds at relatively reasonable effective interest rates for charter school borrowers. While unrated, some higher risk charter school credits still had to pay extraordinarily high rates. Two examples include: 1) the $21.755 million of bonds issued on behalf of Education Leads to Success Foundation, Inc. in Texas and banked by PNC had a coupon of 9.00% (par pricing) for 30 year maturity; and 2) the $18.4 million of bonds issued on behalf of Revolution Academy in North Carolina (U.M. Bank) with a 7.5% coupon for the 10 year maturity and with the discount pricing, had a yield to call of 11.078%.

The median yield for the 167 transactions with available information was 4.375%—down from 4.5 a year ago%. There were 72 transactions, totaling over $1.6 billion, that had yields to call at 4% or below. The year's lowest yield to call (YTC) was garnered by the $35.5 million Trinity Basin Preparatory Academy (Texas) transaction, sold by Truist, which had a YTC of 2.16% for bonds maturing in 2050. These bonds were credit enhanced by the Texas Permanent School Fund and rated "AAA" by Standard & Poor's with an underlying rating of "BBB".

As evidence that this strong investor appetite for high yield paper continued to be high in 2020—and the relative ease with which bankers can place low-rated or unrated paper, 78.8% of transactions were either rated below investment grade (20.6%) or unrated (58.2%). These metrics compare to 2019's percentages of 14.9% and 66.2% benchmarks, respectively.

Of the rated issues, the below investment grade category once again represented the most prevalent rating category based on both the number of transactions as well as par amount. A total of more than $740 million was issued with below investment grade ratings, representing 40 offerings. All of these ratings were in the “BB”/”Ba” class. Specifically, 23 were in the highest “double B” level of “BB+”/”Ba1”, 13 transactions were rated at the “BB”/”Ba2” level, with only four rated at the lowest level of “BB-“.

As with prior years, all of the 2020 ratings in the “triple A” category were due to the presence of the “triple-A rated” Texas Permanent School Fund. For 2020, eight transactions were PSF guaranteed, totaling just over $260 million—a material change from 2019 when only six deals went to market but total par was extraordinarily higher at almost $700 million due to several megadeals that had PSF backing.

The “double A”—rated category included 11 separate transactions enhanced by state programs in Arizona (2 transactions), Colorado (4 transactions), and Utah (5 transactions) that totaled $262 million. These programs are the State of Arizona Public School Credit Enhancement Program, the State of Colorado Moral Obligation Program, and the State of Utah Moral Obligation Program, respectively. Of note, a fourth Colorado Moral Obligation transaction was issued in 2020, Independence Academy for $7.255 million deal underwritten by D.A. Davidson, which was rated A+ due to the split ratings between Moody’s at Aa3 and S&P at A+ that began in 2018.

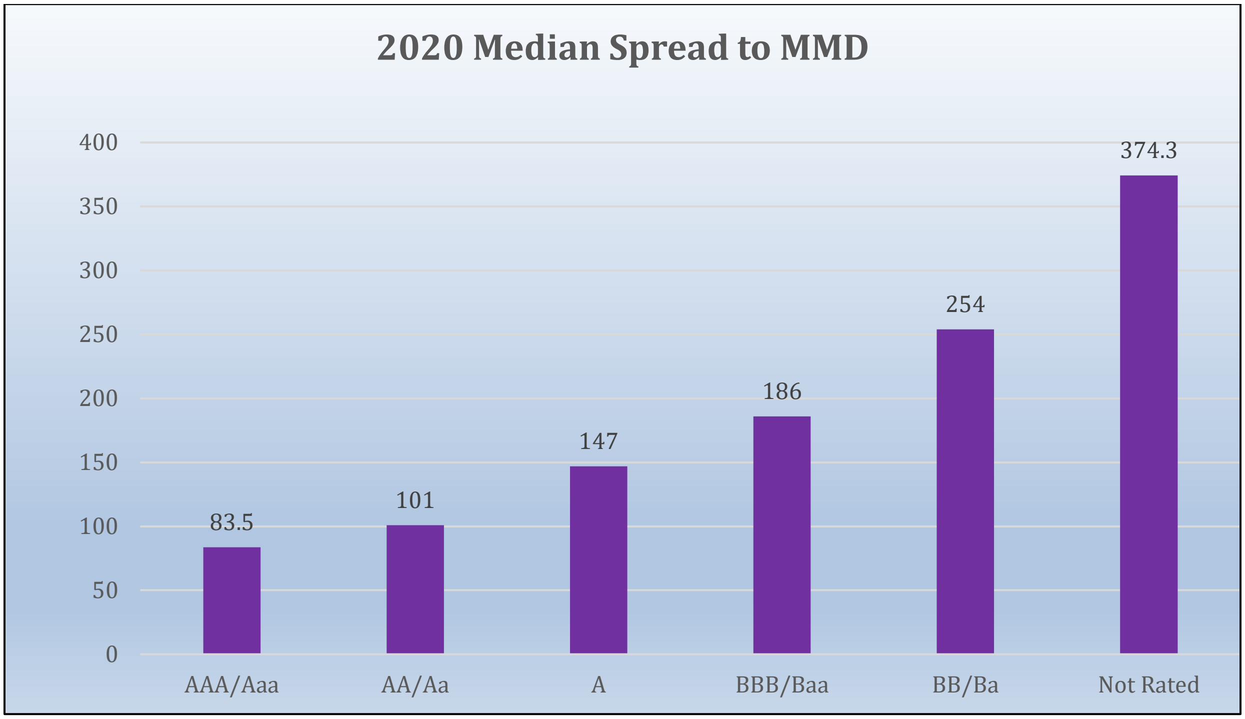
2020 also saw the debut of the Idaho Public Charter School Facilities Program that is rated “A+” by S&P. This new program enhanced a single transaction in its inaugural year for the benefit of the Sage International School of Boise that was underwritten by Piper Sandler for $11.12 million. This “A+” rating category totaled $18.375 million—a reversal from 2019 when no transaction was rated in the “A” category.

Spread Update

Of course ratings and yields are inversely correlated with the highest ratings garnering the best rates and concomitant yields with the lower rated—or unrated—transactions paying the highest rates/yields. For the 148 deals with available information in 2020, spread to MMD for the sector ranged from a low of +53 basis points to an extraordinarily high of +974.8 basis points. The year’s tightest spread (+53 bps) was for the “AAA-rated” $35.545 million transaction issued by Arlington Higher Education Finance Corporation for the benefit of Trinity Basis Preparatory Inc. This transaction had a coupon of 4% with a yield to call of 2.16% for the 30 year long bond that matures on 8/15/2050. The “AAA” rating was based on the guarantee of the Texas Permanent School Fund with BB&T (now Truist) as the sole underwriter.

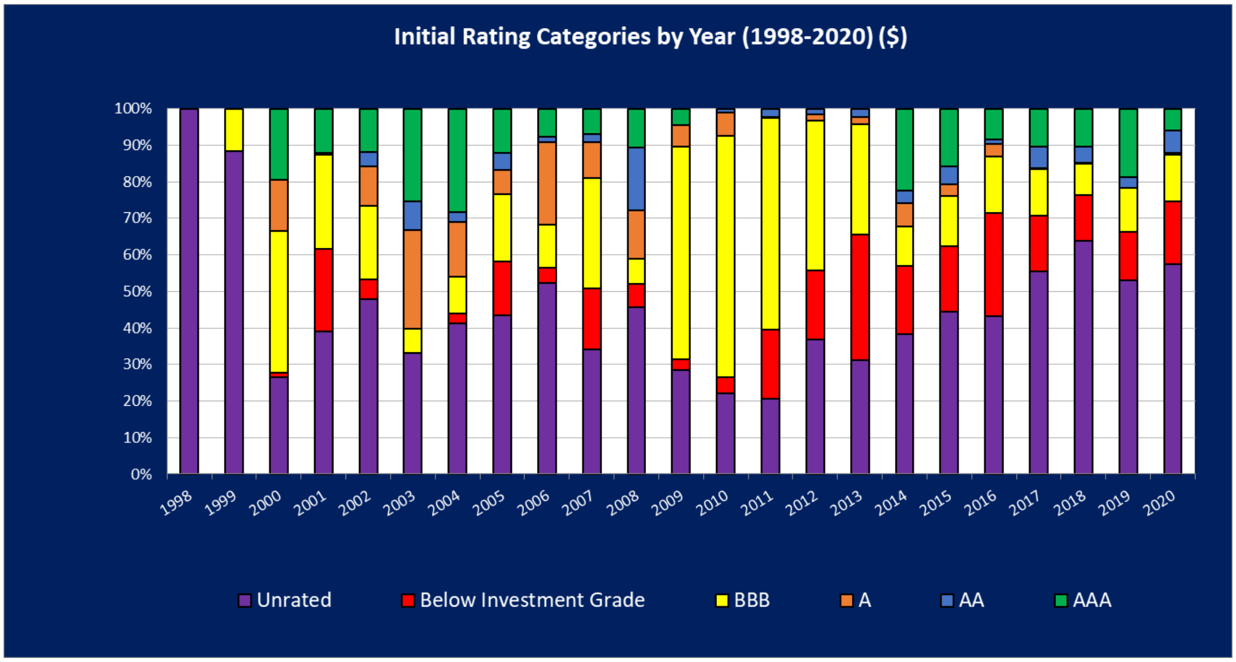
The transaction with the widest spread (+974.8 bps) in 2020 was the unrated Public Finance Authority’s $18.4 million issue on behalf of the Revolution Academy of North Carolina. This transaction had a coupon of 7.5% with a yield of 11.078% for the 10 year long bond that matures on 3/1/2030. Such wide spreads were due in large part to the fact that the school had yet to open at the time of issuance and that the transaction priced on 3/31/20—in the midst of the pandemic-fueled rise in rates. UMB Bank was the sole underwriter.

The median spread for the year was 310 basis points but varied depending on rating. The range was a low of 83 basis points for, as expected, triple A-rated transactions, to a high of 374.3 basis points for non-rated deals.



Historical Trend of Ratings

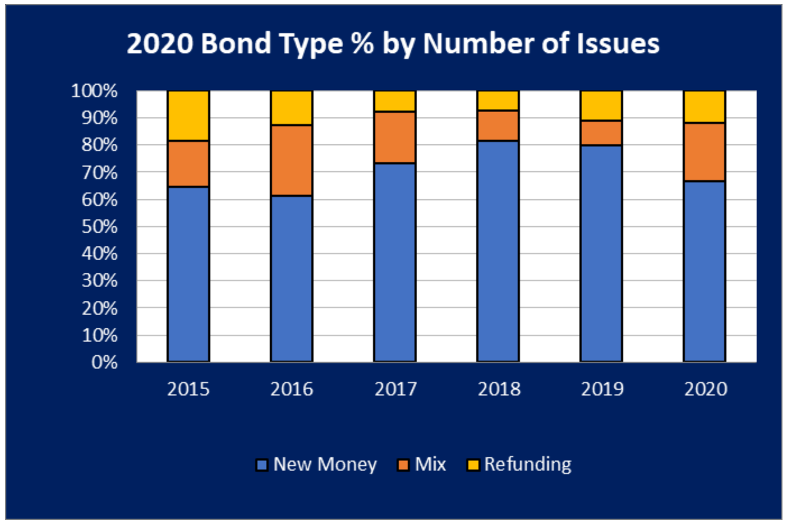
As the accompanying chart demonstrates, the rating profile of the charter school sector over the past 23 years has been highly cyclical and clearly shows the trends in initial rating assignments over time. The first three years, 1998 to 2000, were characterized by an almost exclusively unrated sector. During the next period, from 2000 to the 2008 credit crisis, there was a heavy presence of private credit enhancers, including bond insurers, particularly ACA Financial Guaranty Corporation, as well as banks offering letters of credit. From 2009 to 2013, the private credit enhancers exited the market (and with this trend, virtually no highly-rated transactions) and the vast majority of transactions were in the low investment grade category of “triple-B” as investors demanded higher quality, investment grade credits.



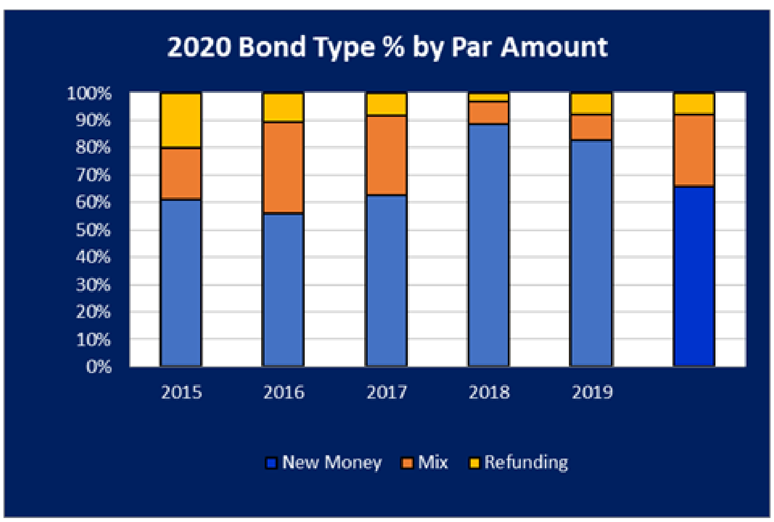
Starting in 2014—with formal eligibility bestowed on charter schools to benefit from the Texas PSF Guarantee Program, a much higher percentage of initial ratings was assigned in solid investment grade categories, including the highest levels of “AAA”/”Aaa” and “AA”/”Aa”. Today, credit-worthy schools in Colorado, Indiana, Texas, and Utah, and Texas (with underlying investment grade ratings, i.e., “BBB-“/”Baa3” or higher) as well as eligible, high-achieving schools in Arizona—all states with significant charter school activity—can access their individual state’s credit enhancement program (subject to any program capacity constraints), resulting in materially higher ratings ranging from categories “A” to “AAA”, thereby significantly reducing interest costs. As a result, there are fewer “BBB” ratings than there would otherwise be, replaced with credit-enhanced ratings.

Finally, S&P continued to rate the lion’s share of rated transactions with 59 in 2020 (up from 40 in 2019), representing 72.8% of all rated deals. After reentering the sector in 2016, Moody’s is still playing market-share catch-up with 23 ratings (up from 17 in 2019), representing 28.4%—essentially the same as 2019’s share of 29.6%. On a par basis, Moody’s rated almost $635 million of new issuance—up significantly from $388 million in 2019, representing 34.8% of total rated volume versus 66.8% for S&P. Fitch again had no new assigned ratings in 2020 and the year saw a single transaction with dual ratings.

Type of Bonds



Based on information contained in publicly available official statements, on both a transaction count basis as well as volume, 2020 activity continued to be overwhelmingly focused on new money[1] purposes, i.e., the first time the project was financed by tax-exempt bonds. Specifically, proceeds used exclusively for new money purposes represented approximately two-thirds of all transactions with publicly available uses—down from 79.9% in 2019. In addition, roughly 20% of 2020 issues represented a mix of new money and current refunding proceeds—up materially from 9.4% in 2019. This increase in mixed bond proceed uses is due in large part to the increase of available 10-year call current refunding opportunities as 2010 issuance was more than double 2009 volume and the many schools that seek financing not only to take advantage of lower interest rates but for additional capital investment to meet their expansion needs. Only about 10% of all transactions in 2020 with publicly available information was used exclusively for refunding prior tax-exempt bonds.



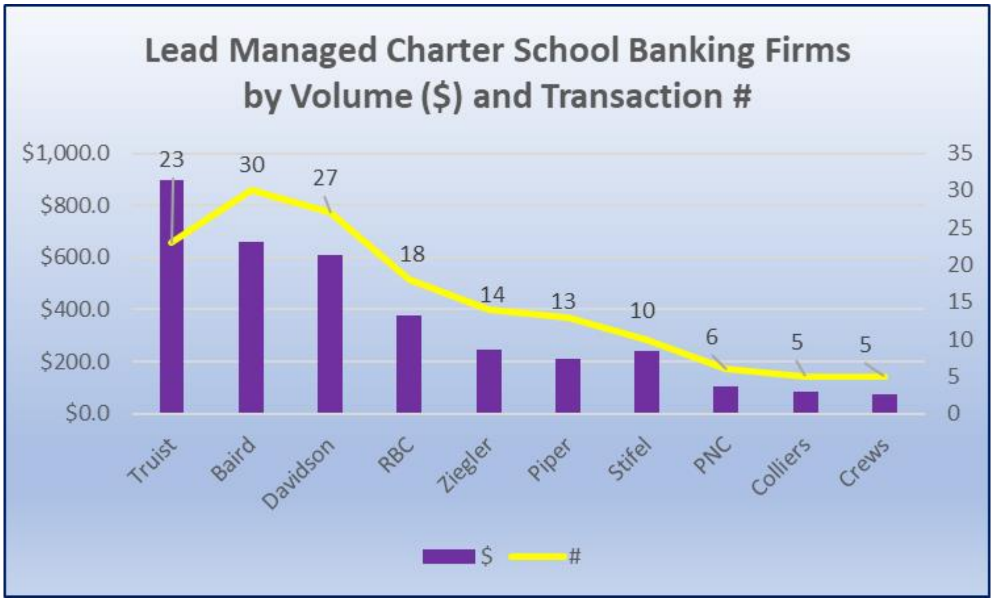
If the share of new money is analyzed on a par basis, the results are very similar. Specifically, 65.9% of proceeds were for new money projects versus 84.3% in 2019. Absent a change in tax law reversing the 2017 prohibition on tax-exempt financed advanced

[1] *For analytical purposes, the term "new money" bonds is defined as those bonds whose proceeds are financing the acquisition of, or capital improvements to, a school facility on a tax-exempt basis for the first time. A significant number of transactions are issued annually to refinance prior debt including outstanding bank loans, CDFI loans, and taxable bonds. Unless the new bonds refund prior tax-exempt bonds, they are included in the new money bond category.*

refundings, the percentage of new money bonds will likely continue to represent the vast majority rise in the coming years.

Despite Materially Higher Number of Transactions, 2020 Sector's Underwriter Count Contracted for the First Time in Three Years

For 2020, charter schools and their affiliated organizations relied on 14 separate investment banking firms to underwrite or place their tax-exempt bonds. This figure is down materially from 22 firms in 2019 and this decrease is the first in three years. Despite this contraction in the number of firms, the charter school bond sector continued to be bifurcated between a few highly experienced firms that did a significant number of transactions and those that did only one or two transactions. Of the 157 transactions with known underwriters, more than 70% of charter school bond transactions were executed by only five firms, i.e., Baird (30), D.A. Davidson (27), Truist (23 and formerly BB&T), RBC (18), and Ziegler (14).



Two other firms executed only a single charter school transaction with two banks responsible for only two transactions each. Firms that served as lead underwriter for at least one tax-exempt charter school transaction last year but did not appear to do so in 2020 include Herbert J. Sims, Hutchinson, IFS, M&T, MCM, Oppenheimer, R Seelaus, Raymond James, and Roosevelt & Cross. New lead underwriter entrants in 2020 were FMS, Hamlin, and Loop.

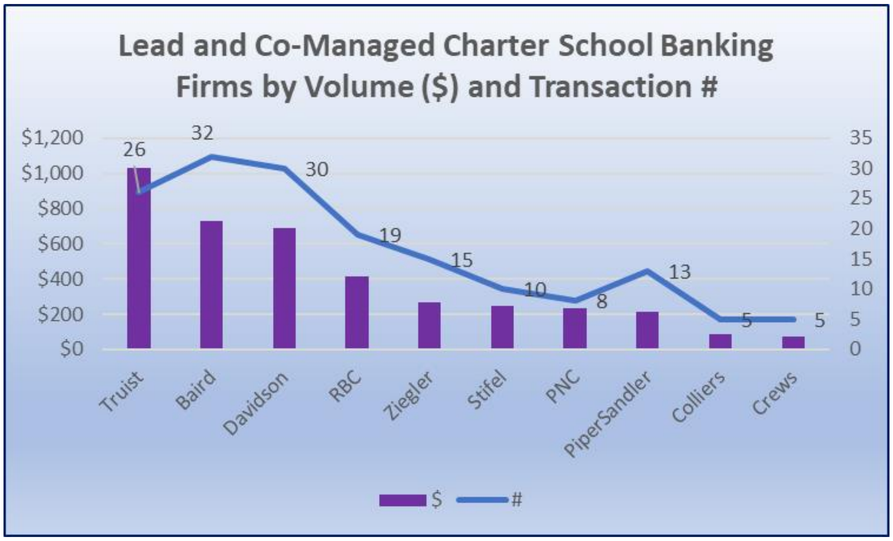
On a par amount basis using the same universe, the top five firms accounted for 77% of all transactions—up from 71.4% in 2019. Specifically, the top bankers were Truist ($897.1 million), Baird ($658.4 million), D.A. Davidson ($610.7 million), RBC ($375 million), and Ziegler ($245.2

million). The top eight firms accounted for an extraordinary 92.5% of par issued. The chart above shows all firms with five or more transactions and their associated volume.

In the last three years, the charter school sector has started to mirror the general municipal market with more co-managed transactions. Deals with two or three banking firms have become more prevalent, as the average deal size increases—particularly for mega deals that exceed $100 million. Utilizing more than one banker allows for a broader sales force and investor base to place the bonds—particularly for larger size transactions. In 2020, only two of the top 10 transactions had co-managers—down from four last year, including the largest deal from 2020, i.e., Mater Academy of Florida at over $127 million with Truist as lead banker and PNC as co-manager.

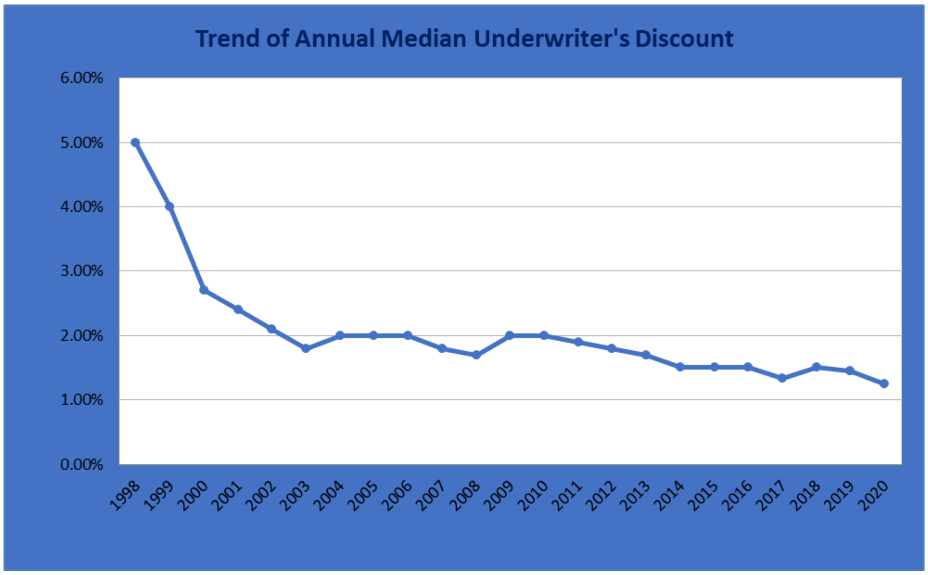
In all, 13 transactions came to market in 2020 with more than one investment bank involved in the execution of the bond sale—up from eight in 2019. These transactions included smaller transactions such as the $9.365 million for the Academy for Academic Excellence in California where RBC was lead and BB&T (now Truist) was co-manager. The accompanying chart shows the results of giving full credit to each participating banking firm. D.A. Davidson and Truist participated in the most co-managed tax-exempt deals at three each with Baird and PNC at two each and Oppenheimer, RBC, and Ziegler at one each.

Finally, RBC was also the sole banker on the $217.815 million transaction for the Equitable School Revolving Fund. This figure, however, is not included in this investment firm ranking and analysis given its proceeds reimbursed a not-for-profit lender to charter schools rather than directly to charter borrowers.



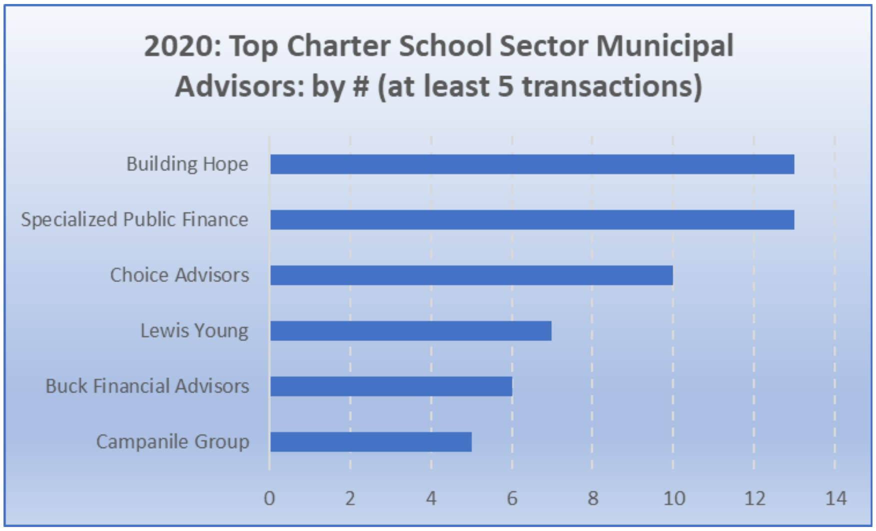
2020 Median Underwriting Spread Trended Down

Based on publicly available data for 135 transactions, 2020 showed a median underwriter’s discount of 1.25%—down materially from 1.45% in 2019. Individual underwriting spreads ranged from a low of 0.4% to a high of 3%. At the low end of the range, RBC underwrote (along with Baird, Truist, and Oppenheimer as co-managers) a “AAA”-rated $54.01 million KIPP Texas Inc. transaction issued by the Arlington Higher Education Finance Corporation. This issue benefitted from credit enhancement from the Texas Permanent School Fund and included USCA Municipal Advisors, LLC advising KIPP Texas. On the high end was the unrated $19.32 million Alta Public Schools deal in California that was issued through the California School Finance Authority and executed by Stifel as sole underwriter with Urban Futures as Municipal Advisor. The underwriting discount mode was 1.25% which was the spread on 15 deals, representing 11.1% of all 2020 transactions with known data.



Municipal Advisor Participation Up in 2020

Municipal Advisor participation trended up in 2020 with more than half of charter school transactions having a MA engaged on behalf of the borrower, i.e., excluding those deals with MAs representing the conduit issuer. Of the 156 transactions with publicly available information, i.e., mostly from official statements that generally disclose the existence of a financial advisor, 87 issues—or 55.8%, reported financial advisors representing charter schools or their affiliated organizations. This figure is up from 48.9% in 2019 but in-line with the 2018 figure. On a par basis, the influence of municipal advisors is similar as they assisted on $2.3 billion of bonds, representing 53.9% of total volume.



Twenty-five separate MAs assisted charter schools—up from 22 in 2019. Of these 25, the range in the number of engagements ranged from a low of one to a high of 13. Ten of these 25 firms, however, participated in only a single transaction. The lead sector financial advisors in 2020 in terms of number of transactions were Building Hope and Specialized Public Finance—each advising on 13 tax-exempt issues. In the case of Building Hope, its 13 advisement engagements totaled $442 million—the top dollar amount for any MA while Specialized Public Finance advised on $327.9 million.

One reason often cited to engage a MA is to manage and limit certain costs of issuance, particularly underwriting fees. Once again, it appears that the presence of a financial advisor did indeed make a difference on this metric in 2020. Specifically, the median underwriting fee for all 136 transactions with known data was 1.25%. For transactions without a financial advisor, the median was 1.50% versus those deals that had a MA where the median was materially lower at 1.0%. Of course, borrowers should review the added fee of the MA when determining total costs of issuance.