

# Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

November 2012, Volume III, Issue XI

Published by Novogradac & Company LLP

## NMTCs Fund School Purchase, Keep More Dollars in Classroom

By Jennifer Dockery, Assignment Editor, Novogradac & Company LLP

**W**hen the Low Income Investment Fund (LIIF), Excellent Education Development (ExED) and NCB Capital Impact (NCBCI) began working with Green Dot Public Schools to acquire the 27th Street Campus, the two schools on the site were already serving students.

Animo Ralph Bunche Charter High School and Animo Jefferson Charter Middle School were in a precarious situation, however. Green Dot had contracted with a nonprofit developer to build the campus with the understanding that it would purchase the facilities in a few years. By 2010, the schools had been operating for four years and Green Dot was still leasing the space. Luckily, as the operator of some of the highest-performing charter schools in the Los Angeles Unified School District, the purchase was a perfect fit for a \$25 million new markets tax credit (NMTC)-related initiative that JPMorgan Chase launched that same year. Thanks to the investment, Green Dot was able to purchase the campus in 2011. Today the campus serves 1,200 mostly low-income students.

“Having a permanent facility for a charter school is extremely valuable. It gives them a home base,” said Amy Laughlin, senior loan officer at LIIF. LIIF, ExED and NCBCI provided NMTCs to the project.

Green Dot has operated two schools on the 27th Street Campus since 2006. It opened two high schools on the campus, but after four years it converted one of the high schools into a middle school that could serve as a feeder

school. Students could enter the middle school and remain on the same campus for seven years. The campus now houses Animo Ralph Bunche Charter High School and Animo Jefferson Charter Middle School.



Photo: Courtesy of Low Income Investment Fund  
Green Dot Public Schools used NMTCs to purchase the Animo Jefferson Middle School buildings.

“When we opened only high schools, we realized that our students were often five years behind where they should be. We want to give our students a bigger runway,” said Sabrina Ayala, Green Dot’s chief financial officer. Jefferson is one of four middle schools that Green Dot operates.

Jefferson and Ralph Bunche are two of 18 schools that Green

*continued on page 2*

*continued from page 1*

Dot operates. Both are chartered by LAUSD. Jefferson's expected enrollment this year is 535 and Bunche's expected enrollment is 710. Jefferson serves students in the sixth through eighth grades and Bunche serves students in ninth through 12th grade. Both student bodies are nearly 100 percent Hispanic and more than 90 percent of students qualify for reduced or free school lunch. Ralph Bunche offers a college preparatory curriculum. The campus includes 48 classrooms, a library and a gymnasium.



Photo: Courtesy of Low Income Investment Fund  
**Green Dot Public Schools contracted with Pacific Charter School Development in 2006 to build the 27th Street Campus and used NMTCs to purchase the buildings last year.**

Although some charter schools lease space from the LAUSD, Green Dot was uncomfortable with that option because the school district only provides one- or five-year leases for its buildings. If the district's needs changed and it decided not to renew the lease, the school might be forced to move. Green Dot's mission includes incorporating its schools into the surrounding neighborhood and creating a stable learning environment. Owning its own facilities would ensure that the school remained part of the neighborhood.

To achieve this stability for Ralph Bunche and Jefferson, Green Dot contracted with Pacific Charter School Development (PCSD), a nonprofit that builds and then leases buildings to charter schools, to build the 27th Street Campus. Typically, charter schools purchase their buildings from PCSD about two years after they open. By 2010, Green Dot was still leasing the campus. The organization explored its limited financing options and settled on NMTC financing. Green Dot had used NMTCs to finance three previous school purchases. The below market rate loan-to-value ratio and potential debt forgiveness at the end of the seven-year compliance term made the financing attractive.

"It's the most affordable method there is. It's important for us that we keep every dollar that we can in the classroom. This keeps us

*continued on page 3*

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 ISSN 2152-646X

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*continued from page 2*

from us from using our funds for property," Ayala said.

Delta Properties Inc., a special purpose nonprofit that Green Dot formed to obtain financing for constructing or purchasing property, purchased the 27th Street Campus and is leasing it to Green Dot. The qualified equity investment (QEI) for the project was a little more than \$22.9 million. LIIF provided a \$10 million QEI, ExED provided a \$9.4 million QEI and NCBCI provided a \$3.5 million QEI. JPMorgan Chase invested in the tax credits and provided \$11.5 million in senior leverage debt through its fund for high-performing charter schools. LIIF also provided a \$2.2 million subordinate leverage loan to the project and NCBCI provided a \$2.9 million subordinate leverage loan. PCSD contributed \$2.3 million in financing outside of the NMTC structure. Additional assistance came from the U.S. Department of Education's Credit Enhancement for Charter School Facilities Program, via the grantees LIIF, NCBCI and California Charter Schools Association.

"It was a great fit from a mission perspective. Community facilities and charter [schools] are a big part of our work to increase opportunity for low-income youth," said Brian Prater, LIIF's western region managing director. LIIF has provided NMTCs to one other Green Dot school.

Jennifer Afdahl Rice, NCBCI senior loan officer, said that Green Dot creates high quality schools for the same low-income populations NCBCI serves and that it is challenging to put together the amount of debt needed for this type of transaction. "Without NMTC financing, they would not have been able to do a project on this scale," Rice said.

The community development entities also kept transaction costs down by working with the same attorneys and using an established deal structure, said Mike Keeley, a consultant for ExED. He added that selling the 27th Street Campus to Green Dot will enable PCSD to build facilities for other charter schools.

And the NMTC investment is paying off. Compared to the nearest public schools, students at Ralph Bunche and Jefferson have scored higher on the California standardized tests for math and science and the California Department of Education has rated both schools higher on its academic performance index.

"Helping them acquire the site really helps to stabilize the students' educational experience from middle through high school," Laughlin said. "Without the new markets tax credit financing, they could not have afforded that." ♦

*continued on page 4*



continued from page 3

This article first appeared in the November 2012 issue of the *Novogradac Journal of Tax Credits*.

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