National Alliance for Public Charter Schools

1101 15th Street, NW
Suite 1010
Washington, DC 20005
T. 202.289.2700
F. 202.289.4009
www.publiccharters.org

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The Honorable Kevin Brady
U.S. House of Representatives
Committee on Ways and Means
1102 Longworth HOB
Washington D.C. 20515

The Honorable Richard E. Neal
U.S. House of Representatives
Committee on Ways and Means
1102 Longworth HOB
Washington D.C. 20515

Dear Chairman Brady and Ranking Member Neal:

On behalf of the National Alliance for Public Charter Schools I am writing to express our concerns with certain provisions in H.R. 1 and their likely negative impact on the ability of charter schools to acquire facilities. The National Alliance for Public Charter Schools is the leading national nonprofit organization committed to advancing the public charter school movement. Our mission is to lead public education to unprecedented levels of academic achievement by fostering a strong charter sector. Currently about 3.1 million students are in 6,940 public charter schools nationwide.

Charter schools are non-governmental entities and many of them are non-profits qualifying under section 501(c)(3) of the IRS code. These schools rely on tax-exempt bonds to finance their school facilities.

Because of their unique governance structure, charter schools typically do not have access to facilities, or facilities financing, in the way that traditional schools and school districts have access. For example, the facility needs of charter schools are generally not equitably addressed, or not addressed at all, through State school facilities programs or through the municipal bonds issued by states and municipalities. As a result, charter schools are dependent on finding alternative and cost-effective means of accessing capital for their buildings. H.R. 1 would eliminate most of the options available to charter schools for accessing capital at an affordable cost.

In the 44 states in which they operate, charter schools serve a governmental service to provide public education. While some states have a statutory framework that allows the bonds issued by a charter school 501(c)(3) affiliate to be considered “governmental,” most states do not have such a framework and, thus, charter schools have mainly relied on “501(c)(3) bonds,” a category of private activity bonds (PABs), to borrow on a tax-exempt basis. Borrowing on a tax-exempt basis saves charters schools millions of dollars every year – dollars that can remain in the classroom.

H.R. 1 would take away dollars from the classroom because the bill:

1. **Eliminates a charter school's ability to finance a new facility through tax-exempt bond proceeds.** Section 3601 of the bill would eliminate the tax-exempt status of PABs, including the PABs issued for 501(c)(3) organizations. Since 1998, hundreds of charter schools nationwide have accessed the tax-exempt bond market for billions of dollars in needed facilities funding. In recent years approximately $1.5 to $2.5 billion in new facilities have been financed using these bonds. Charter schools would lose access to this funding, driving up borrowing costs and potentially reducing access to funding altogether for a number of projects.

2. **Eliminates a charter school's ability to refinance outstanding debt with tax-exempt bonds.** Section 3602 of the bill would prohibit all municipal borrowers (including charter schools) from advance refunding their debt at lower interest rates. This provision would have significant impact for schools that might be able to refinance their existing bonds at lower rates. A number of beneficial refinancings of charter school bonds have been accomplished in recent years to take advantage of declines in market interest rates. These would be prohibited in the future, costing schools millions of dollars in savings that in the past have been plowed back into the classroom.

3. **Eliminates a charter school's ability to finance new projects with proceeds from New Markets Tax Credit (NMTC) financings or Qualified Zone Academy Bonds (QZAB)**. Section 3406 would terminate the NMTC authority and section 3603 would end the issuance of QZAB tax credit bonds. From 2003 through 2016 NMTC investments in charter schools totaled $1.99 billion, supporting academic space for 200 public charter schools and leveraging $3.21 billion in total project financing. Early-stage schools would be put at a particular risk by the elimination of NMTCs as those credits typically support the development and construction of new buildings.

Taken as a whole, these provisions would prove to be devastating to charter schools. The result of this bill is that some charter schools would not be able to afford a facility. Those that can will be using public funds to pay higher interest rates, rather than using public funds to hire teachers and serve students in the classroom. Finding suitable facilities in which to teach students is one of the biggest challenges charter schools face, and the provisions in H.R.1 further exacerbate an already difficult situation for these public schools and create new, significant roadblocks to school choice and expanding access to seats in high quality schools. Rather than increasing costs for charter schools, Congress should examine opportunities to reduce costs and barriers to acquiring charter school facilities.

We urge the Committee to protect charter access to tax-exempt bonds through these mechanisms.

Sincerely,

Nina G. Rees

Nina Rees
President and CEO