

## Building Company & School Overview

### St. Croix Preparatory Academy (“School”) Building History

- 2003-04. Spent 12 months trying to find space to lease for opening of the School
- 2004-05. First year enrollment required continuation of the School’s space search
- 2005. Friends of St. Croix Preparatory Academy (“Building Company) was formed (May 2005).
- 2006. In January 2006, the Building Company formally requested to lease/buy space from Stillwater school district. Stillwater informed us they had no space available.
- 2006-08. Three unsuccessful school site development projects. (e.g. public approval denied)
- 2008. The Building Company acquired 58 acres of land for new construction.
- 2008. The Building Company issued \$21.7 million in bonds to finance the construction.
- 2009-10. The School will move into a new facility (100,000 square feet) in the fall of 2009.

**Note: Building Companies are formed to provide flexibility in addressing facilities needs**

### Friends of St. Croix Preparatory Academy (“Building Company”)

- The Building Company is a legally separate 501c3 organization
- The Building Company fulfills the following functions:
  1. Obtaining public approval for the facility site
  2. Purchasing the land for the facility
  3. Evaluation, selection, and contracting with the architect and construction company
  4. Leasing the facility to the School
  5. Maintaining the facility
- The Building Company board composition - three options
  1. The Building Company board is a subset of the School board
  2. The Building Company board as some School board members on its board
  3. The Building Company board has completely distinct membership from the School board.

**Note: St. Croix Prep’s Building Company has five board members; two members are also School board members**

### History of Building Companies & Charter School Construction

- The use of building companies is based on an IRS approved model in many non-profit sectors like affordable housing, senior housing, nursing homes, and healthcare facilities.
- The first charter school building financed via this mechanism was in 1998.
- In MN, there have been approximately 15 charter school buildings that have been financed via this structure. This model has been used throughout the country in over 100 schools.

### Advantages of Building Companies & Charter School Construction

- **No state liability or exposure.** The Building Company is legally separate non-profit organization which shields the State and School from fiscal and legal liability.
- **No increase in individual property taxes.** Private individuals and institutions invest in the tax exempt bonds. Therefore, they assume the financial risk.
- **No individual taxpayer liability if the school closes.** If the school closes, the building company will default on its bond payments, but the State, School, and taxpayers will have no responsibility for the fiscal liability.
- **Fixed and predictable facilities cost for 30 years.** The nonprofit Building Company’s bond payments are fixed. This protects the School (and State) from having to pay increased leases due to inflationary costs and increased profits that other landlords typically build into lease figures.

### Two Key Additional Control Points

1. Public Offering Requirements. The Building Company’s bond issuance is subject to SEC compliance, and therefore intense legal and financial review lasting between 90 and 120 days. The investor community is not interested in the aesthetic nature of a school but in the short and long term financial health and viability of the School’s business model.

2. Annual Audit. Auditors perform audits, issue opinions, evaluate internal controls and conflict of interest issues for BOTH the Building Company and the School.

**Note:** Investors in the St. Croix Prep project included such companies as Oppenheimer, Federated Investors, Nuveen Investments, Delaware Funds, Thrivent Financial, USBancorp, Aim Capital Management, Wells Capital Management, and Pioneer Investment Management.

## COMMON MISUNDERSTANDINGS

The following are common misunderstandings related to the Building Company/School relationship and associated financing transaction. The table below will assist in addressing these misunderstandings (The table was compiled through discussions with MDE, Dougherty & Co, and various legal firms involved in the bond issuance related to St. Croix Prep.)

### Misunderstanding #1 - Public approval processes.

- All School property sites must receive public approval (e.g. planning commission, city/county/township approval with associated public hearings) for their land site. These approval processes require environmental tests, traffic studies, neighborhood feedback, site planning, etc.
- Larger traditional districts do not have to receive public approval for debt issuance related to school construction, even though the cost is passed on to the taxpayer.
- Charter schools do not have to receive public approval for debt issuance related to school construction because the taxpayers are not responsible for the cost of construction.

### Misunderstanding #2 - Taxpayers are “on the hook” for the building if the School fails.

- The Building Company issues bonds to private investors (individuals and financial institutions) for the cost of the school construction.
- The Building Company pays principal and interest payments on the issued bonds.
- The Building Company makes these payments through the lease payment it receives from the School.
- The School receives its lease funding via lease aid.
- If the School closes, it will receive NO lease aid allocation and therefore will not make its lease payment to the Building Company. The Building Company will default on the bond payments and the investors will lose their investment. There is NO state or taxpayer impact.

### Misunderstanding #3 - Charter schools have an advantage over traditional districts in construction approval and financing options

- See the table below.
- Traditional districts have far more options available to them than charters (e.g. approved levies, unapproved levies, etc.)
- Charter school construction projects have a significant due diligence process to comply with SEC regulations related to public offerings.

|   | SCPA | Mpls/St. Paul | 20+ ISDs | Other ISDs |
|---|------|---------------|----------|------------|
| <b>SCHOOL BUILDING FINANCING</b>            |      |               |          |            |
| Public approval for School building site    | Yes  | Yes           | Yes      | Yes        |
| Public approval for financing of building   | No   | No            | No       | Yes        |
| Does financing increase property taxes      | No   | Yes           | Yes      | Yes        |
| If school closes, are taxpayers responsible | No   | Yes           | Yes      | Yes        |
| <b>OTHER FINANCING</b>                      |      |               |          |            |
| Capable of Approved Levies                  | No   | Yes           | Yes      | Yes        |
| Capable of Unapproved Levies                | No   | Yes           | Yes      | Yes        |