**“Nuts and Bolts of Facility Financing - What's Best for Your School”:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Financing Options:** | **Conventional Debt** | **New Markets Tax Credits** | **Bond Financing** |
| **Strengths:** | * Variable loan amounts (no minimum threshold)
* Minimal complexity, no need for additional financing consultant
* Less expensive (no bond / NMTC counsel fees)
 | * Interest-only option
* Combination of debt and equity leads to an overall lower blended interest rate
* Equity forgiveness of roughly 20 – 25%
* Longer term (7 years)
* Although expensive to close, benefit of equity forgiveness / lower blended interest rate can far outweigh the cost
 | * Long-term financing (30+ years)
* Single transaction for life of loan, no need for refi
* Rates can be competitive
 |
| **Weaknesses:** | * Generally amortizing which increases annual cost but lowers refi (may be pro or a con)
* Difficult to secure long-term financing –refi risk
 | * Expensive (high legal fees, sub-allocation fees)
* Complex, recommend consultant, unless strong internal capacity
* Minimum threshold: Due to expense and complexity, generally best with a minimum of $5MM
* Not all projects qualify, need to be in qualifying census tract
* Complicated federal guidelines that project needs to stay within
* Refi risk
 | * Expensive (high legal fees, etc) – but no need for refi
* Rates are highly volatile right now
* Ratings are not easy to predict
* There might be interest rate risk (variable rates, resets)
* Complex, recommend consultant, unless strong internal capacity
* Minimum threshold: Due to expense and complexity, generally best with a minimum of $5MM
 |
| **Legal or other costs:** | * Average
 | * High
* Potential need for financing consultant specializing in NMTCs
 | * High
* Potential need for financing consultant specializing in bond executions
 |
| **Other recs:** |  | * Highly recommend working with legal counsel who specializes in NMTCs (do not want to pay the cost for counsel to get up to speed on this complex program)
* Highly recommend working with CDEs and / or Investors who have closed multiple NMTCs; will make for smoother process to close
* Timing of NMTC transactions is driven by the timing/availability of allocations and when awardees need to commit the credits – discuss the timing clearly before going forward
 | * Work early on with a consultant on credit enhancement and rating, as needed
 |
| **Best option with --****Ground Lease:** | * Depends on the specific of the lease and what security is available to the lender – check with legal and lender early on
 | * Depends on the specific of the lease and what security is available to the leverage lender – check with legal and potential financial partners early on
 | * Depends on the specific of the lease and what security is available to the bond purchaser – check with legal and potential financial partners early on
 |
| **SB740:** | * Structure borrower as separate LLC and have school lease facility from borrower so there is a true operating lease.
 |
| **Prop 1D:** | * In some cases, financial institutions will bridge Prop 1D (or 47 / 55). Explore potential issues regarding lien security early on (in the context of layering new financing on top of State financing, in some cases).
 |