

HB 309 - Charter School Debt Reserve Fund

Thank you Mr. Chairman and Members of the Committee, I am Don Keller, Executive Director of Sage International School, a K-12th IB charter school here in Boise. I am here to testify in favor of HB 309 and will use my experience as Executive Director of Sage International to highlight the tremendous budget savings the proposed Charter School Debt Reserve Fund will create.

HB 309 WILL KEEP MORE EDUCATION DOLLARS GOING INTO THE CLASSROOM V. PAYING INTEREST

First, the Reserve Fund will help cut the pipeline of education dollars going to banks, instead of into the classroom, in the form of high interest rates on charter facilities debt.

There are over 40 charter schools in Idaho all struggling with facilities costs. The most costly option for a charter is to rent their facility: (1) the owner will look to make an 8-12% return on investment; (2) leases typically provide for rent increases every 3-5 years; (3) the school never builds up any equity in the property; and (4) rents go on forever - you never 'pay off' the building. So these 40+ charters should all be looking to buy their facility to decrease annual costs and to build an equity position.

As an example, Sage International is currently working to secure financing to purchase it's 8-acre, 100,000 SF campus at a cost of \$11,800,000 or \$118 per SF - that is a very low price point. Let's suppose Sage International could secure a 25 year loan at 7% for 100% of the purchase price. Now, let's suppose HB 309 is enacted and funded and Sage International could secure the same loan at 4% - a 3% decrease in our interest rate. Based on our experience, these are realistic figures.

With a 7% loan, in rough terms, each year for 25 years Sage International would pay the bank \$826,000 in interest (not accounting for principal). That is \$826,000 taken from our already-stressed education budget every year to pay bank interest. Over 25 years, Sage will hand over \$20,650,000 of taxpayer education funds to the bank in interest payments.

With a 4% loan made possible by HB 309, Sage International would pay \$472,000 per year in annual interest for a total of \$11,800,000 in interest over 25 years. Still a lot of education funding to spend on interest, but compared to 7% this is a game changer.

With the 4% loan, each year Sage International (Idaho taxpayers) will save \$354,000 in interest payments. Sage International will spend these taxpayer funds where they should be spend - educating Idaho public school children. \$354,000 could mean 7 more teachers each year!!! Over 25 years, with the 4% loan, Sage International could repurpose \$8,850,000 of taxpayer money back into the classroom rather than paying interest to a bank.

HB 309 WILL ALLOW HIGH-PERFORMING CHARTERS TO REPLICATE AND EXPAND INTO RURAL IDAHO

Next, I would like to discuss the how HB 309 will increase the feasibility of replicating high-performing Idaho charter schools, particularly in rural Idaho. Sage International recently explored the feasibility of opening a second Sage International in a rural location and ultimately tabled the idea in large part because of the facilities barrier. Banks and prospective private owners see a school in a rural area as an even higher risk meaning they either are not interested in the project or they demand a very high rate of return -

one developer indicated they would want an 18-20% return to even consider our project. Even as an existing charter with 5 years of solid financials, a record of high academic performance, an enrollment increase from 218 to 854 students, a sophisticated board, and an 850-student waitlist for our school in Boise, as a stand-alone entity, lenders and developers see us as too risky to invest in - particularly when looking at rural markets with smaller student populations. With the state support provided in HB 309 for high performing schools meeting the qualifying standards, maybe Sage International could replicate in rural Idaho, that option is not available to us as a stand-alone entity without some form of state backing.

IN CONCLUSION - WHAT HAVE I LEARNED AS E.D. OF SAGE INTERNATIONAL?

We need the Debt Reserve Fund proposed in HB 309 just to get lenders to the table. Even having done everything right, six of the eight banks we met with walked away after our first meeting. They simply saw us as too risky as 'stand-alone' entities.

We need the Debt Reserve Fund proposed in HB 309 to make replication of high-performing charter schools feasible, particularly in rural Idaho. We need to be able to purchase our facilities (recall renting in perpetuity is the worst option) and at the lowest possible interest rates.

Finally, and most importantly, we need the Debt Reserve fund proposed in HB 309 to stop charters from sending millions of dollars of education funding to banks in the form of interest payments. As I discussed, for Sage International alone, helping us obtain 4% financing would allow us to spend an additional \$354,000 of our annual budget on kids, on classrooms, on teachers. That is just Sage International - there are 40+ charters in Idaho - HB 309 could

push millions of dollars back into the classroom each year and hundreds of million dollars back into the classroom over the next few decades.

As Executive Director of a growing, thriving Idaho charter school, I have learned that facilities costs are the primary barrier to new charters, to charter growth and to possible replication. HB 309 helps address this challenge by making facility financing more efficient and less costly. There is nothing more painful or dissapointing then spending 20% of my education budget each year on a building. I want to spend all of those funds educating students - HB 309 represents a significant step in that direction.

Thank you and I will stand for any questions.