**Summary of Bond Transaction**

From an operational perspective, bond financing looks and feels like ordinary bank financing. The borrower receives loan proceeds and spends them acquiring and improving property. The borrower makes monthly payments on the loan. The lender (through the Trustee, which is the lender representative), gets a first priority security interest in basically everything that belongs to either the building company or the school, with a few narrow carve-outs to enable the school to have a reasonable line of credit or equipment lease (such as a copy machine lease).

However, there are a lot of documents in a bond transaction, and they appear complicated because the path of both the loaned money (from lender to borrower) and the paid money (from borrower to lender) is somewhat labyrinthine. This is because the fundamental structure of bond financing is based on a sale of securities on the open market. The loan proceeds come from the sale of the securities. As a result, there can be multiple “lender” sources. Each bond buyer is a “lender”. During the life of the loan, bond holders can sell/buy their bonds, meaning that the “pool” of lenders can morph at any time. One of the main tasks of the bond Trustee is to track bond ownership, to amass the monthly payments from the borrower and disburse them, in appropriate amounts, to the various owners of the bonds.

In addition to the multiplicity of lending sources, there is a timing issue in terms of getting the money from the bond holders. The underwriter’s relationship to the borrower is akin to the relationship of a real estate broker to a seller. The underwriter helps the borrower sell the bonds. The main value the underwriter brings is its expertise and market knowledge, which it uses to guide the borrower in terms of how best to structure the bonds (interest rate, covenants, etc.) to make them marketable at the highest value. In addition, the underwriter acts as an investment banker, buying the bonds at the moment they are issued and disbursing the funds to the borrower. The underwriter has all or most of their bond sales already in place and sells them shortly after closing. The underwriter generally will not execute the bond purchase agreement until this is in place, although there have been a few instances where the underwriter has volunteered to hold onto some of the bonds for a period of time until they could be sold. Underwriters are not contractually obligated to do this, but they may choose to do so to preserve their reputation in the charter school community.

As a result of this structure, the one material financial difference between bond financing and bank financing is that 100% of the loan proceeds are disbursed at closing. These proceeds begin accruing interest at that time. This is different than bank financing, especially construction lending, where the bank disburses money over the course of the construction and interest does not begin to accrue until money is disbursed. Under bond financing, the Trustee controls the construction proceeds and disburses them through a title company, like a bank loan, but the money is considered fully advanced at the closing and is accruing interest regardless whether it is disbursed.

Because the bonds are publicly traded securities, and because applicable law restricts their use to tax-exempt purposes, there is an additional layer to bond transactions: post-issuance disclosure and compliance. There is a web site called “EMMA” (“Electronic Municipal Market Access”) (<https://emma.msrb.org/>) which is the repository for information about every tax-exempt bond issuance, nationwide. The bond documents require the borrower (and the charter school) to post a lot of detailed operational information on EMMA on a quarterly/annual basis, and there are a number of tests that must be regularly satisfied that go to either (a) the financial covenants, or (b) the continued tax-exempt use of the bonds.

**Summary of Bond Transaction**

**Bond Documents That are Germane to the Issuance of the Bonds
and the Lending of the Money**

**Bond Purchase Agreement** between the Issuer, the Charter School, the Borrower and the Underwriter – this is the document by which the City issues the bonds and the underwriter immediately purchases them for sale to investors.

**Preliminary Official Statement/Official Statement with respect to the Bonds** – this is the document that describes everything about the school and the facilities. It is provided to bond buyers so they can understand the deal. Among other things, this document provides a great deal of detail about the school’s historic and forecast economic and academic performance, which is generally the main thing bond buyers analyze when deciding whether or not to purchase bonds. For this reason, the board of directors of the school is expected to confirm that the factual data about the school, contained in these documents, is true and accurate.

**Bond Documents That are Germane to the Ongoing Operations of Borrower
and Repayment of the Bonds**

**Loan Agreement** – describes the terms and conditions of the obligation to repay the money loaned

**Mortgage and Security Agreement** – creates a lien on the real estate and other property of the borrower (STRIDE Academy Building Company)

**Pledge and Covenant Agreement** by which the Charter School will pledge, as security for the Loan, an interest in all of the revenue received by the Charter School from state, federal or other sources for its use in operating the school – the school’s net revenue will be collateral for the loan. It will not affect the operation of the school in most cases, but if there were a default and a foreclosure, the trustee would be able to take possession of any cash in the school’s account

**Account Control Agreement** between the Charter School, the Trustee, the Borrower, and STRIDE’s depository bank – this is the agreement the authorizes the Trustee to sweep money out of STRIDE’s bank account to make the monthly lease payments. It also provides that if there is a default, the Trustee can control any funds in the STRIDE Academy account.

**Intercreditor Agreement** between the Charter School, the Trustee, the Borrower, and the school’s line of credit lender bank. It is an agreement by the school’s bank that its lien on the school’s money is junior to that of the trustee

**Lease** – between STRIDE Academy Building Company and STRIDE Academy

**Bond Documents That are Germane to Disclosure and Tax Exempt Use**

**Continuing Disclosure Agreement** between UMB Bank, as dissemination agent, the Charter School and the Borrower – this will set forth a long list of financial and other data that the school and the ABC will have to provide on a monthly, quarterly, and annual basis to the Trustee. The lease will contain a mirror of these obligations

**Tax Regulatory or Tax Compliance Agreement** between the Charter School, the Borrower and the Trustee – this is an agreement that the bond proceeds will not be used for improper purposes. In charter school facility deals this is largely symbolic because most or all of the proceeds are used to purchase the real estate.

**Bond Documents That are Germane to Repayment of the Bond**

**Indenture of Trust** between the Issuer and the Trustee – this is the Trustee’s “instruction manual”. The Trustee acts as the intermediary between the borrower and the bond holders. The trustee collects the monthly payments, amasses, them, and uses the money to make payments to the bond holders. The indenture also describes the Trustee’s discretion for addressing operational issues with the school, such as where the school may wish to change its depositary and/or line of credit banking relationship.