

ZIEGLER INVESTMENT BANKING

K-12 & CHARTER SCHOOL FINANCE Z-NEWS

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FEATURED ARTICLE

NEW PERSPECTIVES ON ADDRESSING EDUCATIONAL INEQUITY

In this month's issue, we speak with Kristin Grimme, Chief Strategy Officer, and Patrick Jones II, Senior Vice President of Leadership and Equity, at The Mind Trust, to discuss new perspectives on the challenges and opportunities of addressing educational inequity in Indiana. The Mind

Trust is a nonprofit organization headquartered in Indianapolis, Indiana, aiming to transform public education for underserved students. Founded in 2006 by former Indianapolis Mayor Bart Peterson and his charter school director David Harris, The Mind Trust helps education entrepreneurs develop and scale transformative educational initiatives. Their goal is to triple the number of academically proficient students within Indianapolis Public Schools boundaries by 2027,

creating a city where all children have access to excellent education and where race and income no longer predict life outcomes.

In Indiana, income and racial inequality are closely linked to learning outcomes. Black and Hispanic/Latino students are less likely to earn college credit (dual credit or advanced placement), enroll in post-secondary programs, and graduate from college on time at two- and four-year public institutions. Additionally, only 38% of low-income high school graduates go to college, which is lower than the state's average college-going rate of 61%, the college-going rate of 68% for high-income graduates, and the 86% college-going rate for low-income students in the state's 21st Century Scholars program.¹

Charter schools have become a primary tool to address income and racial inequality. In Indianapolis, 84% of students attending charter schools are students of color, and 79% of students are eligible for free

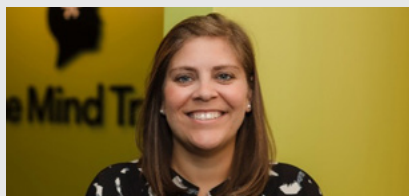
or reduced price lunch.² According to a recent Stanford University CREDO study, charter schools nationwide offer 16 additional days of learning in reading comprehension and six additional days in math. These differences are particularly pronounced among students of color. According to a 2022 Stanford University CREDO study, Indianapolis charter schools offer 64 additional days of learning in English Language Arts and 116 days of additional learning in math relative to their counterparts who attend traditional public schools.³ The Mind Trust works closely with charter schools in Indianapolis, nurturing more than 50 schools to serve more than 21,000 students at scale.

In addressing the various challenges faced by charter schools, Dr. Jones noted, "We take a 'listen first' approach." This approach has allowed Dr. Jones to respond quickly to the dynamic needs and concerns of surrounding schools and the community. For example, students in high-poverty school districts lost more ground than those in higher-income districts during the COVID-19 pandemic.⁴ The Indy Summer Learning Labs, founded by The Mind Trust, is a five-week summer program in Indianapolis where half of the English and math work is done in the city and the other half at community sites across the country. The program provides students with rigorous, grade-level instruction in ELA (English Language Arts) and Mathematics to prevent learning loss and has spread to nine cities across the country.

The Mind Trust provides a broad array of services in Indianapolis and has recently begun to share lessons and expertise with other areas of the country – covering all developmental stages of an educational ecosystem, including supporting the development of new charter schools. The Mind Trust will partner with other local organizations outside of Indiana to provide expertise in four core areas:

- **Landscape Assessment:** The Mind Trust undertakes a process to understand local conditions as the first step in a new program or project, including key stakeholders, successes, gaps, funding opportunities, and the role and service offerings needed in a given community.
- **School Incubation:** The Mind Trust will support school leaders to launch a new effort, likely in partnership with additional

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resources, including a funder. The Mind Trust has previously played this role in the incubation of Education Cities and served as an accelerator for the Rochester Education Fellowship.

- **Starting New Education Champions Organizations:** The Mind Trust has significant expertise in recruiting, selecting, and supporting entrepreneurs to launch new organizations aimed at supporting K-12 education through Indiana Learns, a statewide grant program supporting reading and math growth by funding tutoring in various settings. The Mind Trust provides services to recruit, select, or assist leaders in establishing a new Education Champions organization.
- **Supporting Existing Education Champions:** The Mind Trust supports existing education champions in developing and implementing strategies tailored to their specific contexts. For example, educational leaders may lack long-term financial plans or face gaps in strategic planning and may reach out to The Mind Trust for consultancy services. The Mind Trust has played a consultant role in many areas, including the Indiana Learning Lab and the Indiana Department of Education (IDOE) in the Expanding What Works initiative to expand Indy Summer Learning Labs.

As part of their work in Indianapolis that might be useful to other cities, The Mind Trust has also created an inclusive leadership framework that categorizes leaders into four levels:

1. C-Suite Leadership (including CEO, CFO, Vice President)
2. Systems Leadership (including CAO)
3. Unit Leadership (including Principal)
4. Teacher Leadership

At the unit leadership level, The Mind Trust embraces a variety of perspectives to customize their solutions for curricular needs. For example, some Indiana school leaders expressed their needs for support outside of core curriculum classes, including cooking classes, volunteer services, athletics, swimming pools, and college visits. The Mind Trust provided training to teachers in these schools through a curated curriculum, with some teachers noting that it was the best training they had ever received.

At the teacher leadership level, The Mind Trust directly addresses the teacher shortage crisis by increasing the appeal of the teaching profession and partnering with local high schools to create a cohort for future teachers, letting students know that teaching is a feasible long-term goal. The Mind Trust hopes to invite 10-15 first-year teachers to Indianapolis to discuss education through a Historically Black Colleges and Universities (“HBCU”) panel. The Teach Plus program, launched by The Mind Trust in 2007, focuses on both educational policy and practice. The program is active in 12 U.S. states and provides training and fellowships for teachers to explore a variety of policy issues at the local level.

Across all levels of leadership, The Mind Trust established the Emerging Leaders Fellowship program based on the expectation that sustainability in leadership will lead to positive academic outcomes for students. Candidates must apply for admission into

the program and are paid a stipend over a three-year period. This allows growing schools to further develop their talent effectively without the expense. One goal of the program is to encourage leaders to stay in their roles for three years and obtain promotions in the schools where they are working. 95% of leaders in the fellowship receive charter authorization, and 94% of those schools launch successfully.

The Emerging Leadership Fellowship is divided into three years:

First Year: Establish Your Leadership. With a focus on identifying who they are as leaders and the legacy they want to leave to the city’s education sector, fellows receive ongoing development and coaching related to important conversations, establishing a leadership voice, preparing for and leading team meetings, and managing change. Fellows earn a certificate in school leadership and management from the Harvard Graduate School of Education and visit several high-performing schools.

Second Year: Master Your Craft. With a focus on mastering their skills through personalized development depending on the role, fellows can participate in Relay’s National Principals Academy Fellowship, Bridge Equity Education, Special Education Leadership Fellowship, MERCI Program for Multilingual Leaders, or IMPACT Operations Fellowship.

Third Year: Wield Your Influence. Fellows receive management coaching and focus on building networks throughout the city. This can take the form of mentoring first-year fellows, providing professional development at local or national training conferences, or engaging in advocacy activities related to educational issues. As Dr. Jones emphasizes, this year is about producing unapologetic change makers and using your influence to enact change in meaningful ways.

Fellows are tasked with developing programs that enhance academic performance within their school communities. These assignments are presented at the conclusion of the program, where they receive valuable feedback. This process helps generate new ideas for future discussions and interactions. Implementation of these programs is supported by coaches who assist in practical application. The coaches provide detailed reports that offer critical feedback essential for continuous improvement and success in educational initiatives.

The success of The Mind Trust underscores the critical importance of collaborating with all levels of leadership and actively listening to the needs of the community. By engaging with local educators, policymakers, and community stakeholders, The Mind Trust has fostered a collaborative environment that drives meaningful educational reforms. Their approach emphasizes the value of grassroots input and leadership buy-in, ensuring that initiatives are tailored to the specific needs and contexts of each community. This inclusive strategy has not only enhanced the relevance and effectiveness of their programs, but also has built trust and sustained support among community members, paving the way for enduring improvements in educational outcomes.

THE MARKETS

SHIFTING GEARS: THE FED'S TRANSITION AMIDST

The Fed has completed its cycle of interest rate hikes and has indicated that it is now shifting towards potential rate cuts. The chart below provides a detailed forecast of market predictions for the Federal Open Market Committee (FOMC) overnight rate over the coming months based on data from the futures market. This data illustrates a clear downward trend in the implied overnight rate and an increase in the expected number of rate cuts, suggesting a shift towards a more accommodative monetary policy.

Starting from the current rate of approximately 5.4%, the implied overnight rate is expected to drop to around 4.4% by the end of January 2025. This decline indicates a strong market sentiment towards the necessity of rate cuts. This sentiment is further emphasized by the gradual increase in the number of rate cuts reflected in the market from nearly one cut in September 2024 to four cuts by January 2025.

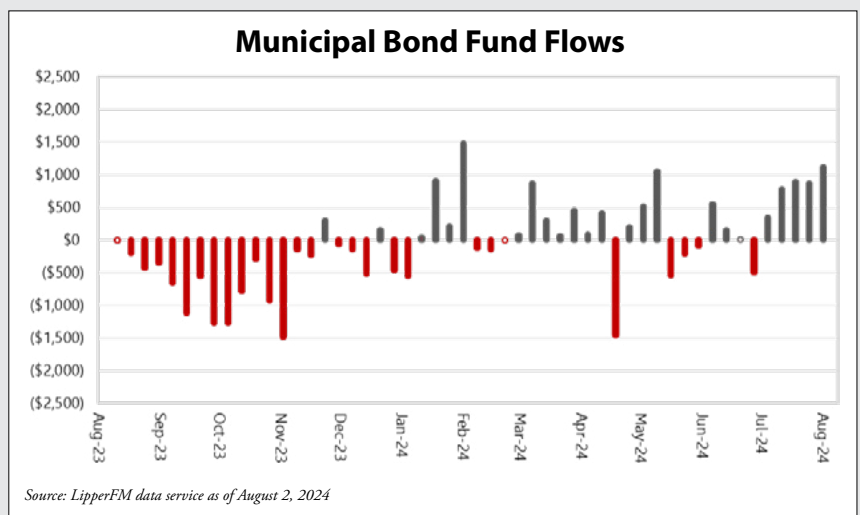
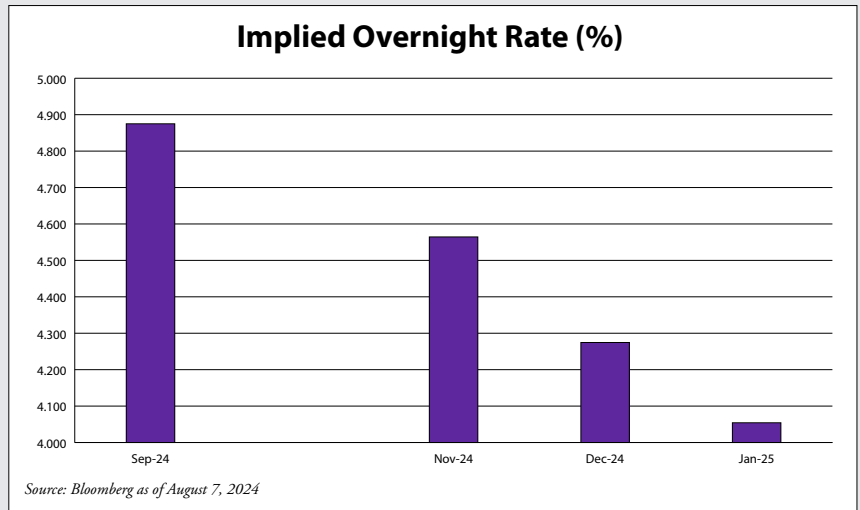
Market participants understand that while the current economic growth indicators are robust, recent reports suggest that the labor market is easing. Combined with controlled inflation, this situation increases the likelihood that the Fed will begin cutting rates in the near future.

The U.S. economy grew at an annual rate of 2.8% in the second quarter of 2024, up from 1.4% in the first quarter. This growth rate exceeds the Federal Reserve's long-term annual GDP growth target of 1.8%, which represents the rate at which the economy is expected to converge over time under appropriate monetary policy, assuming no additional economic shocks. This growth was driven by increases in consumer spending, inventory investment, and business investment.

Recent indicators of the labor market suggest that wage inflationary pressures are easing. The unemployment rate increased from 4.1% in June to 4.3% in July. This increase in the unemployment rate is the highest since October 2021 and suggests that the labor market is slowing down. The U.S. economy added 114,000 jobs in July, which is lower than the average monthly increase of 215,000 over the past year. Jobs increased in sectors such as healthcare, construction, and transportation, while jobs decreased in the information sector. The labor force increased by 420,000, and the labor force participation rate for the prime-age group (ages 25-54) reached 84%, the highest since 2001. Average hourly wages in July rose by 0.2% from the previous month and by 3.6% from the previous year, indicating a slowdown in wage growth.

As the core Personal Consumption Expenditures (PCE) price index, which is the Fed's preferred inflation measure, moves towards the 2% target, the futures market reflects an increase in the likelihood of an interest rate cut over the coming months. Inflation measured by the PCE price index was 2.6% year-over-year in the second quarter, down from 3.4% in the first quarter. The core PCE index, which excludes the volatile food and energy prices, fell from 3.7% to 2.9%.

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For charter and private schools, these indicators point towards more favorable borrowing conditions, but they should be aware that the charter school bond market is highly sensitive to expectations. If investors believe the Fed will cut rates more slowly than initially expected, this can lead to higher long-term interest rates. Additionally, charter school bonds are influenced by perceptions of credit risk and overall market sentiment. If the Fed’s cautious approach signals concerns about the economy, credit spreads (the difference between the yields on tax-exempt school bonds and MMD) could widen. This would increase the cost of borrowing for charter and private schools despite lower FOMC rates.

From a school’s perspective, municipal fund flows may be just as relevant as macroeconomic data and interest rate forecasts. Municipal inflows mean that bond funds have more cash that they need to put to work. This may result in potential investors being more aggressive in terms of pricing and/or covenants.

Municipal funds have seen \$2.820 billion net outflows over the past 12 months. For the week ending August 2, 2024, municipal bond funds saw \$1.112 billion of inflows. In 2024, there have been 9 weeks of inflows and 41 weeks of outflows. In 2023, there were 11 weeks of inflows and 41 weeks of outflows. In 2022, there were 5 weeks of inflows and 47 weeks of outflows.

ZIEGLER FINANCING

ZIEGLER CLOSES \$32,040,000 FINANCING FOR ST. MARY’S SCHOOL IN ALISO VIEJO, CALIFORNIA

In May 2024, Ziegler closed a \$32,040,000 non-rated bond issue for St. Mary’s School via self-issuance. This includes \$22,360,000 Series 2024A fixed-rate bonds and \$9,900,000 2024B Tax-Exempt Paydown Securities (“TEMPS”). The school is currently a preK-8th grade charter school with total enrollment of approximately 715 students.

The School issued the Series 2024 Bonds to replace the Modular Facilities on the Campus, upon which they will construct a 28,400 square foot, two story building. This space will include eleven classrooms, collaboration space, a dining area, coffee café, school store, a visual arts and research space, and a STEM skills-based learning center. Proceeds of the Bonds will also be utilized for the development of certain outdoor space on the Campus, including 40,000 square feet of space for community gathering and an updated playground space on the Campus. Upon completion of the Project, the Borrower will migrate the Early Education Program from the Existing Facilities to the Project Facilities for the 2025-26 school year.



TEMPS are underwritten exclusively by Ziegler as fixed-rate term bonds carrying a short-term maturity, usually three to four years beyond the expected redemption date. TEMPS are structured as bullet repayments, with required optional redemptions as initial revenues from a project are collected by the trustee. TEMPS are designed to accommodate the school’s enrollment level at expected redemption.

RECENT PRICINGS

- Legacy Traditional Schools Projects, AZ (4.550% / BBB- / 20 year)
- Athenian Academy, UT (6.750% / BB / 34 year)
- Summit Academy Charter School Project, FL (8.250% / NR / 30 year)
- Envision Education – Obligated Group, CA (5.010% / BB+ / 40 year)
- Pine Springs Preparatory Academy, NC (7.838% / NR / 35 year)

FEATURED FINANCINGS




Pine Springs
PREPARATORY ACADEMY

Pine Springs
Preparatory Academy
Holly Springs, North Carolina

Acquisition
JULY 2024

\$6,980,000



**ST. MARY'S
SCHOOL**
World-sized hearts. World-class minds.

St. Mary's
School
Aliso Viejo, California

New Money/Refinancing
MAY 2024

\$32,040,000

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ARTICLE SOURCES

- (1) Indiana Commission for Higher Education. (2020). [2020 Equity Report](#).
- (2) [The Mind Trust](#). (n.d.). Charter Schools. July 30, 2024
- (3) [Center for Research on Education Outcomes \(CREDO\)](#). (2022). City Studies 2022 Indianapolis. Stanford University.
- (4) [Education Recovery Scorecard](#). (2024). Education Recovery Scorecard Report. (p. 3).