

Today's Webinar Presentation:

K-12/Charter School Bond Market Discussion & ERC Update

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Introduction



Michael Williams
Attorney

- Michael Williams is a licensed attorney whose practice focuses on tax credits and planning for M&A transactions.
- J.D. from the University of Connecticut and an M.B.A. from Bryant University.



Scott Rolfs
Managing Director

- Managing Director at Ziegler, leading the K-12 & Charter School facilities finance team
- Overseen financing exceeding \$4.0 billion for non-profit organizations nationwide
- B.S. in business and economics from Ripon College and a Juris Doctorate from the University of Wisconsin



Adam Buchanan
Director

- Head underwriter for Ziegler's Capital Markets desk
- Led underwriting on \$10 billion in public market transactions and manages Ziegler's municipal ETF market making
- B.A. in History from Brown University

The Latest Headlines

Wall Street sees 'slower' pace of Fed rate cuts in 2025



WSJ | OPINION

Trump Should Challenge the Fed's Policies

An independent agency of government shouldn't have such enormous power to skew financial outcomes.

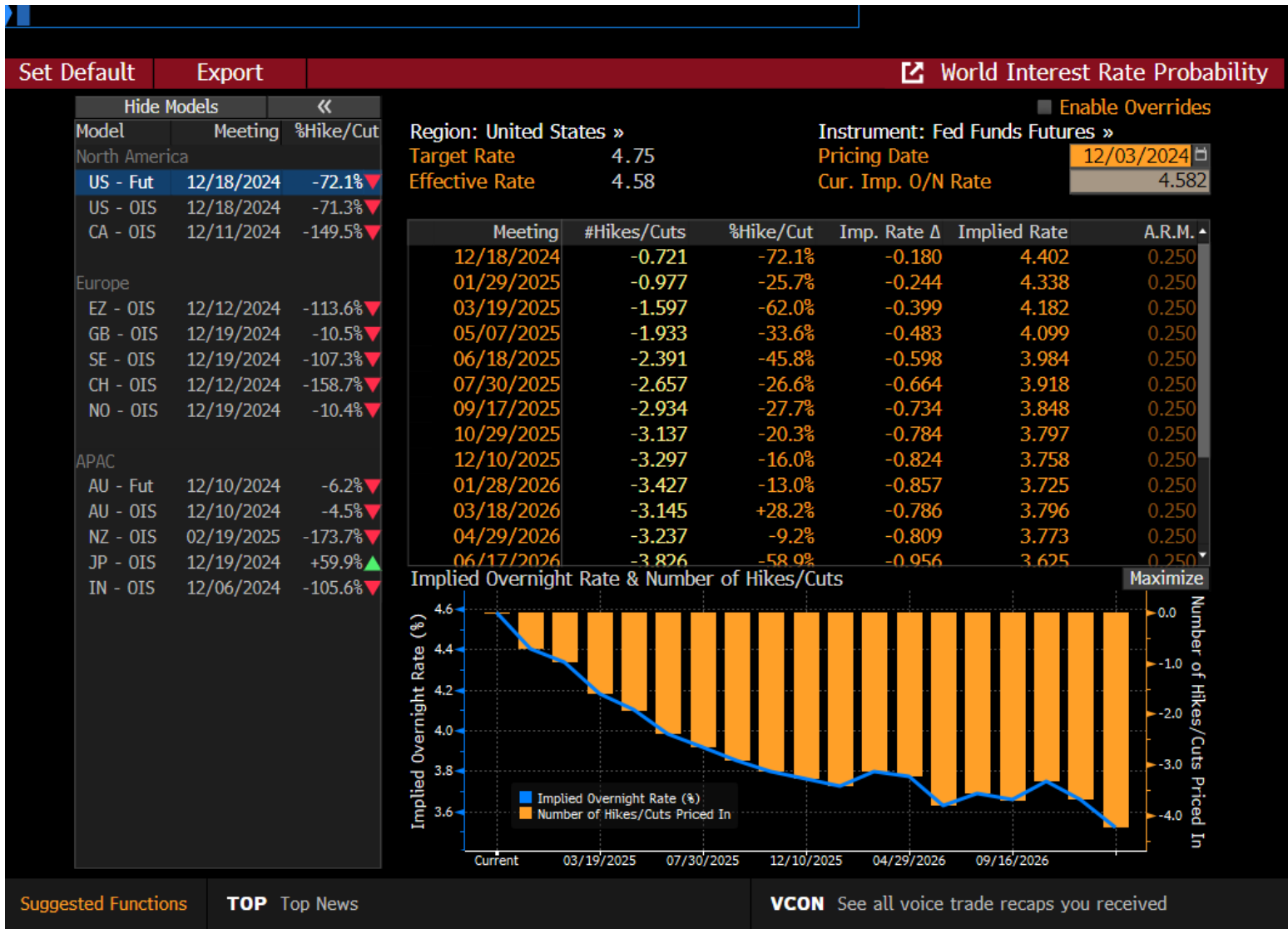
Fed Kept Options Open on Rate Cuts, Minutes Show

Minutes from a Nov. 6-7 meeting showed that Federal Reserve policymakers favored lowering rates “gradually.”



Bond Market Overview & Interest Rate Discussion

Future Fed Rate Cuts - Probabilities



Fed Rate Cuts: Behavior of Bond Market Afterwards

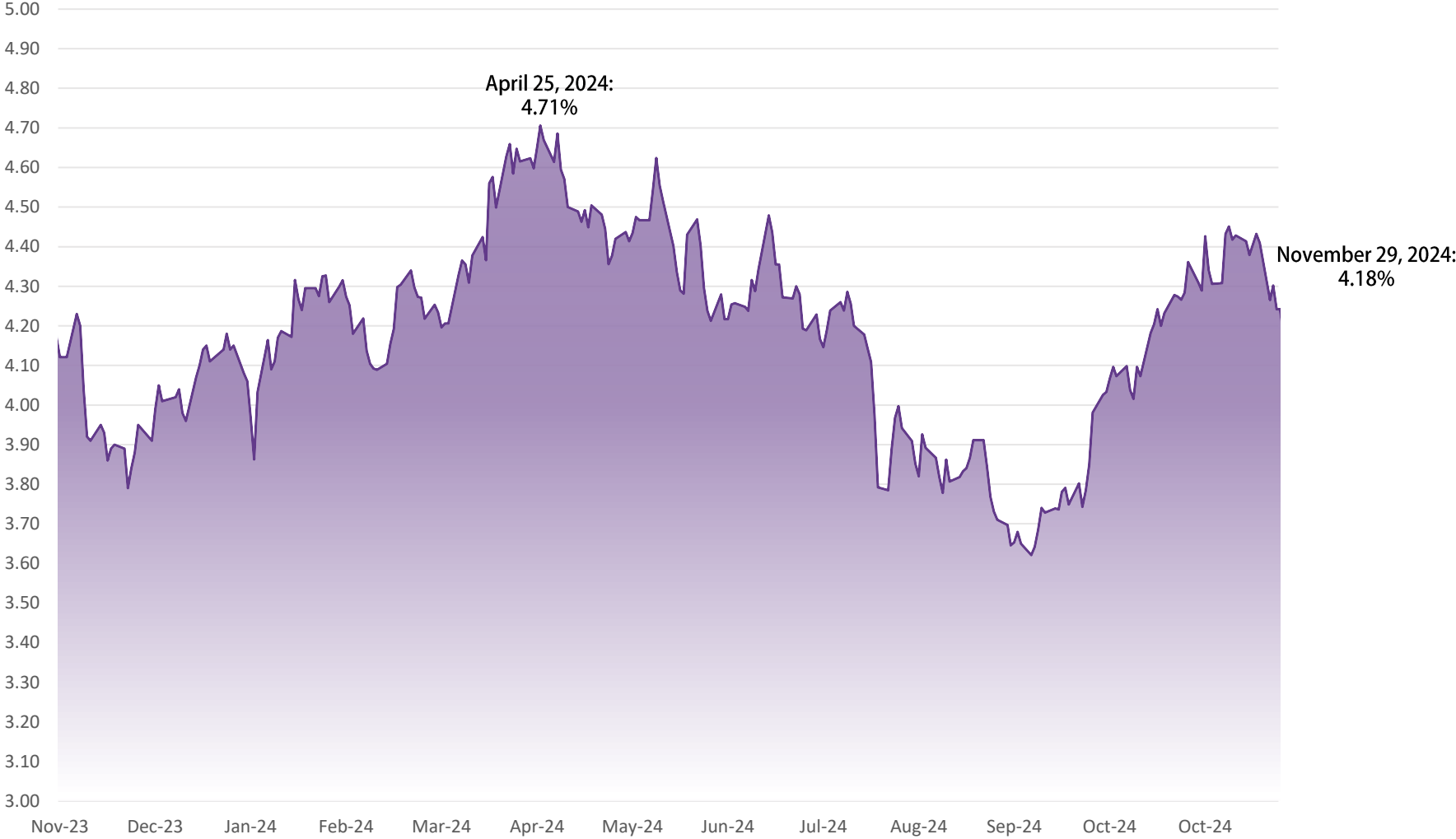
First Fed Rate Cut After a Hiking Cycle (1995 - 2024)				10-Year Treasury Yield		
First Fed Rate Cut	Move	Fed Funds Rate after Cut	10-Yr Treasury Yield Day Before Cut	1 Month After Cut	2 Months After Cut	3 Months After Cut
9/18/2024	50 bps cut	4.75% - 5.00%	3.66%	4.08%	4.42%	?
8/1/2019	25 bps cut	2.00% - 2.25%	2.02%	1.47%	1.64%	1.73%
9/18/2007	50 bps cut	4.75%	4.47%	4.50%	4.08%	4.12%
1/3/2001	50 bps cut	6.00%	4.92%	5.16%	4.95%	4.97%
9/29/1998	25 bps cut	5.25%	4.59%	4.50%	4.72%	4.68%
7/6/1995	25 bps cut	5.75%	6.19%	6.48%	6.17%	6.06%



@CharlieBilello

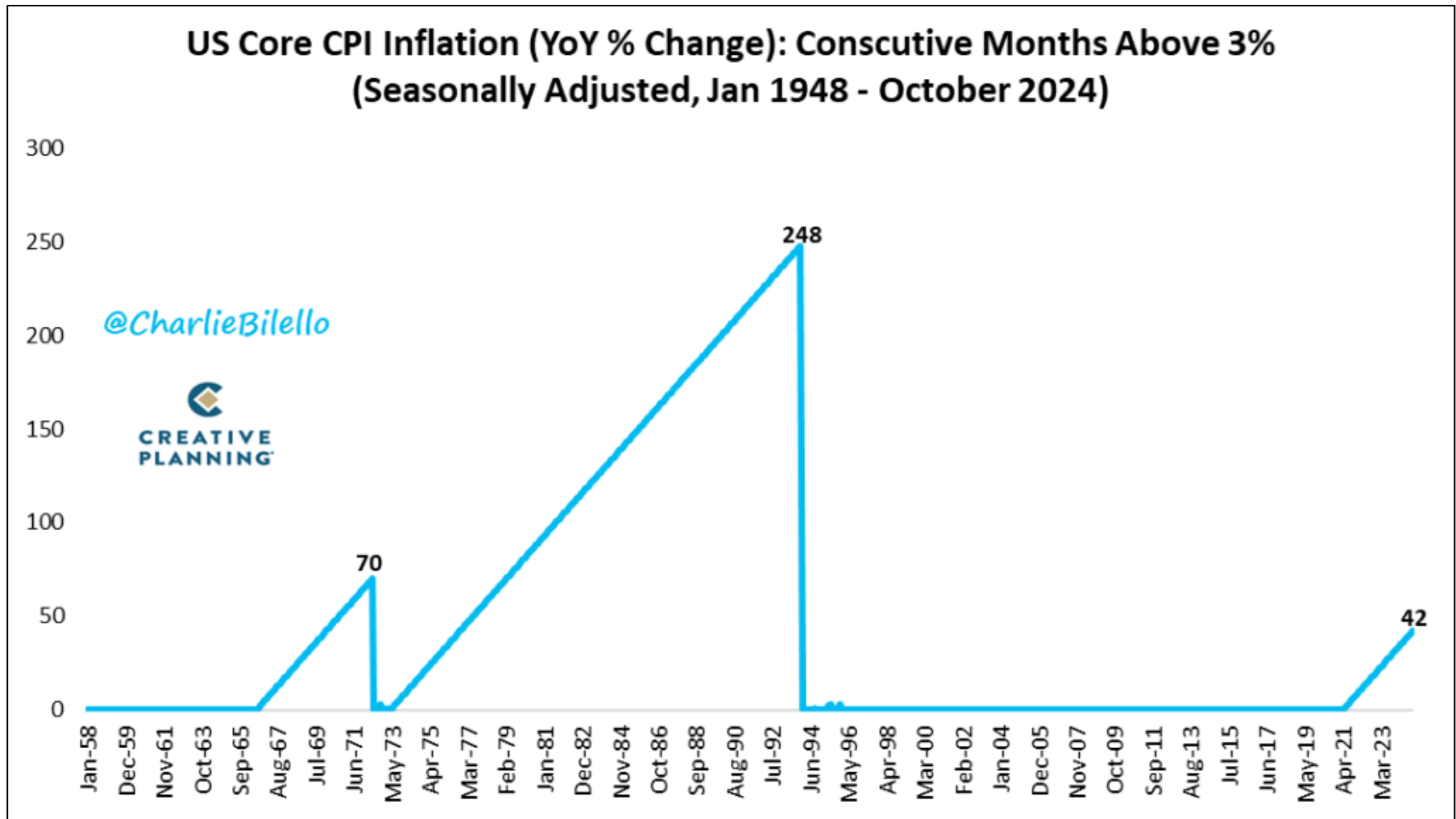
*10-year US Treasury Close at 12-3-2024 was 4.22%

10-Year Treasury: Last 12 Months

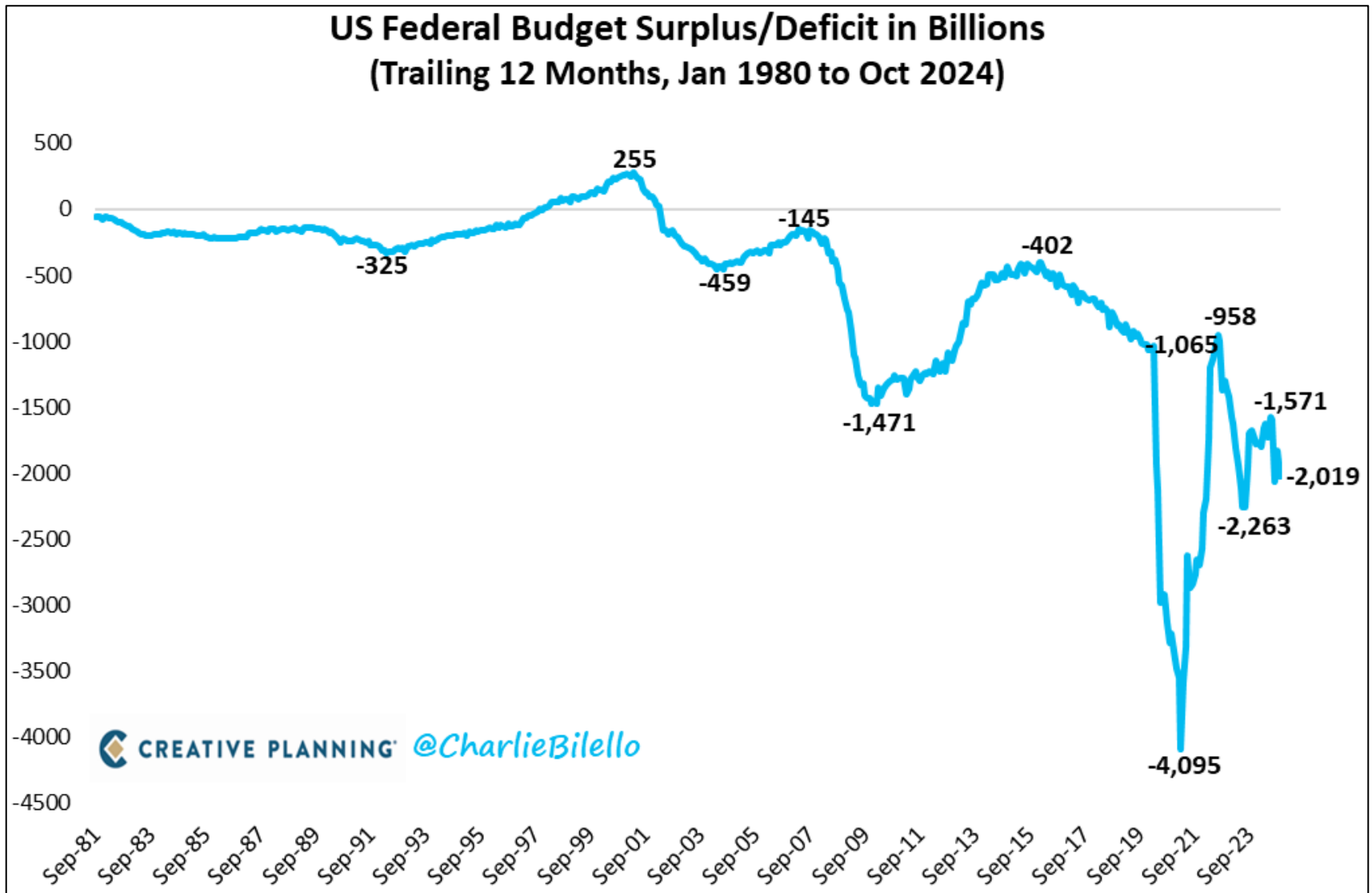


Source: Federal Reserve

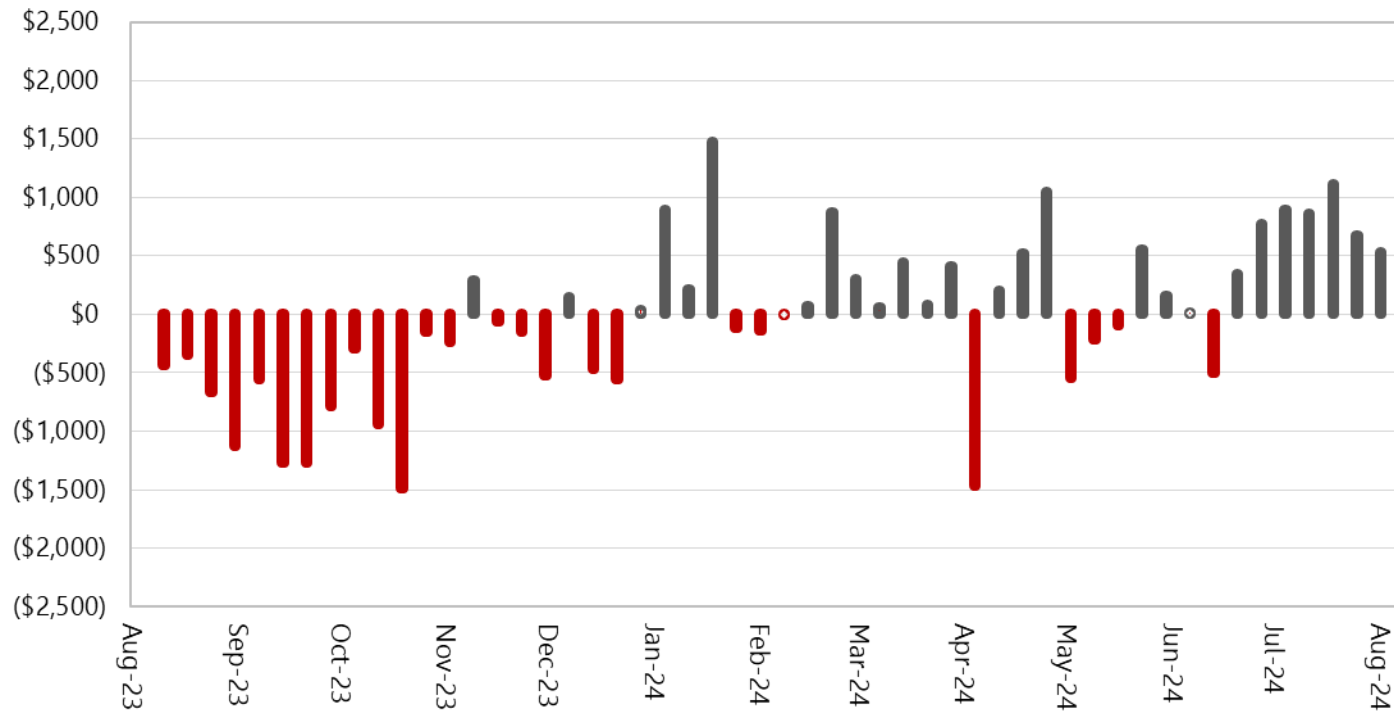
CPI — Inflation Index



Annual Federal Budget Deficit

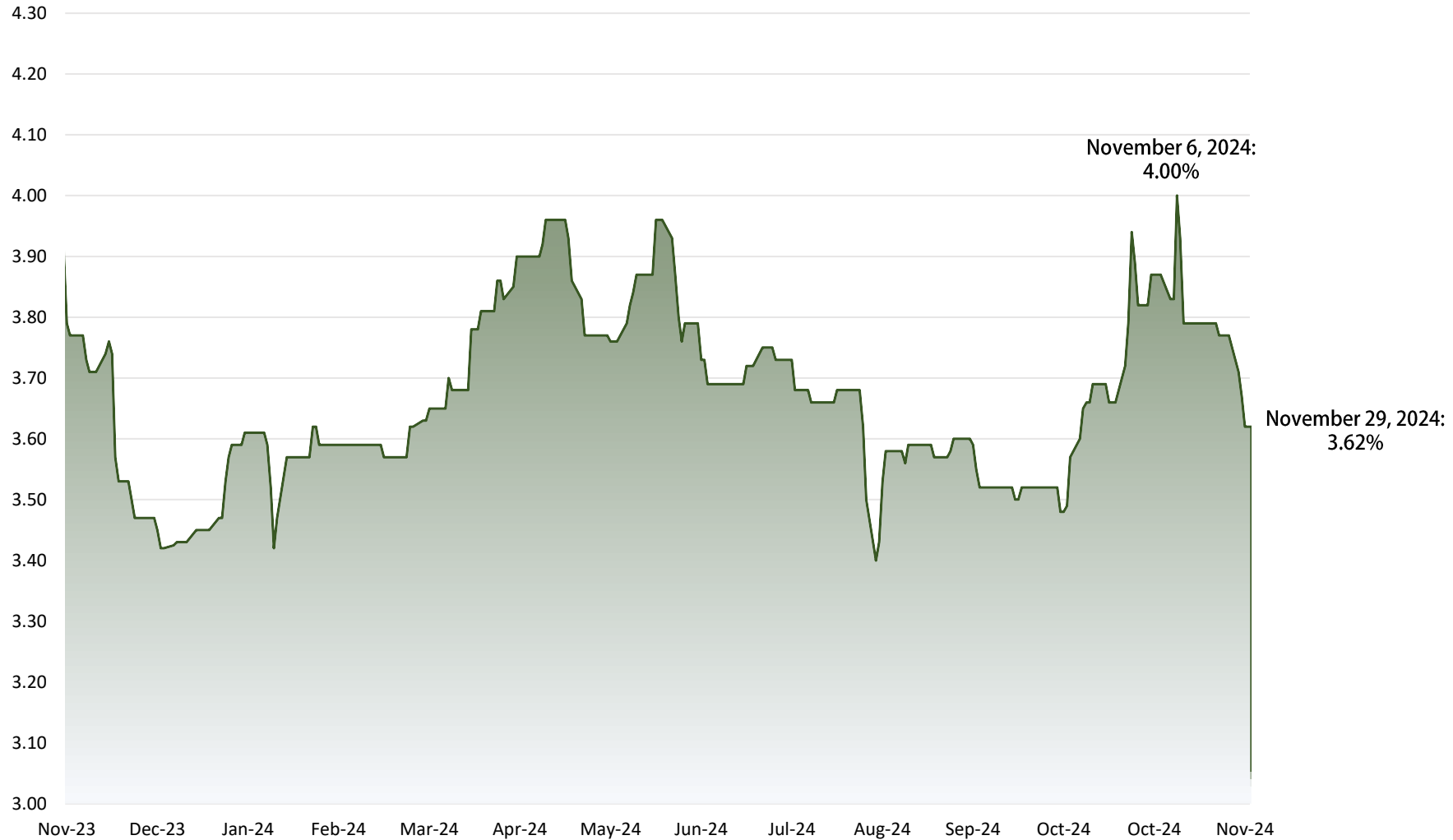


Municipal Bond Fund Flows



- Muni funds have seen \$1.416 billion net outflows over the past 12 months.
- For the week ending August 16, 2024, municipal bond funds saw \$528.7 million of inflows.
- In 2024, there has been 24 weeks of inflows and 9 week of outflows. In 2023, there were 11 weeks of inflows and 41 weeks of outflows. In 2022, there were 5 week of inflows and 47 weeks of outflows.
- **High-yield funds saw \$230.6 million of inflows. In 2024, high-yield funds have seen 31 weeks of inflows and 2 week of outflows.**
- From a borrower's perspective, fund 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.

30-Year MMD: Last 12 Months



Case Study: The Classical Academy of Sarasota (FL)

\$18,765,000 Revenue Bonds, Series 2024



The Classical Academy of Sarasota (TCA) is an independent school located in Sarasota, Florida that currently enrolls approximately 900 students in grades PreK-12. TCA was founded in 2014 and is based on the classical philosophy of education and modeled on Hillsdale College's Classical Education pedagogy.

TCA has been operating on two leased sites in Sarasota with the expected plan to consolidate to one location on Bee Ridge Road, known as the Grace Campus. Series 2024 Bonds proceeds were used fund the Phase 1 Project, which included the acquisition of the Grace Campus, remodeling of the existing high school facility located thereon, completing a turn lane as required of master development plan and installing modular buildings to accommodate students in grades K-4 until completion of the Phase 2 Project.



Series 2024 Bond Pricing					
Rating: Nonrated Pricing Date: 9/24/2024					
Term Bonds	Par	Coupon	Yield to Call	MMD*	Spread to MMD
2039	\$2,955,000	5.000%	4.550%	2.880%	+167
2044	\$2,280,000	5.000%	4.900%	3.240%	+166
2054	\$6,735,000	5.250%	5.200%	3.520%	+168
2059	\$6,130,000	5.250%	5.250%	3.570%	+168

Upon completion of the Phase 1 Project, TCA will move grades K-4 to the Grace Campus, joining grades 5-12 that are already operating there. The Phase 2 Project is anticipated to include the construction of a 40,000 square foot, two-story classroom facility and gymnasium on the Grace Campus, and will likely be financed with additional bonds sometime in 2025. The new facility will allow TCA to move its preschool operation to the Grace Campus, accommodate the lower grades in a permanent facility, and discontinue the lease at its original campus, with the entire school operation having been moved to the Grace Campus. After finishing the development of the Grace Campus, TCA anticipates student enrollment to grow to approximately 1,300.

Case Study: Bonnie Cone Schools (NC)

\$65,130,000 Revenue Bonds, Series 2024

Bonnie Cone Schools operates two public charter schools known as Bonnie Cone Classical Academy (“BCCA”) and Bonnie Cone Leadership Academy (“BCLA”) in Huntersville, North Carolina. BCCA commenced operations in the 2019-20 school year serving 234 students in grades K-6. The school has since grown enrollment of 652 for the 2024-25 school year. BCLA commenced operations in the 2023-24 school year serving 1,043 students in grades K-11 from two locations: K-6 from the lower campus and 7-11 from the upper campus. BCLA has expanded to serve approximately 1,315 students in grades K-12 for the 2024-25 school year.

Series 2024 Bond proceeds were used to acquire the BCLA campuses, fund a debt service reserve fund, fund approximately four months of capitalized interest, and pay certain issuance expenses.

This was the second bond issue underwritten by Ziegler for Bonnie Cone. In 2021, Ziegler

underwrote the \$17,175,000 Series 2021 Bonds, with proceeds used to acquire BCCA campus. Ziegler structured the Series 2024 bonds to achieve a level aggregate debt service through final maturity in 2059, wrapping around the existing Series 2021 Bonds, and meeting the school’s growth plans and operational goals.

Ziegler entered the market at a unique time during a period of moderate supply and rising benchmark rates. Ziegler was able to hold spreads despite a 15-basis point increase in MMD during pricing day. By the end of the order period, Ziegler generated orders from six institutional investors. The financing resulted in a true interest cost of 5.696%.



Series 2024 Bond Pricing					
Rating: Nonrated Pricing Date: 10/23/2024					
Term Bonds	Par	Coupon	Yield to Call	MMD*	Spread to MMD
2034	\$7,050,000	5.000%	4.770%	3.070%	+170
2049	\$10,045,000	5.500%	5.570%	3.870%	+170
2054	\$16,155,000	5.625%	5.640%	3.940%	+170
2059	\$31,880,000	5.625%	5.690%	3.990%	+170



EMPLOYEE RETENTION CREDIT – AN OVERVIEW AND PROGRAM UPDATE

Presented by:
Michael Williams, JD, MBA

Exclusively for:
Ziegler, December 2024

AGENDA



1. Introduction
2. ERC Overview
3. Deadlines
4. ERC Eligibility for Schools
5. Timeline and Deadlines
6. Recent Updates
7. Q&A

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Overview



- Purpose:** The ERC is a refundable tax credit designed to support businesses and organizations that retained employees during the COVID-19 pandemic.
- Eligibility Criteria:** Organizations qualify if they experienced significant revenue decline or partial suspension of operations due to government mandates.
- Credit Amount:** Eligible employers can claim up to \$26,000* per employee for wages paid during the pandemic, with specific limits for 2020* and 2021.
- Applicable Period:** The credit applies to wages paid from March 13, 2020, through September 30, 2021 (with extended periods for recovery startup businesses).
- Interaction with PPP:** Wages used for PPP loan forgiveness cannot be claimed for the ERC, requiring careful coordination to maximize benefits.
- IRS Compliance:** Recent IRS scrutiny has highlighted risks of improper claims, emphasizing the need for accurate documentation and compliance with updated guidelines.

*2020 now closed due to SOL. Maximum credit of \$21,000 per employee for 2021 filings.

Deadlines



Filing Deadlines.*

- 2020 calendar year filings: Now closed due to statute of limitations lapsing on April 15, 2024
- 2021 calendar year filings: April 15, 2025

What is the benefit?

- Up to \$21,000 per employee (schools generally averaging \$8K-\$13K)
- 2020 now closed, original program benefit was up to \$26,000 per employee

ERC Eligibility – Introduction



An organization can qualify if it:

- Has fewer than 500 full-time employees; and
- Experienced either (1) a significant reduction in revenues, or (2) a partial suspension of operations during some or all of the pandemic (Mar. 2020* - Sept. 2021).

What may be a “partial suspension”? Local health order / government mandate caused a:

- Lack of comparable services;
- Restriction or elimination of some or all services; or
- Reduction in operational hours.

Safe Harbor Thresholds

ERC Eligibility – Continued



Areas of Emphasis

- **Government Orders:** Provide evidence of local, state, or federal government mandates that restricted or modified operations
- **Impact on Services:** Demonstrate a significant impact on the organization's ability to deliver services
- **Operational Modifications:** Document how restrictions led to operational changes that affected normal operations.
- **More than Nominal Effect:** Show that the restrictions had a “more than nominal” effect on the organization's operations, typically defined as affecting at least 10% of services, revenue, or employee hours.
- **Comparison with Normal Operations:** Provide records comparing pre-pandemic operations to pandemic-affected periods, highlighting changes in hours or services.
- **Thorough Documentation:** Maintain comprehensive records, including communications about restrictions, financial impacts, and supporting materials like W-2s, payroll records, and detailed descriptions of operational adjustments.



School Qualification Criteria

Revenue Reduction:

- 2020: 50% or more vs. the same quarter in 2019 (closed year)
- 2021: 20% or more vs. the same quarter in 2019

or

Partial Suspension:

- Lack of comparable services: can remote or hybrid qualify?
- Restricted or eliminated services: cancellation or modification of sports, performing arts, lunch and extracurricular activities
- Reduced operating hours
- What does “more than nominal” mean?
 - Safe Harbor implications

Geographically Dependent: Venice, CA vs. Venice, FL



Refund Claim Process

1. **Conduct an in-depth analysis**, usually in the form of a discovery call or meeting, to determine whether the client may qualify for the ERC;
2. **Obtain and review payroll information** for quarters in which the client may qualify for the ERC;
3. **Calculate the potential credit** and draft the required narrative to accompany the refund claim; and
4. **File IRS Forms 941-X** Adjusted Employer's Quarterly Federal Tax Return for each qualifying quarter.

Once filed and if approved, a school should expect to have their claims processed by the IRS in a year or more (previously 6 months), and processing times can vary.



Recent Updates

- 1) **IRS News Regarding Bad Actors.** IRS investigating firms “promoting” the ERC through social media, YouTube, TV advertising and mass text message campaigns. Hundreds of criminal cases have been opened against bad actors. Moratorium implemented September 2023.
- 2) **Processing Moratorium Lifted in Two Phases.**
 - a) As of August 2024, IRS announced it would reopen claim processing, but only for those filed prior to 1/31/24. Claims filed after 1/31/24 are not yet being processed.
 - Additional scrutiny is being applied prior to approval on pending claims.
 - IRS estimates that 80% of claims are invalid, likely due to significant influx of promoter filings. Valid claims are significantly delayed.
 - b) 1M+ claims expected to be outstanding as of 1/1/25.

Recent Updates - Continued



- 1) **Processing Timing Extended.** Delays are significant (currently processing April/May 2023 claims generally on FIFO basis). Possible that certain claims will not be processed before end of this fiscal year end (June 2025)
- 2) **Taxpayer Advocate Involvement.** Independent agency states that “fighting fraud should not come at the expense of legitimate small businesses with claims pending at the IRS.”
- 3) **Alternatives to Waiting.** Yes, you can sue the IRS in United States District Court or the United States Court of Federal Claims if your claim has taken 6 months or more to process.
 - Pros: Could result in faster processing (maybe)
 - Cons: Expense related to litigation, uncertainty about delays in court timing, publicity related to ERC filing (public documents).
- 4) **Early Closure?** Senators Joe Manchin and Mitt Romney have expressed interest in repealing the ERC during the current lame duck session.



Audit Case Study

Records Requested:

- Government orders mandating the client's partial suspension
- Worksheets and supporting documents for computing the ERC
- Financial information
- W2s filed for the period in question
- Calculation of FTEs for the period
- Aggregation documentation
- PPP loan and forgiveness documentation
- Explanation of operations before and during the partial suspension period
- Explanation of why the school should not be considered an instrumentality
- Explanation of why STRS-eligible wages should be considered qualified

Audit Results



5 audits initiated

3 charter school audits (not pro-rata representative of client base)

2 charter school (1 in CA) approvals, 1 on appeal*

1 non-charter approved on appeal, 1 pending audit results

Average audit time: 8 months

Average appeal time: 11 months

*Appeal case: on audit, IRS auditor claimed school wasn't subject to social distancing/occupancy restrictions when they reopened for hybrid instruction because they could continue remote instruction

Audits – Lessons Learned



Focus areas include:

- PPP “double benefit”: prohibited from using the same wages to forgive PPP and qualify for ERC
- Aggregation: common board membership or common control requires organizations to be combined for eligibility purposes
- Headcount limits: small vs. large employer for 2020 and 2021
- Eligibility (e.g. revenue reduction or partial suspension) analysis: must produce proper documentation and a thorough analysis citing the ERC eligibility criteria
- Charter specific eligibility issues (e.g. instrumentality and pension enrollment)

***If an audit is denied, it may be appealed. If an appeal is lost, it may be argued in Tax Court**

Questions? Thank you!



Schedule a free consultation:



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