TEXAS CHARTER SCHOOLS ASSOCIATION

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June 6, 2011

RE: SB 31, 82nd Legislature, First Called Session

Dear Members of the Texas Senate Education Committee:

The Texas Charter Schools Association (TCSA) is the statewide membership organization promoting all types of effective charter schools, representing over 100,000 students in more than 390 charter schools. We share the Senate Education Committee's goal to encourage productive and efficient public schools.

TCSA strongly supports SB 31, introduced by Chairwoman Shapiro in this First Called Session of the 82nd Legislature. SB 31 is identical to SB 597 from the Regular Session which achieved bipartisan support and passed unanimously off of the Senate floor on April 5, 2011.

SB 31 extends the state's Permanent School Fund (PSF) bond guarantee to financially sound charter schools to help them construct public school buildings. Charter schools are public schools with no access to a local tax base to pay for school buildings, and no eligibility for the Instructional Facilities Allotment and the Existing Debt Allotment - two state programs that help traditional public schools meet the cost of providing facilities. The language in this bill is purposefully set high, as a charter school would have to be rated investment grade before qualifying for the PSF guarantee.

If SB 31 becomes law, charter schools will be able to achieve AAA bond ratings and in turn will save substantial money on interest rates and issuance costs. For example, KIPP Houston issued a bond package last year for $68 million with a BBB rating. With a AAA rating they would have saved $1.5 million a year in interest alone. Public school spending should go directly to the classroom, not to private banking institutions. SB 31 is the perfect example of bill language that helps ensure that public funds that are directed towards our public schools are used in the most efficient means possible.

Thank you to Chairwoman Shapiro for re-filing this bill. We ask that you each support SB 31 and vote it out of the Senate Education Committee and off of the Senate floor. Feel free to contact us with any questions.

Sincerely,

Amanda Thomas, Advocacy Associate

Enclosure: (3) Piper Jaffray & Co. Analysis

Bond Credit Rating

- The table below details the credit rating levels along with a brief description of each level

Grade	Moody's	Standard & Poor's	Fitch	Description	30Yr MMD Rates
Investment Grade	Aaa	AAA	AAA	Highest possible rating - principal and interest payments considered very secure	4.75%
	Aa1	AA+	AA+	High quality - differs from highest rating only in the degree of protection provided to bondholders.	
	Aa2	AA	AA		5.00%
	Aa3	AA-	AA-		
	A1	A+	A+	Good ability to pay principal and interest although more susceptible to adverse effects due to changing conditions.	
	A2	A	A		5.25%
	A3	A-	A-		
	Baa1	BBB+	BBB+	Adequate ability to make principal and interest payments - adverse changes are more likely to affect the ability to service debt.	5.50%
	Baa2	BBB	BBB		
	Baa3	BBB-	BBB-		5.85%
Non-Investment Grade	Ba1	BB+	BB+	Faced ongoing uncertainties or exposure to adverse business, financial or economic conditions.	6.60%
	Ba2	BB	BB		
	Ba3	BB-	BB-		
	B1	B+	B+	Greater vulnerability to default but currently meeting debt service requirements.	
	B2	B	B		
	B3	B-	B-		
	Caa	CCC	CCC	Current identifiable risks of default (for Moody's - may already be in default).	
	Ca	CC	CC		
	C	C	C		
	N.A.	D	D	Default	

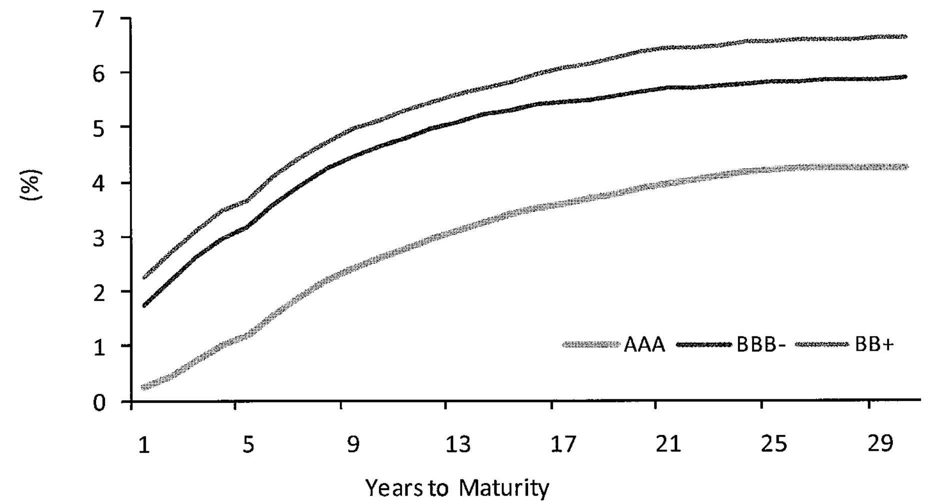
Note: Most Tier I institutional bond funds cannot purchase below the A3/A-/A- level

How Ratings Impact Borrowing Costs

Credit Ratings Determine Interest Rates

- The credit of an issuer ultimately determines the borrowing cost
- As shown in the table to the right, the difference between an "Aaa" rated credit and a "BB+" rated credit is significant
- Moving to an "Aaa" rating from "BB+" would improve interest rates by approximately 1.90% across the curve

Current MMD Curves



MMD Index			
Yrs to Maturity	AAA	BBB-	BB+
5	1.69%	3.15%	3.65%
10	3.11%	4.62%	5.12%
25	4.71%	5.80%	6.55%
30	4.75%	5.85%	6.60%

Moody's	Standard & Poor's	Fitch
Investment Grade		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Non-Investment Grade		
Ba1	BB+	BB+

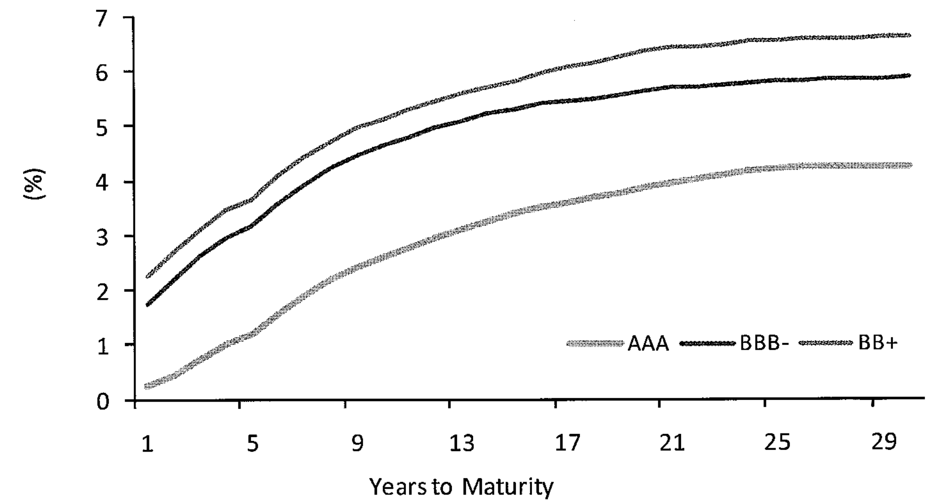
Where ISDs are rated with the PSF guarantee; utilizing the 'AAA' PSF guarantee allows ISDs to finance at much lower rates

Where most Texas charter schools currently rated; lowest investment grade credit or highest level of non-investment grade credit; faces ongoing uncertainties

Sample Debt Service Comparison

- As previously mentioned, the credit of an issuer ultimately determines the borrowing cost
- To show the impact that different credit ratings would have on the borrowing cost for a charter school, we have included some scenarios below to show the impact that PSF could have for Texas charter schools:

Current MMD Curves



Summary[1]	AAA PSF Rating	BBB- Underlying	BB+ Underlying
Project Funds	$10,000,000	$10,000,000	$10,000,000
True Interest Cost	4.969%	6.085%	6.846%
Maximum Annual Debt Service	$723,500	$825,493	$899,330
Total Debt Service Due (2012-2041)	$21,636,038	$24,685,690	$26,905,300
Difference in Debt Service	-	**$3,049,652**	**$5,269,262**

1 Preliminary; subject to future interest rates and continued 'AAA' credit rating of the Permanent School Fund guarantee.