CONFERENCE RECAP

The 20th Annual HJ Sims

Late Winter Conference

on Financing Methods and
Operating Strategies for Charter
Schools and Senior Living

Hyatt Regency Sarasota | Sarasota, FL

February 14-16, 2023

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What's Inside:

2023 Conference Recap

2023 marked the **twentieth** annual HJ Sims Late Winter Conference, a forum historically designed to gather experts from across the senior living industry. This year, after recently establishing our education practice, we were honored to also welcome esteemed colleagues from the education and charter school industry. Over 400 owners, operators, educators, investors and industry professionals gathered at the Hyatt Regency in **Sarasota**, Florida to share their experiences, ideas, and strategies.

"HJ Sims was thrilled to host our clients and partners in Sarasota last month. As we have expanded our banking practice beyond senior living to education, it was exciting to hear the fresh perspectives" said **Bill Sims**, Managing Principal. "In this changing economic environment, our speakers kept us current on the issues and solutions in our fields. That, combined with the networking opportunities and fun recreational activities, made this one of our most successful conferences yet."

Throughout the conference, attendees explored recurring themes afflicting both industries, including challenges with today's financial markets, inflationary pressures on supplies and building costs, and continued labor shortages.

Program Highlights:

- *Keynote speakers from outside the senior living and charter school industries who shared deep insights into macroeconomic issues, including* ***Tim Sullivan****, Senior Managing Principal at Zonda Advisory and a major influencer in field of real estate market research and community development, and* ***Neil Irwin****, the Chief economic correspondent at Axios and former senior economic correspondent at the New York Times.*
- *Relaxed and fun activities to bolster connection and conversation, including boating and fishing excursions in the Gulf; golfing at the Legacy Golf Course at Lakewood Ranch; Yoga with Tigers at the Big Cat Sanctuary; a VIP walking tour of the Marie Selby Gardens; and an interactive evening at The Mote Aquarium where we petted stingrays dined on delicious, non-stingray fare.*
- *Educational sessions that covered an array of topics such as: capital markets today and tomorrow, investor relations and board governance, alternative senior housing models, and changing trends in the charter school industry.*

The following pages provide comprehensive coverage of the sessions at the 2023 HJ Sims Late Winter Conference.

Be sure to subscribe to our HJ Sims marketing list for information on market updates and forthcoming events.

The Senior Living + Charter School Industries and Capital Markets

On this 20th anniversary of the conference, **Bill Sims**, Managing Principal, opened the general session of the

Annual Conference to an audience of over 400 attendees, including the inaugural education and charter school track.

Reflecting on the markets over the past year, Bill noted that since a low of around 1% at the start of 2022, interest rates rose at least 250 basis points across all maturities in the first 10 months, peaking around the beginning of November 2022. Sharing the sentiment that the rapid pace of 2022 interest rate hikes was detrimental to operators' and borrowers' ability to plan ahead, Bill hopes for steady to gradual hikes in rates this year. Drawing perspective from the past, the last time such swift rate hikes occurred was before 1980. This unwelcomed encore is hence viewed as a rare, once in a 40-year phenomenon.

Bill provided an overview of the firm's major accomplishments in 2022, which traversed multiple asset classes. In the education sector, the firm added 6 new education bankers who completed over $220 million in financings on behalf of charter schools. The Sims Mortgage Funding arm financed multi-family housing through HUD and Fannie Mae, and the Senior Living team used the US Department of Agriculture financing program for an assisted living project. Work in the senior living sector culminated in 34 total financings.

Aaron Rulnick, Managing Principal and Head of the Not-For-Profit Banking Team, introduced Sarasota as home to the Ringling Museum. Thematically, a circus aptly depicts 2022's state of affairs: continuing to recover from the pandemic, and navigate rising labor costs, inflation, and sharp rises in interest rates.

Highlighting the unique HJ Sims approach of Financed Right, Aaron evidenced how the model of flexibility and creativity proved valuable in a year where construction costs and interest rates were consistent roadblocks to helping clients finance start-up, expansion, and repositioning projects. Refinancings completed during 2022, included current refundings and various alternatives to advanced refunding by using Cinderella Bonds, Taxable Advanced Refunding, Forward Refunding, and Tender Offers.

Want to learn more about these innovative financing strategies? [Read our white paper.]

Aaron noted that while refinancing opportunities have become more limited in the current environment, there has been an increase in strategic advisory engagements. In 2022, the team had 23 advisory engagements related to acquisitions, affiliations and dispositions. He also highlighted our experience in derivatives, bond reinvestment, and bond repurchase. The latter two being attractive due to rising short-term rates could be one of the few silver linings to brighten the view of the interest rate environment.

In contrast to the circus, Aaron left the audience with an image of our clients' state of mind after working with the Sims team: comfortable Adirondack chairs in front of a colorful sunset over tranquil waters…

Picking back up on the circus theme, **Jeff Sands**, Managing Principal and Head of the For-Profit Banking Team, touted 2022 as a real high wire act. Jeff remarked on the incredible crossover work between the for-profit and the not-for-profit senior living teams and organizations, and portended that collaboration with the charter school practice is also in the works.

The crossover and collaboration are often facilitated by HJ Sims Investments (HJSI) which has invested over $1 billion in 15 years; the current portfolio stands at 38 investments comprised of 175 properties and some $275 million worth debt and equity investments.

Jeff shared insights on the reduced and restricted lending activity performed by banks, which has led to HJSI stepping in with subordinate or preferred equity lending in order to fill the gap on new debt or refinancing of senior debt. Showcased with notable transactions, Jeff explained the three ways HJSI fills the void:

- → *Mezzanine loans which can be secured by a pledge of membership interest at the parent level.*
- → *Debt through alternative financing sources by reviving relationships with life insurance companies and federal agency lenders Fannie Mae and Freddie Mac.*
- → *A/B uni-tranche loans, whereby a bank holds the first mortgage and HJSI takes a secondary position in the first mortgage.*

Jeff predicted 2023 will be a real balancing act. He pointed to pitfalls: cautious banks and lenders, risen cap rates, distressed projects or non-performing properties, as well as investors with deadlines, and "bridges to nowhere." But he also identified glimmers of opportunity for buyers who are well positioned with access to financing and a longer-term investment horizon.

Jeff concluded that it'll be a wild ride, the only reassurance being that Sims will be there for you.

Anthony Luzzi is President of Sims Mortgage Funding (SMF) which originates, underwrites, and processes HUD-insured loans for multifamily housing, healthcare, and hospitals. In October 2022, SMF added an office in Salt Lake City, UT led by a multifamily originator who serves the West Coast and the Mountain West regions.

Anthony noted that despite headwinds, SMF obtained HUD approval for 4 multifamily loans totaling $27 million over the past year, and kept two commitments for mortgage insurance alive for assisted living facilities originated in 2021. The projects are located in Louisiana, Pennsylvania, New York, and New Jersey.

Anthony spotlighted three deals including a loan for a multiple family project as part of the Lafayette, LA downtown revitalization; a refinancing loan for an affordable senior housing community in NJ that funded construction of a new community building; and a HUD-insured refinancing loan for a historic 1920s hotel and theater building that was converted into elderly housing in the 80's.

Given the conditions of 2022, bridge to HUD transactions encountered difficulties due to higher interest rates and tightened operating margins. Many projects with existing bridge loans are not performing as forecast, causing delays at HUD and in many cases requiring bridge loan extensions, searches for new bridge loans, or long-term to HUD alternatives. Overall, HUD's volume for FY22 was down 25.4% to $2.957 billion from FY21's $3.942 billion, and total loans down to 269 from 328.

Richard Harmon, Executive Managing Director of the Education Finance team, took the stage to explain the myriad reasons for migrating his career and top-ranked charter school practice to HJ Sims. Among the reasons were the Sims culture both internally and in how we work with clients: an entrepreneurial spirit, a solutions-oriented approach, and a strong sense of teamwork.

Rich mulled over major 2022 trends and themes such as inflation, construction costs, labor costs, teacher shortages, and bond outflows – money going out of funds that buy charter school debt. Despite the daunting backdrop, the team helped 10 schools and management organizations obtain over $200 million in financing from more than 30 unique investors. The group utilized short calls, interest only periods, and other tools to provide flexibility for our clients through construction and enrollment ramp-up periods during a rising rate environment.

Three select transactions from 2022 served to highlight the new and creative solutions wrought by the HJ Sims. First was a start-up charter school in Idaho that used the bond proceeds to fund construction of the school which will open in fall 2023. Second was a start-up charter school in Ohio that benefited from a private placement of a taxable note to fund working capital prior to its opening fall 2022. And the third was a first of its kind M&A transaction with HJ Sims representing the buyers in their pursuit to acquire an established charter management organization, ultimately in conjunction with an institutional equity partner. At closing, the new organization took over management of 18 schools across Florida.

Rich marveled at the successes of 2022 and previewed those to be earned in 2023: 13 engagements totaling $315 million in proposed financings across 9 states.

Gayl Mileszko, Senior Vice President and Director of Credit Analysis, shared insights on the financial markets and buy-side credit analyst hot tips.

"Many are calling 2023 the year of the bond. One professor emeritus said even if you go back 250 years, you can't find a worse year for bonds than last year. For munis, it was at least the worst the second worst year on record after 1969. But munis have never had two straight years of losses since 1965. And the data show that returns for the year after a negative year are always solid" said Gayl.

Gayl recounted FED actions, the inverted yield curve, and a few other low lights of 2022. She observed that Energy, Social, and Governance (ESG) investments only represented a small percentage in the senior housing and charter school sectors and there was no significant difference so far in the pricing or trading of these bonds. Foreseeing 2023 as a telltale year, just as it was with the Great Recession, projects that came into the pandemic in a position of strength are faring better than those that have been heavily reliant upon federal and state stimulus to operate these past few years.

Gayl reviewed pressures facing the two industries. For senior living operators, those include the end of the public health emergency and accompanying stimulus in May, increasing acuity, new regulations on staffing minimums, ongoing higher inflation, weakened housing market, labor issues and costs, and costs of upkeeping aging facilities and tech upgrades. Charter school operators face many of the same challenges. In addition, the School Choice Movement is gaining steam across the country and that involves vouchers that parents can use for private schools or homeschooling that might reduce some charter school enrollment. And as with senior living, bad apples and headlines failures mean that the more attention must be paid to public relations and advocacy.

Shifting her focus to her insight from the buy-side, Gayl encouraged borrowers to be more forthcoming with disclosures, beyond the minimum required, to help analysts gauge their viability: narratives from management on performance, details on covenant ratio calculations, and more frequent reporting of key metrics. Gayl is regularly called upon by Sims' traders and sales teams to provide an opinion on bonds offered in the secondary market. At times with only 30 minutes or less, Gayl has to learn as much as she can about the borrower and its bonds to form an opinion; assess the entire organization, its credit worthiness, and its comparative value. The more robust and clear the borrower's disclosure, the fairer the price assessment she can make.

Gayl closed her talk with economic forecasts from the Congressional Budget Office and Bank of America. But left the audience with a less conventional prediction from Faith Popcorn: 25% of marriages will be between humans and bots in the year 2025. We'll have to check back in 2026 to see if such predictions will have come to pass, and given rise to second person bot fees in senior living or bot parent teacher associations at charter schools!

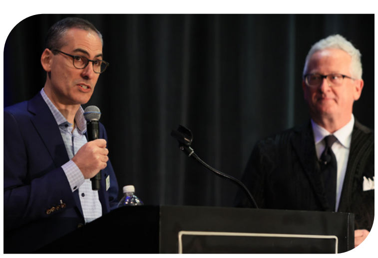
Understanding the Impact of Migration Trends & Mortgage Rates on the Housing Market

The opening keynote session of the Late Winter Conference featured **Tim Sullivan**, a Senior Managing Principal at Zonda Advisory Group. Zonda focuses on housing market research and community development. Tim presented on several pressing and relevant topics relating to recent trends in the housing market, the change in migration patterns as a result of the pandemic, and expectations for the future of the US economy.

Economic Backdrop

Tim began the keynote session by discussing an overview of the current economic backdrop in the United States. Despite high inflation, the US economy has shown signs of resiliency with unemployment falling to 3.4% to January 2023, the lowest in 53 years. Even as the Federal Reserve increases interest rates, consumers are still spending a significant amount of their income. However, consumers are saving less and using credit card debt to fund this spending. It remains to be seen how these trends will ultimately affect the economy, with market analysts predicting a wide range of potential outcomes from no economic recession to a global recession.

Housing Trends and Supply



With the rapid increase in interest rates, potential homebuyers have seen a significant decrease in their purchasing power. As expected, buyers responded by pulling back and home sales have decreased since early 2022.

Further, even as buyers pull back, sellers are reluctant to sell at lower prices due to the low interest rates on their current homes and the overall fear of selling at the wrong time. This trend in lower sales varies significantly by housing market, with many West coast markets seeing larger decreases in sales than markets in the southeast.

Tim also touched on the overall housing supply both for rental and for-sale properties. Overall, the rental market has held up and increases in rent are starting to stabilize. Occupancy is also high in major cities across the US. On the for-sale side, more single-family homes are under construction. Further, supply chain disruptions have improved which has stabilized building material costs, making it easier to build new single-family homes.

Senior Housing

On the state of the senior housing market, Tim noted that construction has decreased significantly. Third quarter 2022 NIC MAP data found that the number of senior housing units under construction was the least since 2015. While construction inventory growth is down, occupancy continues to rebound as the sector aims to reach pre-pandemic levels.

Buyer Considerations

Next, Tim discussed the recent trends in how homebuyers are viewing the current market. Overall, the number of entry-level homebuyers has decreased significantly due to rising interest rates. Entry-level and lower income buyers are the most sensitive to price changes and interest rate shifts.

He noted that the share of lower priced homes ($200,000 to $300,000) decreased over the pandemic, as home prices increased. This trend ultimately priced many potential buyers out of the market.

Relocation buyers, however, have continued to purchase homes. They have also shifted the competitiveness of many markets with several cities, including Austin, Phoenix, and Tampa, seeing large increases in domestic net migration. Many of these cities also saw record increases in high income jobs relative to pre-pandemic levels.

The 55+ (and Over) Market

The Boomers are one of the biggest shares of the US population and their impact on housing and migration is being closely watched. The biggest concentration of Boomers is in southeast region of the US, especially in Florida. This population is seeing 10,000 to 11,000 people retire every day and they control 50-70% of disposable income.

Tim noted that many Boomers have historically preferred to stay put. However, Tim shared several preferences that Boomers have when searching for new homes. Most Boomers prefer detached homes when searching for active adult communities. They also want more storage space, better kitchens, and an overall low maintenance lifestyle (i.e. easy to clean finishes, exterior materials that don't need painting, etc.) Moreover, Zonda's research has shown that 25% of Boomers plan to move to be closer to their kids and grandkids. As such, many of the fast-growing economic regions have seen Boomers also migrate to these markets as they join their families.

Pricing and Equity

Tim also touched on the recent trend in home prices and equity. In January 2023, the majority of prices for new construction either remained the same month over month or decreased. Only 12% of home builders increased their prices. Economists and key market participants are divided on how home prices will change of the next year compared to 2022, with some predicting a modest increase in pricing while others predicting a 20% decrease in pricing. Nevertheless, peak market pricing is likely behind us in most markets as increases in interest rates eat into purchasing power. Due to the rapid increase in prices over the last few years, homeowners are sitting on record equity (70.5% as percentage of home value as of 2022).

Quick Primer on Schools

Tim briefly discussed recent trends regarding schools and the impact of housing on student yields. New homes generate between 0.5 and 0.8 students per home, with roughly 40% to 60% of these students entering elementary school. As the communities age, the student yields tend to flip to secondary level education (middle school and high school). Tim also showed the potential impact of 10,000 new homes, which estimates about 5,000 to 8,000 students generated, 4 to 6 elementary schools, 1 to 2 middle schools, and 1 high school.

Forecasts and Final Thoughts

Tim ended the presentation with noting a few final trends and a discussion of what he is watching for over the next year. One of the issues in predicting what will happen in the near future is that the data has been contradictory in many instances. The market has been resilient despite the slow down in the housing market, while inflation has shown signs of not cooling as quickly as expected. These trends are also market dependent, with many markets showing greater signs of resiliency. Tim noted that many cities in the southeast and mid-Atlantic have strong market fundamentals that may insulate them from the broader economic trends.

Tim plans on watching several indices over the next year to see how markets shift, including the 10-year Treasury yield, changes in credit availability, home price trends, completed home inventory, and consumer confidence. He pointed to several factors to consider over the next few months: the Federal Reserve's actions, the impact of cost pressures on the economy, supply constraints, and the overall cautiousness of the capital markets.

For more information about this session, please contact **Aaron Rulnick**.

Managing Construction & Development Costs Towards a Successful Project

We were thrilled to welcome four industry leaders to our keynote session. **Dan Godfrey**, Architect, Partner, Project Manager, RLPS Architects, **Ken Ogden**, President, Pike Residential, **Chuck Murphy**, EVP/Sr. Managing Director of Dev. & Real Estate, LCS Development and **Jesse Shetlar**, President, Performance Charter School Development, all participated in a lively discussion, spanning the dilemmas faced by both senior living and charter school organizations in the face of rising construction and development costs.

The panel began by addressing the core similarities between the two constituencies. Both Senior Living and Charter Schools are growing but specialized sectors, both driven by serving people. Financially, each sector sees participation from both Not-for-Profit and For-Profit organizations, both utilize public bonds, as well as seed funding. While both sectors are considered to be generally high yield, the Charter School sector has a positive rating outlook, while the rating outlook for the senior living sector is negative, largely driven by near-term headwinds.

Preparing for Growth

Chuck discussed the project lifecycle. Describing how we've now reached the point where projects that were of new vintage in the 1990s, are now, reaching the point where they require rehabilitation to bring them to modern fit and finish standards. Speaking to the choices required of a mature project, Chuck expressed assembling the right team, along with having a General Contractor in alignment with the community as key elements and that Master Planning is iterative, with each iteration circling in closer to the target.

Dan added that defining goals early can set up the project for success. If looking to downsize Skilled Nursing capacity, realignment can be done both through capital repurposing, including alternative utilization of space which could include workforce housing, among others, as well as through redeployment of staff into different roles.

Core Issues Faced

Jesse expressed that for Charter Schools, the number one issue is always facilities. With land, labor and material costs increasing, this is becoming ever more acute. Boards and management need to accept that "the cost is the cost" and explore alternate ways to increase revenues, perhaps through a greater number of students/classrooms.

Milestone benchmarking was another issue raised by **Dan**. Management can often get hung up on hitting specific benchmarks, rather than embracing a more holistic approach while designing in flexibility. Adding that supply chain timing remains a risk, largely eliminating the ability to operate "just-in-time", prompting many communities to purchase materials much earlier in the process, as well as looking

at external warehouse space or empty box stores, for their storage needs.

Timeline Considerations/ Managing Risk Exposure

Ken contributed that early work agreements can help reduce cost uncertainty as well as availability of labor. He also suggested, that to the extent a community has the cash resources available to beginning site-work prior to the issuance of debt to avoid accruing interest while site work is being completed.

Ken also emphasized the need to prioritize resources where residents will see and feel the results, and appreciate where their entrance and monthly fees are being spent.

Construction Cost Realities

All our panelists emphasized the difficulties faced by both Senior Living and Charter School organizations in the face of increased construction costs. **Chuck** explained that two years ago, construction averaged $200/sq. ft., while today they averages $340-400/sq. ft., with such marked increases requiring strict defining of needs/wants as well as potential phasing of projects. While the costs continue to increase, the reality is that due to demographic forces, both Senior Living Communities and Charter Schools will be serving a larger population in the mid-long term, meaning the demand for such products is not going away, despite the increased costs. **Dan** echoed the sentiments of the panel in expressing that both sectors have become more creative, and ultimately, more resilient, due to the COVID-19 pandemic, which required rapid, and frequent changes to approach. **Ken** added that he was routinely impressed throughout the pandemic and run up in costs, by the resilience and creativity of community and third-party professionals.

For more information about this session, please contact **Jim Bodine** and **Nick Roberts**.

Insights into Today's Financial Markets

HJ Sims was thrilled to welcome **Neil Irwin** to close our Late Winter Conference with a presentation on "Our New Financial Era" followed by an engaging question and answer session.

Neil is Chief Economic Correspondent at Axios, author of two books, former New York Times economic correspondent, and a frequent television and radio contributor. Needless to say, despite being the last session of the conference and competing against a sunny and 70-degree Florida winter day by the beach, Neil packed the house. Attendees were eager to hear his insights on the many changing trends facing financial markets and the economy, both currently and over the next several years.

Looking to the Past to Understand the Future

To kick off the session, Neil started his chat about the future with a look back at the past – the past 20 years, that is. The first two decades of the second millennium were defined by abundant labor, cheap capital, and "Free Lunch" (meaning those large government infusions during the financial crisis, Trump-era tax cuts, and the multiple government stimuli of the COVID-19 pandemic).

In the same time period, labor was abundant thanks to Baby Boomers hitting their prime working years, Millennials entering the workforce, and rapid globalization. For example, China, with the largest population in the world, joined the World Trade Organization, technology improved international connectivity, and imports of goods and services from the east to the west boomed. And an overabundance of working generations was easily able to support retirees and the aging population.

Lastly, interest rates have remained at record low levels over the past 20 years. Even as borrowing costs ticked up periodically in the mid-aughts and late twenty-teens, they did not approach the levels seen in the 80s or even the 90s.

This was largely driven by an excess of savings from the large working population. There was extra money to lend, making the cost to borrow it cheaper relative to other time periods.

Ultimately, cheap money, cheap labor, and generous government spending led to a 20-year boom period of production and economic growth outside of the great recession.

What's to Come

To discuss the economic outlook, Neil focused on how the conditions of the last twenty years are shifting dramatically. Our economy is not facing a downturn, recession, or even depression. It is facing an inflection point, and we are about to face a new normal, driven largely by our aging Boomer population and a shifting of global economic sentiment.

With Boomers retiring, our economy is impacted in several ways:

Our labor force has dwindled.

- *There are less people to work, across all sectors.*
- *Labor can be more selective, and many jobs go unfilled. This has already had a dramatic impact on our supply chain, impacting the prices of consumer goods all the way up to large CapEx projects.*
- *As the retiree population grows, the worker population supporting them is shrinking. As demands on our entitlement programs increases, contributions through taxes and FICA decrease.*

The savings surplus supplied by the Boomers is shrinking, making money more expensive.

- *When the Boomers were working towards retirement and saving, their money went into the market and was lent out in abundance at historically low rates. As Boomers spend down their savings, there is less money to be lent, leading to rising rates.*
- *Additionally, with inflation increasing the cost of living, Boomers and working populations alike are spending their money at a quicker rate. There is less money going into the market to be invested.*

While Neil does not have a crystal ball to predict the future, all visible signs point to a very different economy over the coming decades compared with what we experienced over the past couple of decades. Perhaps this translates into less growth, driven by higher rates and less available labor. Perhaps this slows the move to more isolationist policies, or perhaps drives countries to vertically integrate their supply chains even quicker.

While the future cannot be predicted, Neil left the audience with the advice to plan for significant changes and a likely much higher cost of doing business.

For more information about this session, please contact **Jimmy Rester**.

CFO Breakfast

This year's CFO Breakfast featured panelists from the for-profit, not-for-profit, and technology sides of the industry. The discussion focused on organizational strategies to achieve growth, competitive advantage, and combat the current adverse inflationary and interest rate environment. The panel consisted of:

- **Sara Dorr**
  Senior Vice President/Managing Director
  Capital Markets, LCS
- **Nick Patel**
  President, ThriveWell Tech
- **Charlie Shoemake**
  Chief Financial Officer, Sequoia Living

Competitive Advantages and Organization Growth

Both LCS and Sequoia are internally evaluating ways to improve efficiency of processes and overall performance. LCS has focused on centralization and standardization,

finding even small changes increasingly important, especially when applied at scale across its platform. For Sequoia, operational audits and repositioning the care continuum have been the focus. **Nick Patel** noted that from his perspective the senior care industry is 15 years behind acute care and other industries in terms of technology and systems, noting the need for organizations to pursue centralized Enterprise Resource Planning (ERP) systems, as many organizations lack the ability to analyze data efficiently, crippling decision-making.

Despite the tough environment, LCS sees growth opportunity in development and third-party management, and Sequoia is still aggressive in pursuing new Life Plan Communities and investing in affordable housing. All three organizations emphasized the importance of building relationships with staff, community partners, and residents.

The Impact of Rising Interest Rates

With rising interest rates impacting the entire industry, **Sarah Dorr** described both the internal and external impacts of rate increases. Internally, they are trying to reserve and use cash efficiently. Externally, they are seeing a slowdown in the mergers and acquisitions market and in new construction.

Charlie Shoemake noted that, while Sequoia has benefited from having fixed-rate debt, interest rates have constricted the pursuit of capital-intensive opportunities. Another interesting observation from Mr. Shoemake is the impact of the current housing market on occupancy, with Sequoia seeing an uptick in potential residents avoiding or delaying a move into Life Plan Communities given the amount of equity value trapped in their homes amidst falling or stagnating home values.

Nick Patel pointed out that the high-rate environment is forcing operators to look for efficiencies, which is where technology can be beneficial. He again stressed the importance of ERP systems as a starting point for successfully leveraging technology.

Looking towards the future, **Sarah Dorr** sees the need for a continued focus on standardizing processes and cash management. Additionally, in the current environment she sees relationships as paramount for new growth opportunities including new acquisitions and development.

Charlie Shoemake noted that from his perspective, mission vs. margin remains a primary issue for non-profit providers, and while cash flow is front-and-center, everything is important when analyzing efficiencies. This realization led to Sequoia's decision to undergo operational audits. All three panelists remain optimistic about the direction of their business despite the current headwinds.

For more information about this session, please contact **Brett Edwards** and **Ryan Snow**.

Rate Increases and Resident Reaction

Charlie Shoemake started the discussion with a recap of the strong pushback Sequoia received from its residents after implementing rate increases across its communities to counteract inflation and rising wages. LCS implemented rate hikes of 6-8% across the majority of its communities and had success utilizing focus groups to garner feedback from residents. Sequoia also found that spending more time explaining and educating residents on the impacts of inflation has been key in minimizing resident reaction. He noted that while many residents saw inflation in the news, they needed to educate residents on the specific impacts of inflation through higher wages and costs at their communities. **Nick Patel** echoed the need for rate increases, noting that wage hikes are inevitable and won't be going away, and as a result, resourcing has been critical. He mentioned robotics process automation as something clients have turned to for processes that require a lot of manual tasks, netting significant reductions in labor costs.

Preparing for an Uncertain Future

Nick Patel pointed out that much of the high-level change on the operations side, such as prioritizing data analytics, starts from the CFO position, as the CFO "holds the purse" and oftentimes acts in the role of the CEO for capital related decisions. He noted, in order to achieve those changes, the need for CFOs to question the status quo and always ask "why?"

Alternative Senior Housing Models – Active Adult & Mixed-Use Developments

This session featured senior executives from the for-profit and non-for-profit senior living sectors as well as a hospital marketing executive discussing the state of and the continued rise of active adult and mixed-use development models. The panel included:

- **Matt Pyzyk**
  Green Courte Partners, Managing Director
- **Boris Henderson**
  Aldersgate, Chief Strategy Officer
- **Frankie Pane**
  GSI, President
- **John Guthrie**
  Vice President, Corporate Communications & Executive Director, Healthy Communities, Halifax Health

Defining the Active Adult Consumer

The panel opened with a discussion on defining the active adult consumer. The session hosts pointed out that more people are aging into the 65+ group than those younger than 65+. Baby Boomers, as a generation, stretch in age from 59 to 77, yet are often considered as one large consumer group.

John Guthrie opened by presenting polling questions to the audience and reviewed the results to get a feel for the general perception of the active adult product offering. Questions included; is your organization considering the inclusion of active adult products in your continuum? If so, why is your organization considering active adult products? What is the timeframe for the inclusion of active adult products in your organization's continuum? And why do you think more prospective residents are considering moving into an active adult community?

Overall, results included the fact that many are considering the inclusion of active adult because of the consumer demand and plan to do this in the near to short term. In addition, the perception of why residents would move into an active adult community is for the social interaction and to be around like-minded people of the similar age.

Understanding What the Active Adult Consumer Wants

With a better understanding of who the active adult consumer is and will be, the discussion turned to what that specific consumer will want in the future. **Boris** led this discussion with his conclusion that these consumers will want choice on amenities, meals, etc., and a lifestyle focused on experiences and multigenerational living. As part of this discussion, **Boris** also emphasized the role equitable housing plays in their mixed-used strategy, concluding that given the housing stock around their campus, they had to make a commitment to the entire area rather than just their campus.

Echoing Boris' comments of the role of active adult in the senior living spectrum, **Matt** remarked that although the consensus early on was that active adult and CCRCs could be competitors, they have found them to be complementary. Likewise, **Frankie** commented on the feasibility of a "hub and spoke" model with the well-located Life Plan CCRC at the center and surrounding active adult communities help feed occupancy as residents need more services.

Frankie Pane provided commentary of how historically, the independent living offering was bundled and/or part of a CCRC offering; however, about 7 or 8 years ago, the "new" thing of active adult popped up, but many organizations, like Frankie's organization had already been doing active adult for nearly 30 years. They had discovered years ago that people wanted choices. **Matt Pyzky** echoed these comments by explaining that his organization currently have several types of communities in their ownership portfolio and that the future of active adult, and senior housing more broadly, would be about providing consumers with options. **John Guthrie**, whose organization has partnered with Jimmy Buffet's Margaritaville in Florida to provide health services, explained that being a provider of choice for Margaritaville has created a mutually beneficial relationship leading to stronger relationships for both organizations. A lot of the time the decision to move into a new retirement community is made not only by the perspective resident(s), but also by the family. By offering a healthcare partnership at Margaritaville, many younger family members can find comfort knowing that mom and dad will not only have the amenity rich environment of the community but also the health services they may need. **Boris Henderson** expanded on the role of strategic partnerships through his discussion of Aldersgate's master planning process and decision to build more affordable rental senior apartments as part of their overall campus strategy.

Doing Active Adult Well

According to the panel, as a relatively new category of senior living, plenty of operators have entered the space from the multifamily or senior housing side and struggled. Though less labor-intensive than senior housing, residents still expect a higher level of employee interaction than a typically multifamily community delivers. **Frankie** believes that the groups who have succeeded, and will continue to, will be those operators who are "hyper-local" and niche focused. Tomorrow's consumers want choice. **Matt** noted that the majority of our population's wealth is held by the active adult target age group and they will have to be enticed to move to these communities. One way to do this, as **John** pointed out, is to indicate through productive partnerships that these communities are part of the broader community. This can be done through partnering with local preferred healthcare providers, food purveyors, or community organizations with the goal of creating a "small-town" feel. Boris notes that these sentiments cut across income and demographic lines – all seniors are going to want more choice and the ability to feel at home.

For more information about this session, please contact **Brady Johnson** and **Brady Richardson**.

The Growing Demand for Intergenerational Housing & UBRCs

The senior living sector is witnessing a paradigm shift as more Baby Boomers enter the senior living market. These new entrants bring different expectations and preferences than the generations before them. Several studies have shown that older adults want to remain in cities and urban neighborhoods that have a strong sense of community. In addition, many prospective senior living residents want lifelong learning opportunities and intergenerational learning experiences that require a less self-contained senior living experience. Sims invited three panelists to discuss this trend towards intergenerational living and why more older adults expect these opportunities in senior living communities.
The panel included:

- **Donna Butts**
  Executive Director at Generations United
- **Amy Harrison**
  Chief Financial Officer at The Kendal Corporation
- **Elizabeth Robertson**
  Board President at Purchase Senior Living Corporation

Donna Butts, Generations United

The first panelist, Donna Butts, is the Executive Director at Generations United, a non-profit that advocates for intergenerational collaboration opportunities. Donna began her discussion with an overview of the key benefits of intergenerational housing. **These benefits include:**

- *Creating a vehicle to bring generations together*
- *Increasing social, recreational, and volunteer opportunities that build a sense of community*
- *Improving community infrastructure and facilities*
- *Reducing age-segregation and ageism*
- *Decreasing social isolation, depression, and loneliness*
- *Creating additional supports for aging in place*
- *Creating a more caring society*

She noted that most people want these benefits, with 2 in 3 adults wanting to spend more time with people outside of their age group. Further, 92% of Americans believe activities that bring together different generations can help reduce loneliness across all ages. In a senior care setting, more than 4 in 5 people would prefer the opportunity to interact with people of different age groups over a single age group.

These expectations also coincide with a trend towards multigenerational households. The number of Americans living in these households has nearly quadrupled in the past decade (a 271% increase). Moreover, this trend is likely to continue with over 72% of people planning to continue living in a multigenerational household long-term.

Donna touched on the various types of intergenerational collaboration opportunities ranging from apartments designed for multigenerational families to intergenerational home sharing and university based senior living communities. She pointed out that the best spaces for these opportunities are in common community places, especially senior centers and schools. Over 62% of Americans believe that these sites represent the best opportunities for children/youth and older adults to interact.

Amy Harrison, The Kendal Corporation

The second panelist, Amy Harrison, is the Chief Financial Officer at The Kendal Corporation, a non-profit senior living provider that assists with operating several affiliates across the country. Two of Kendal's key values are lifelong learning and intergenerational connections. These values are especially shown in their Kendal at Oberlin community, which is on the campus of Oberlin College in Ohio. Many of their other communities also have close collaborations with universities located near their campuses, such as Cornell University, Washing and Lee University, and Dartmouth College. Amy discussed how Kendal approaches developing university partnerships from the initial feasibility stage to implementing the partnership.

Step #1: *Initial Feasibility Study*

Amy explained that the first step in establishing a campus-based life plan community is to develop a feasibility study. As part of this analysis, all stakeholders should be involved and represented from the beginning to build consensus. The final product of this stage is an articulated vision and program that is informed by market research.

Step #2: *Concept Validation*

The second step involves validating the concept from step one. The working group at this stage should finalize site due diligence, a preliminary plan of finance, and negotiate any land term sheets with the university. The result of this stage should be finalizing a seed money financing package (if necessary) and any university-related agreements.

Step #3: *Movement Toward Implementation*

Amy noted that step three's key goals were to complete any other necessary approvals including land use approvals. Further, the marketing campaign should be initiated and schematic plans and site plans finalized.

Step #4: *Implementation*

The final step in Kendal's process is executing the plan. At this stage the construction documents would be finalized and the project would be financed. The end result would be a new life plan community on or near a university campus.

Amy ended her discussion by explaining that these partnerships bring mutual wins for the senior living community and the university. On the university side, students can have access to new internships or student projects, as well as career/workforce development opportunities. The senior living residents have access to life-long learning opportunities and the ability to have intergenerational experiences. Each of these mutual wins enriches the student and resident experience.

Elizabeth Robertson, Purchase Senior Living Corporation

The final panelist to present, Elizabeth Robertson, is the Board President of Purchase Senior Living Corporation, a non-profit that is developing a life-plan community (LPC) on the campus of the State University of New York – Purchase College (Westchester County, NY). The Broadview at Purchase college will include 176 independent living apartments, 46 independent living villas, 36 assisted living/memory care units, and 52,000 square feet of commons space on 40-acres leased from the State of New York. As part of the lease with Purchase College, the community will fund student scholarships and faculty positions. The community is also required to have 20% of its units be reserved for affordable housing (income < 80% of area median). Elizabeth discussed the vision for the project and provided advice for others that are looking to start senior living communities on university campuses.

Elizabeth started off her discussion by providing an overview of the rationale behind starting the Broadview. She noted three key rationales:

- *Financial: Broadview will support the College by funding scholarships and faculty positions.*
- *Cultural: Broadview will provide new audiences for the College's museum, performing arts center, and student and faculty performances.*
- *Academic: The ability to introduce intergenerational curriculum and design new courses/programming.*

Next, she discussed how Purchase College translated this mission and vision into reality. The College set up events for both the students and prospective residents before opening the campus to build up support. A charter member program was started that brought future residents on to the campus. They also provided these members with student IDs and email accounts for access to academic and athletic buildings. On the student side, they set up orientation programs and town halls to educate students about the new community. The College also updated their website to include a section on Broadview to better integrate marketing and public relations efforts.

Elizabeth ended her remarks by touching on the commitments each side (the LPC and the College) made to intergenerational living to make the project feasible. Broadview is building a 10,000 sf multi-purpose commons that will be equally accessible to students, faculty, and residents. The LPC will also employ students on the campus. Purchase College provided dedicated administrators including a Vice President for Intergenerational Learning. The College's President and CFO sit on Broadview's Board as well. Finally, The College developed a Memorandum of Understanding with Broadview that ensured that future senior living residents would be an integral part of the College's community.

For more information about this session, please contact **Andrew Nesi**.

Determining Value – Affiliation & Acquisition Trends

This session featured leaders from three organizations with widely varying roles in the senior living sector and focused on sharing their approach and outlook with regard to affiliations and acquisitions. The panel included:

- **Jesse Jantzen**
  President & CEO of Lifespace Communities
- **David Kliewer**
  Vice President of Senior Housing and Investment Sales Group, Grandbridge Real Estate Capital
- **Nick Wilson**
  Director of Finance at ALG Senior

Effects of Changes in Capital Markets

With the substantial rise in interest rates occurring in 2022, the session began with discussion around how the M&A environment changed as the year progressed. **David** noted that overall volume in the sector was approximately $9.7 billion, about half of 2021 volume. The second half of 2022 saw significant slowdown as the bid/ask spread between buyers and sellers widened, particularly for stabilized properties. With the more constrained financing environment causing pressure on returns, valuations are reduced and capitalization rates are increased by about 100 bps, though slightly less if the property is majority independent living.

Operating Environment Challenges

Higher labor costs and occupancy levels that have not yet returned to pre-COVID levels are driving increased conservatism in buyers' underwriting. **Jesse** emphasized a strict internal underwriting process that Lifespace follows as they evaluate opportunities, including occupancy assumptions that are no greater than the recent performance of the community. In light of the operating headwinds, Nick has increased his focus on understanding the reputation of the seller in its local market, as it is exceptionally difficult to meaningfully increase occupancy for a community with widespread negative perceptions.

Rise in Distressed Opportunities

In his sell-side role, **David** has seen a decrease in sales of stabilized properties, as those would-be sellers recognize that they can likely generate greater returns in the future once the market turns. In parallel, there has been a sharp increase in properties with defaulted debt seeking to sell.

Jesse has reviewed a number of distressed properties over the last 18 months and has observed that many of these organizations are waiting far too long to raise their hands, and by that point their financial and operating position is deteriorated to a level beyond the risk profile Lifespace is comfortable with. **Nick** has also pursued several distressed opportunities that have not been panned out. Two key questions he is interested in are the reasons for distress and understanding if the timeline for recovery is manageable.

Growth Plans and Outlook

Nick shared that ALG continues to actively seek to grow through a combination of acquisitions and new development. While many organizations have stepped back from construction in this environment, ALG remains bullish and are able to avoid inheriting design issues that today's consumer dislikes, such as semi-private rooms. From a demographic standpoint, there is likely still another decade before the Baby Boomers represent a sizable portion of residents, so a key challenge for **Nick** is managing the typically 5-year relationships with lenders while taking a longer-term view to be prepared to serve the Boomer generation.

In the near-term, **David** expects to continue placing a premium on minimizing execution risk for his clients given the current financing and economic environment. He has also seen an increase in the number of potential buyers who recognize the favorable demographic trends and the diminished availability of new product.

Lifespace's highest priority at the moment are its existing communities, with several expansion and repositioning projects in progress or in the works. The organization does not have artificial growth goals and is seeking opportunities, whether selling or buying, that meet their criteria. While Jesse is cognizant of migration trends and demographic growth on the horizon, he is not in a rush to get ahead of those trends. Part of their future growth is expected to include diversification towards more rental properties along with initiatives away from the bricks-and-mortar.

For more information about this session, please contact **Curtis King** and **David Saustad**.

Managing Margin Through Outsourcing and Growth of Ancillary Services

Our panel, moderated by HJ Sims' Lynn Daly, consisted of three individuals who provided their insight on the ongoing growth in ancillary services. **Jamie Timoteo**, a Principal at Plante Moran Living Forward, **Joe McDonough**, Executive Chairman at MPAC Healthcare, and **Joan Punch**, President at Senior Options, collectively shared their experiences in the ancillary service fields. Their mission was to provide insight on how ancillary services can be integrated into both for-profit and non-profit providers. Home and Community-Based Services (HCBS) are becoming more relevant to providers, making up an increasing portion of gross revenues, with several communities making more money outside their walls than inside.

Approach to Pricing

Jamie Timoteo shared insights on how to approach pricing. He believes the most effective method is the cost accounting approach, which means knowing what the total cost to provide to a consumer. Pursuing this style of analysis, you want to be conscious of three things; accurate pricing analysis, pricing based on time to deliver a service, and opportunity

for improved delivery of service. The objective of a pricing analysis is to confirm that the pricing and fees collected for the rent and service packages offered to residents are consistent with the costs associated to provide the care. This breakdown should be detailed. This gives owners and operators the information necessary to realign revenue and expenses based on real time data and information. Jamie gave an example of breaking down the staffing hours needed to provide the various incremental levels of care in Assisted Living – ensuring that you're charging enough to cover the cost of providing the additional care. Performing a study such as this spawns discussion about what services to provide and, if applicable, which to avoid. It is important to note that one should not base pricing solely on competitive property analysis. Finally, reviewing the pricing model annually is important because the workforce shortage may influence labor costs.

Outsourcing and Growth of Ancillary Services

Joe McDonough shared new ways in which one can provide ancillary services. His strategy for ancillary services is reduced to a simple equation: Capture Ancillary Revenue/ Margin Streams + Control Episodic Cost = Value Based Payment ("VBP"). In reality, all providers must understand their episodic cost impact and their footprint to survive in the VBP World. In this competitive market, the entities that pay for your services are analyzing the value that you deliver to them. Therefore, as an owner your ability to capture margin on new ancillary services lines must strategically sync with a cost footprint that delivers quality patient outcomes more efficiently than your competitors. Joe strongly highlighted the importance of tracking patient / resident Episodes of Care. If a patient / resident has an episode, it creates a beneficiary trail to the facility and operator, which means they must be aligned with the correct medical providers to avoid a trail with high costs and poor-quality outcomes. For example, if a patient / resident is displaying a negative change in condition, a smart owner will align with or own the high-quality ancillary services needed to treat the patient / resident on-site instead of sending them out to a higher cost setting. In summary, owner operators should view the capture and control of ancillary service line margin as a part of its larger strategy to position facilities as providers of value-driven services.

Growing and Diversifying Ancillary Services

Joan Punch noted the importance of home and community-based services (HCBS), specifically Home Health care and Hospice. This emerging market creates a great opportunity to diversify revenue opportunities, especially in the lower- and middle-income demographic. Joan strongly suggested that you should bring in a subject matter expert like Senior Options that can provide services such as Operational resources, health information technology, revenue cycle management, financial modeling, quality/compliance, clinical resources, and sales & marketing

support. Providing HCBS can further strengthen your post-acute strategy, leverage reimbursement to serve seniors at their point of need, and further position your organization's brand as a full continuum of aging services.

The first step in discovering what is possible for your community in Home Health and Hospice, is to obtain a detailed feasibility study for these services for your geography. A demand analysis is important to show referral patterns and the potential for market share in your service area and assists you in creating your financial projections. In summary, Joan noted that it is important to lean on the experts that are available and utilize shared services to help your organization succeed in these vital business lines.

For more information about this session, please contact **Lynn Daly** and **Brock Bagelman**.

Let's Hear from the Leaders

This year's panelists, **Pilar Carvajal**, CEO & Founder of Innovation Senior Living, a for-profit provider, **Catherine O'Brien**, Vice President and Director of the Mather Institute, the research and innovation arm of Mather, a not-for-profit provider, and **Terry Spitznagel**, Senior Vice President of United Church Homes, a not-for-profit provider, participated in a lively discussion across a variety of topics, as summarized below.

Innovation

Catherine O'Brien noted that Mather Institute (the research and innovation arm of Mather),is researching the importance of purposeful roles and engagement in life. They have discovered that a sense of purpose leads to fewer chronic conditions, longer life, and a litany of health benefits. As a result, Mather is incorporating this concept into its upcoming Tysons Corner community, and considering this in new partnerships and affiliations. **Terry Spitznagel** echoed that sentiment, pointing out that UCH has not been content with just tweaking its models; everything they are doing now is based on what customers want and throwing out precedent, something unlikely to happen if not for the incredible disruption of the past few years. **Pilar Carvajal**

described Innovation's current vision which is to make middle-market commonplace, which she found concerning since the industry is not there yet and has failed to serve a growing demographic and address a pressing societal issue.

Demographics

A major point of agreement among the panel was the importance of accounting for generational differences as a care provider. **Catherine O'Brien** described how two thirds of depositors in Tysons Corners are baby boomers or Gen X, which has led to a shift in preferences among residents. Boomers have a desire for choice, autonomy, control, and being aligned with certain moral/political values, meaning there is now a need to create programs, technology, and resident contact with these preferences in mind. **Pilar Carvajal** added that not all baby boomers are teeming with money. She explained that frugality when considering senior care options is more important to boomers than with prior generations, and Innovation's affordable models are able to attract these individuals who can pay a lot but are very frugal.

The Middle-Market

Pilar Carvajal characterized the middle-market as a critically important yet vastly underserved space. She noted that, in the past, many middle-income seniors were attracted to a public housing/subsidized products due to a lack of middle-market options and too much focus on low and high income. She described the typical person as having income of about 90,000 but with assets that would disqualify them from Medicaid. She also noted that generational differences between boomers and prior generations further complicate the middle-market. Terry Spitznagel noted that the middle-markets were COVID-proof in terms of occupancy strength, and workforce wasn't a problem either, which is a testament to the tremendous opportunity in that sector. She brought up senior rentals as big success, being customizable and satisfying the great need among resident for choice.

Lessons Learned from the Pandemic

Catherine O'Brien pointed out the results of a resident study, which found that sentiment has shifted to be trending more positive in the post-pandemic era. **Terry Spitznagel** noted that the pandemic has accentuated the importance of social engagement, safety, and establishing a sense of purpose through communities or services. She described a new UCH middle-market project that has a heavy focus on facilitating social interaction, a design that never would have been considered were it not for the pandemic. **Pilar Carvajal** noted that the pandemic pushed the narrative that communities are competing with home health, which is really an indicator of the lack of middle-market options.

Growth

Terry Spitznagel described the tremendous financial growth at UCH last year despite macroeconomic headwinds. She also described three projects under development: a townhome model from a for-profit developer, a greenfield-type design, and a historic renovation with an LBGT+ focus. Each is very different from the others, yet all have the goal of growth that serves the customer. **Pilar Carvajal** also pointed out one of Innovation's unusual projects of converting a trailer park into a community. She explained that there is opportunity to acquire communities from experienced operators who are looking to exit the industry in the post-pandemic world. Among all of the panelists, there was a tremendous sense of optimism with regards to growth.

For more information about this session, please contact **Tom Bowden**.

Deal Preview

HJ Sims' Education Finance team kicked off the conference early in the morning with a breakfast session to preview a handful of schools and their anticipated financings for the early part of 2023. With multiple institutional accounts represented, prospective investors got the opportunity to hear from school leaders about the history and strategic direction of their organizations and ask stimulating questions. Dynamic conversations unfolded throughout these various presentations that provided not only a window into the contemplated financing needs, but also a broad range of educational programming and management approaches.

The schools showcased insightful commentary on multiple aspects of their organizations including founding stories, charter authorization and renewal history, waitlist and enrollment trends, unique curricula as well as high-level future growth and development plans. Multiple states were represented which provided conference attendees with insight into the diverse charter school landscape across the country.

Our team is eager to work with these schools and others in 2023 to help them obtain financing. Heading into its second year, HJ Sims' Education Finance team has continued off of the momentum built in 2022 and looks ahead to a strong and growing pipeline of financings for education providers across the nation. The Education Finance team finished 2022 having completed 10 transactions totaling over $200 million in par. HJ Sims is committed to the education space and as our pipeline grows, so does our ability to serve and invest in our communities.

Times They Are A-Changin' – Changing Trends in the Industry

A Look Back at the Big Trends

Tom Torkelson is the founder and CEO emeritus of one of the largest and most successful charter school networks IDEA Public Schools. Most recently, Tom worked with one of his longtime partners to acquire and take over a management organization based in Florida that manages 18 schools for BridgePrep Academy.

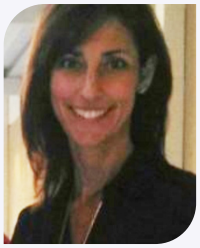
As moderator, Tom made opening remarks about the four big trends that charter schools have been through since their inception over 25 years ago. He defined the first phase as the beginning of the modern education reform movement, when Teach for America started in the 1990s. Charter schools have been their close cousin and received huge support in the 1990s politically, finding proponents in President Clinton and then Governor George W Bush.

Phase 2 of the movement started seven or eight years into the charter school experiment. Charter schools serving families with low incomes began seeing their students outperform district schools by double digits, and in some cases triple digits. A flood of philanthropy came in.

Later in Phase 3, bond financing and the bond market was beginning to provide the capital that were needed for school buildings. Charter management organizations proliferated, and the controversy around charter schools began – with the rhetoric on corporatization of public education. Fundraising and support were bountiful, coming from sources such as the Bill & Melinda Gates Foundation, as well as the federal programs and the Department of Education, which further intensified the opponents of public charter schools.

In the current era, Tom believes charters enjoy a more neutral position. $750 million invested by former Mayor Mike Bloomberg into charter expansion, ESSER funds coming to an end, and budget shortfalls caused by lower attendance or overstaffing are a few recent developments. The promise of what charter schools can do for students is what keeps him feeling positive about the direction of charter schools.

Exciting Innovations in the Charter School Space



Jennifer Lucas is the Chief Academic Officer for Alliance Education Services, a 401c3 charter support organization. Jennifer works with schools in the incubation and startup phase, supports ongoing operations for charter schools, and helps with rescuing failing charter schools. Jennifer is excited about charter schools realizing the importance of parent partnerships, and community and business support. Amidst COVID, charter schools saw the lack of partnerships and resources as compared to larger districts in areas like sharing transportation and servicing students with disabilities.

Wendy Berry is an Investment Principal with the Equitable Facilities Fund which is a not-for-profit organization that assists high performing charter schools. Wendy is most excited about the early college programs that provide

for a specific associate program through a mix of high school classes and college classes. Students will graduate not only with a high school diploma but also an Associate's Degree and typically a certification. Families will save on two years of college costs, and students are typically going to go on to four-year schools. There are over 200 across the country, though not many that are charter schools but certainly growing.

Richard Moreno with Building Hope is the President of Services. Building Hope was created in 2003 to fill the facility financing gap for charter schools and also provides financial advisory and back-office services to about 70 schools currently. Rich believes the ability to give the parents' choice is the most innovative aspect. He's seen a range of approaches including classical school education model, Montessori, Career Technical Centers that cater to First Responders specifically, schools that provide certifications in marine mechanics, etc.

Jess Monk is the Chief Operating and Finance Officer at Victory College Prep, a K-14 charter school in Indianapolis, Indiana. The school offers a robust college and career readiness program where over 99% of seniors graduate and 100% of seniors are accepted into college. Jess is most excited about cross sector collaboration, with one of the main benefits being that they use health data to improve academic success for students. If students are sick or stressed, their academic performance suffers. Using nurse data to identify those students earlier, instead of waiting until testing to find out who is behind, the school provides academic support the second time a student goes to a nurse for social determinative health. Jess credits improved middle and end of year test scores to these methods. This also helped identify students that need to be seen by a counselor or other mental health professionals a lot quicker before problems manifest in other ways.

Avani Parikh is Senior Director and the Analytical Manager for the charter schools' team at S&P Global Ratings. She co-leads a team of around 20 analysts who cover almost 350 charter school ratings, representing almost 1,500 charter schools across the country. An innovation that Avani has seen is charter schools that have partnered with health organizations to offer clinics on their campuses. KIPP Cooper Norcross, located in Camden, New Jersey, has partnered with Cooper Health as well as local dentists, food banks, and other community providers to offer services to students right on their campus, reducing time out of school. Trinity Basin Preparatory, a network in the Dallas area similarly has partnered with a federally qualified health organization, and a non-profit dental organization called Miles for Smiles. Dental visits are also provided to parents and the whole family. The theme of partnership makes it possible to not only educate the whole student, but also support the whole student as they move through their educational career. From a credit perspective, the impact on academics can support demand and enrollment.

Political Trends at the City, State, and Federal Levels

Jennifer shared her personal experience as a parent looking for educational options for her children, noting that she believes parents vote with their feet when it comes to charter schools.

Jennifer also shares some figures. Since 2005 attendance in charter schools has doubled and enrollment has tripled today. There are 3.7 million students in charter schools, and between 2019 and 2021, 1.4 million children withdrew from regular public district schools. Approximately 250,000 kids went to a charter school, many went to private schools, and others may be homeschooled. Charter school parents are more likely to be registered Democrats than Independent or Republican. Overall, Jennifer believes there's still not enough charter schools and enough seats at those schools for the number of parents who want their kids to be there.

Avani shared information by state on funding, the authorizer landscape, political updates, and possible legislative impacts. With ratings in 26 states and DC, she discussed select states including New York (talk of lifting charter caps), New Jersey (facilities funding for particular types of schools), Pennsylvania (governor favors school choice), Michigan (historic funding cuts), California (AB1505), and Texas (PSF).

Avani also discussed the wave of universal access of funding for school choice. Arizona provided $7,000 per student, and other states that also provides this or have proposals to include Iowa, Utah, Arkansas, Oklahoma, Texas, Kansas, Ohio, Wyoming, and Florida.

Rich Moreno took up the Florida discussion and shared that a House Bill could eliminate the cap on vouchers. He sees political pressure to increase the capital of funding for charter schools this year as charter schools in Florida get about 70 cents on the dollar to traditional public school with the shortfall mainly coming from that capital side. He also credits Florida's surplus as a good base for stable funding. Rich believes the vouchers will separate the quality charter schools from those that are not.

Serving Community Needs

Jess expanded the definition of a school community to not just what or who is within the school walls, but who is within their neighborhood. She recommended schools build into their culture an expectation that staff is going to volunteer at a certain number of community events every year. Schools can share a wealth of services within their four walls that are very accessible to the community with very little effort on the school's part. Ideas include creating Wi-Fi hubs, opening health clinics for immunizations, providing a venue for community events, etc. These opportunities give the community time to get to know school and its mission better.

She also points out that schools have a direct line to the local government that neighbors do not necessarily know how to access. With issues like sidewalks or street lights during neighborhood meetings, the school's direct contact to city council, or the mayor's office can help make change happen a lot faster than a Grassroots campaign.

Wendy discussed a trend of career and technical education blending with community service, and with nursing high schools, the first of which were established in Rhode Island and formed a CMO. The schools are equipped with hospital beds and equipment, students volunteer in the community and get hired in nursing homes and other healthcare facilities. Wendy also sees more focus on diversity, inclusion, and equity, with authorizers are taking note when teachers and staff are not as diverse or representative of their student population.

For more information about this session, please contact **Rich Harmon** and **Shannon Falon**.

Anatomy of a Start-Up School

Starting a new charter school is not for the faint of heart. This years' attendees had the privilege of hearing from a few school leaders who are either in the thick of planning and instituting a new charter school or are just on the other side of beginning their first year as a school. Three school leaders, accompanied by two industry professionals, were led in a panel discussion on the topic of starting a charter school. Justin Matthews, Chief Operating Officer at Alliance Education Services, Inc., guided the panel through a host of topics ranging from the designing and implementation of a strategic plan to the execution of placing the right leaders at the helm and getting students in classrooms.

The panel included **Kevin Dobson**, Founder and Executive Director of Capital College & Career Academy; **Derec Shuler**, Chief Executive Officer of Ascent Classical Academies; **Dr. Jed Hartings**, Board President of Cincinnati Classical Academy; **Peter Courtney**, Managing Director at Greenwich Investment Management; and **Joffrey Clark**, Principal and Leader of the Charter School Practice within EPIC Insurance Brokers & Consultants.

The conversation began with a poll on what audience members thought was the #1 issue for a start-up. What followed was a dynamic discussion between moderator, panelist and audience centered around the core elements of facility, enrollment, budget, operations and governance.

How You Start is How You Go

Budget and capital management is of chief concern in those first years of planning and opening. Start-up capital can be hard to come by, and therefore must be stewarded with precision so that it is used most efficiently and effectively.

The decisions made at the outset will determine the school's path for years to come, so it is vital for the board to have frank discussions on what the mission of the school will be, and beyond that, the vision. The team put in place from the start, said **Dr. Hartings**, must be uniquely qualified to steer the organization through the first couple of years. As a board chair of a new school, Dr. Hartings was emphatic that the most important decision a start-up board makes is choosing the school leader. The individual chosen to lead the school will be responsible for carrying the organization through the transition of start-up to its full implementation. As we learned in this panel discussion, it can be a very difficult and emotional thing for board members to take their hands off of the wheel once the school gets started. Having a school leader that can effectively facilitate that transition/evolution is essential.

The team that starts the school need not necessarily be the team that runs the school, especially in relation to the board. **Kevin Dobson** and **Dr. Hartings** reiterated this and spoke about the importance of transitioning from a founding Board to a governing Board. Kevin also emphasized the need for good partners and constituents among the community, the City, consultants, members of the Board, etc. to advocate on behalf of the new school and to help secure necessary approvals along the way.

The Secret Sauce (Hint: There is None)

The characteristics of a charter school are many and complex. Every credit within this market is dependent on a multitude of factors that change based on region, state, curriculum or intended demographic, and size. When analyzing a start-up charter school credit, **Peter Courtney** argued that the focus is on the more qualitative metrics of the organization's board management: their vision for the school and their financial know-how to get an organization through its capital needs, or more specifically a successful debt financing.

How a school opens drastically impacts the ability of the school to operate and educate students over time. One of the biggest responses to the initial question of what plagues charter schools in their early years of operation were problems with budget and operations. Without proper funding, start-up charter schools have a very difficult time getting off the ground. Despite the ample track record of success in charter schools relative to the more traditional public school model, there continue to be significant headwinds for charter schools seeking that initial capital to get off the ground.

Unique, Just Like Everyone Else

Joffrey Clark gave some helpful insight into the core risks involved with start-up charter schools. Schools, he said, are more of a target for cybercrime than financial institutions. In addition to cybercrime, start-up charter schools deal with many of the same risks other organizations are facing today. The COVID-19 pandemic shed a light on some of the significant factors at play for schools of choice. As seen in many other sectors, rising construction costs and erratic timelines have highlighted the need for start-up schools to be nimble with their vision while maintaining the core aspects of their mission and staying true to what makes them unique.

Derec Shuler reminded the audience, as with any new endeavor, when starting a school, ask for help. He mentioned the benefit of seeking for and receiving help from others during those planning and establishment years. Many foundations and institutions exist across the country that specifically serve to educate and resource schools of choice. HJ Sims is proud to be one of those institutions and highly values the work we do to help schools of choice get up and running.

Board Governance Best Practices

Charter Governance – Why the Historic Mishandlings?

With leadership roles in traditional public-school districts, turnaround charter schools, large charter school management organizations (in-state and out-of-state management) and many other examples in his thirty-four-year career, **Dr. Alan Seay** brought invaluable lessons and experience to the Charter School Board Governance session. Dr. Seay opened the session by describing how non-profit boards, and charter school boards in particular, can often exhibit dysfunctionality.

There are various reasons to explain governance missteps taken by those making decisions for charter schools. The board positions are volunteer in nature, and board members are often related to charter founders in varying degrees, leading to conflicts of interest. With conflicts of interest, it is hard for board members to hold the to hold founders and management accountable. Even if conflicts of interest do not exist among board members, the backgrounds of board members tend to be strong in nature but from outside from the education sector. Charter school board members frequently don't have experience serving on other charter school boards or experience operating a charter school. One quote that stood out from the presentation included "Boards tend to be… incompetent groups of competent individuals." Dr. Seay continued the session, pivoting away from mishaps and provides a story arc outlining the foundation for successful boards to consider.

Responsibilities and Functions of a Charter Board

The Board of Directors (the "Board") of a charter school are often the foundation for a school's long-term viability. Dr. Seay explains that there are three essential functions to a Board 1) serve as a school board and hire staff that can drive curriculum; 2) serve as a quasi-governmental board given the nature of the operating revenues; 3) serve as non-profit board and comply with fiduciary responsibilities. A Board has to wear several proverbial "hats" and see various decisions through multiple lenses in order for the organization to succeed.

In line with the functions that are necessary to lead a charter school, there are three primary fiduciary duties that are the bedrock of a functioning board:

- *Duty of Care – know the role and responsibility of being a board member and take the position in earnest. A board member can adhere to this fiduciary duty by simply showing up to meetings on time, being prepared, and asking questions.*
- *Duty of Obedience – understand the rules and regulations surrounding charter school operations. In particular, it is important to know state regulations and compliance procedures.*
- *Duty of Loyalty – prioritize the students. When decisions are made, the results need to benefit the students. Dr. Seay noted that the Duty of Loyalty is the most common shortfall of a board when making decisions for charters.*

These Duties are just the baseline to meeting legal and fiduciary responsibilities. In order to truly be effective, a Board must adhere to a higher level of standards.

Highly Effective Board Governance – Six Standards

To further emphasize the standards for quality governance, Dr. Seay continued to provide general standards observed in successful Charter School Boards.

Relentless Focus on Student Achievement – the foremost function of a charter school is to educate children. Successful boards achieve the mission of the school, the mission of the charter, and create benchmarks to capture progress made in the classroom.

Ensure Exceptional School Leadership – Boards need to understand that the selection of a school leader can be the single most important decision made by a governing body of a charter school. Beyond the initial selection, the board needs to support the school leader and evaluate their success.

Commit to Exemplary Governance – build and maintain a high-functioning and engaged board of directors. Charter schools have an advantage over traditional public schools because they can appoint board members.

Act Strategically – it is the responsibility of the Board to determine strategic direction, but it is up to management to execute upon the plan. There should be a balance between oversight and management.

Raise and Use Resources Wisely – Board members should be familiar with financial statements, enrollment reports and other operating statements. Board members should also take an active role in fundraising.

Maintain Legal and Regulatory Compliance – minimize risks and understand/comply with all legal and regulatory standards.

In Conclusion

Dr. Seay's message is that abiding to simple fiduciary guideline can help an organization succeed. Wrapping up the presentation, Dr. Seay shared the following quote that illustrated the importance of the role that Boards play in determining the success of charter schools. "If you've seen a charter school that was clearly advancing on its mission and increasing academic achievement, you can be certain that a high performing board is hard at work in partnership with the school leader. Time and again, there is an irrefutable connection between the effectiveness of the board of directors and the success of the school."

For more information about this session, please contact **Seth Wagner**.

Charter School Partners In Disclosure - Investor Relations

On Thursday morning's Partners in Disclosure session, a panel of two investors, a CFO of a charter network, and back-office specialists that perform financial and accounting work discussed the topic of investor relations: the act of communicating timely and relevant information to investors.

The session discussion aimed to help schools understand why continuing disclosure is critical, what investors are interested to know, and some practices that will help make this process smoother on both ends. The expert panelists included **Bobbi Gajwani**, Senior Director and Research Analyst with Nuveen; **Zachary Donahue**, CFO of Charter Success Partners; **Daniel Lee**, CEO of ICON School Management; **Gayl Mileszko**, Senior Vice President and Director of Credit Analysis with HJ Sims; and **Wyatt Truscheit**, CFO of SMART Management. The session was moderated by Alan Wohlstetter, President of School Improvement Partnership.

What Information Needs to be Shared?

From her perspective as a buy-side research analyst, **Gayl Mileszko** explained that the information in which analysts base their opinions is only as good as what they have access to. In the municipal market, emma.org ("EMMA") serves as a website that provides material information from the 50,000+ CUSIPS in the market. The goal of EMMA is to promote a more transparent and efficient market. Information that is 'material' consist of events, such as continuing disclosure calls, redemption notices, default notices, posting of financials, etc. Other material information is anything that could reasonably affect the price on the secondary market.

Material information provided can either be voluntary or part of the compliance requirements within the Continuing Disclosure Agreement (CDA). Voluntary material consists of a wide variety of information that is deemed worthy to be circulated, such as a senior management position change or an announced retirement. Gayl and other analyst like her, gather this information to circulate to investors, firms, borrowers, etc. The more that can be posted to EMMA, the more an analyst can develop an informed opinion.

Bobbi Gajwani, as a credit analyst at the largest institutional buyer of charter school debt, explained that her role is to assess the viability of the charter school, which she reviews under five major areas: enrollment, charter and authorizer status, academic performance, management and board, and finances. She uses continuing disclosure information to stay up to date on the risk or reward related to that particular investment.

Wyatt Truscheit has in the past, shared with the investor community information including state revenue updates, teacher retention, enrollment trends, academic ratings, new facilities costs, and more which are critical factors in supporting financial disclosures and financial results. Wyatt cautions that existing borrowers in the capital markets with public debt need to disseminate information fairly and equally to all of their investors, so as to avoid sharing information with particular investors and not others. Wyatt further suggested the use of a finance committee as part of the board, with those that have financial expertise to review financials and quality of earnings, and to oversee and guide these matters.

Disclosure Practices

Daniel Lee and **Zachary Donohue** offer their insights on streamlining reporting and how reporting to the investor differs from reporting to the authorizer or the state. Dan considers consistent formatting to be one of the best practices in continuing disclosure for charter school borrowers. When reviewing several documents, it's easier to review them across a consistent format so using templates would make disclosure easier going forward. Zach furthers Dan's statement by boiling it down to three factors: timing, level of detail/review, and potential penalties levied by each organization. Zach recommended using calendaring and task management systems, building disclosure requirements into monthly financial reporting, and ensuring that staff are aware of responsibilities and timing.

Investor Wish List for Disclosure Calls

Gayl explained that bonds are free to trade in the secondary market after the financing closes, and there are more than 2,000 municipal broker dealers in the country, fighting over said bonds. Investor calls are important when it comes to an analyst's opinions. This gives them the opportunity to hear the story behind all the filings they have read. There are certain key ingredients that go into a successful investor/disclosure call. Those suggested by Gayl include having management live on video, key highlights that are succinct, status with the authorizer, and new or expanding competition (see PDF page 8 of the presentation for the full wish list).

When preparing for these investor calls, it is important to include the data, but "while data is good, the story is key. We like story. Personal touch is helpful," said Bobbi. She wants to hear the organization's forward-looking plans. She explained the investor's role as that of a partner to ensure the long-term success of the school, and there is also reputational risk to the investor if a school fails and closes. She also emphasized that an existing borrower that wants to expand but needs permission for additional debt may receive consent in spite of high leverage, if its story and track record of transparency are persuasive enough to offset the risks.

Questions investors may ask during these calls could include enrollment compared to budget, expectation for next year, academics as compared to other districts, changes in management/relationship with the board, authorizers contract expiring, expectations for current year finances, etc. For the call, be prepared to explain and be familiar with the data in the disclosures that your school has posted on EMMA. It is important to be prepared to answer any of these possible questions to maintain a good relationship with your investors. That said, if you're unable to provide an answer immediately, it is acceptable to indicate you will post a response following such call, rather than potentially providing incorrect information "off the cuff". Including a board member on these calls can strengthen these relationships as well.

With a robust number of audience questions concluding the session, it is clear that investor relations will remain a dynamic and evolving topic.

For more information about this session, please contact **Kaiti Wang** and **Siamac Afshar**.

Conference Fun-Tivities

We invite you to view photos from the 20th Annual Late Winter Conference.

Below are a few highlights from our conference fun-tivities:

- **Opening Night Reception & Dinner**
- **Legacy Golf Club Tournament**
- **Fishing & Boating Excursions**
- **VIP Walking Tour**
- **Yoga with Tigers**
- **An Evening at the Mote Aquarium**

For even more of our conference photos, please click here

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