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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

Nathan Vallette: Thanks for joining us for today's Tortoise Quick Take Podcast. We are reaching that time of year that children seem to dread and parents think can't get here soon enough. We're talking of course about going back to school. And as we head towards the beginning of another school year, we here at Tortoise thought it'd be a good idea to spend some time talking about the charter school market and our recent efforts in the market as a part of our social infrastructure platform. I'm Nathan Vallette, vice president on the social infrastructure platform and joining us momentarily will be my colleague Tiny McLaughlin, vice president, social infrastructure.

So, today we are going to talk a little bit about what the national landscape looks like for charter schools, recent trends in that market and of course what we here at Tortoise have been doing to be active within that market. So with that, please sit up straight, open your notebook, grab your freshly sharpened number 2 pencil, and welcome Tiny McLaughlin to the podcast. Tiny, thanks for joining us today. Why don't we begin by talking a little bit about the national landscape for charter schools.

Tiny McLaughlin: Thanks Nathan. Sure. Currently there are more than 7,000 charter schools across 45 states and Washington D.C. They serve more than 3.2 million students. The most recent states to pass charter school laws were West Virginia (2019), Kentucky (2017), Washington (2016) and Alabama (2015). In West Virginia, it is unlikely that we will see the first charter startups until the fall of 2020 or 2021. In Kentucky, while a charter law was passed, no funding mechanism has been approved so the earliest we could see a charter school opening is the fall of 2022. In both Washington and Alabama growth has been slow due to legal and political challenges. Tortoise will consider exceptional opportunities in these states but they're not going to be a focus.

Nathan Vallette: Tiny, despite the first charter school opening in 1992, charter schools are still a topic that many people in the general public still do not fully understand. Politics have really muddied the waters a bit in terms of skewing perceptions, especially with the last election cycle. As we approach another election cycle, talk a little bit about some of the misinformation that may be out there and what it may mean for the market as a whole.

Tiny McLaughlin: Well first of all Nathan, the national news has been dominated in the K-12 area with strikes in large urban school districts. Strikes in California and even West Virginia have made the growth of charter schools, which are predominantly non-unionized, one of their top issues. In the recent presidential debates, none of the candidates offered any support for charter schools. In California, for the first time since passage of the state's charter school law, they've elected a governor who's not openly supportive of charter schools. And of course, in New York City, Mayor DeBlasio has publicly stated he "hates" charter schools. Even the national leadership of the NAACP is getting in on the act, stating they are against further growth. But in peeling back the onion on this, we see that largely these attacks are being driven by the recent Supreme Court decision, *Janus v AFSCME*, which makes it illegal for states to force public employees (such as teachers) to join a union or pay fees for collective bargaining. Because of this, it's likely that we're going to see more teachers' strikes in the next two years than in the previous 20 years, as union leadership becomes desperate to demonstrate their value to its members. Lost in all this is some incredibly positive news about charter schools. Florida recently passed legislation requiring municipalities to share any capital raised through public bond offerings with charter schools. In Texas, a new law increases state funding for charter school by nearly \$1,000 per pupil. In states with large population gains, school districts are publicly stating that without charter schools, they will not be able to support increasing enrollment. And many state and local chapters of the NAACP are in open revolt against their national leadership because nearly all studies indicate that charter schools are providing low-income and children of color with education gains far above those of district schools. So my statement on this is: Expect to see more loud and angry attacks on charter schools by striking unions and, the politicians courting their support. But if you dig a bit deeper you will find that the headlines while they aren't good, if you look behind them you'll see that political policy, financial support and just general opinion for charter schools amongst the political set is often increasing across the nation.

Nathan Vallette: Going along with that, let's talk about current trends in the marketplace.

Tiny McLaughlin: Well Nathan, on the charter school facilities front, both supply and demand continue to be high. The tax-exempt public bond market, which is the largest source of permanent capital funding for charter schools, has exceeded \$2 billion dollars for the last three years in a row, and is well on its way to doing the same in 2019. In the world of alternatives and interim finance for charter school facilities, the area where we focus, some of the largest players appear to be pulling back. That's in spite of the fact that there's less than a billion dollars coming into this area of the market where we believe there's an exceptionally high need that exceeds that. Tortoise is in a position to greatly benefit from these changing market dynamics and is likely to be able to be even more selective in the schools we choose to put in our portfolio.

Nathan Vallette: Thanks for that Tiny. I think it is also important to say that there is still a dire need for quality school facilities and financing of such across the country. Remember, unlike district-run public schools, charter schools do not receive a school building when they open and they also are responsible for using operational dollars to pay for their building. It's a double whammy, and nationwide, almost 20% of approved charter schools have had to delay opening by at least a year due to facilities-related issues. Despite many cities having vacant public school buildings available, the reality is that many school districts refuse to allow charter schools to operate in these locations. This of course has led to charter schools starting up in retail centers, office buildings, church spaces and other less-than-ideal locations that do not provide the same amenities as a district-run public school would offer upon the opening a new school. Additionally, around 40% of charter schools lack essential amenities such as gymnasiums, science labs, cafeterias and more.

So what do you do as a school that wants more for your students? Well, many charter schools have started turning to specialized development groups and general contractors to help them solve these problems for them. They'll either renovate or construct brand new school buildings as quickly as they can as long as the school can afford the rent or interest payments associated with such a project. Those developers though are often looking for financing groups to help them with these projects, and Tortoise is currently positioned to be an industry leader in this part of the market. Prior to joining Tortoise, David Sifford, managing director on our social infrastructure platform and I built a successful school developer financing platform and became the industry leader in that category. We have now brought that experience over to Tortoise and alongside Tiny's background in the public markets, our social infrastructure platform is armed with the deepest knowledge base of charter school facility financing in the industry, and we are very excited about the future.

Tiny McLaughlin: Thanks Nathan. You touched on how well-equipped Tortoise's social infrastructure team is within the charter school market. What are some recent things that Tortoise has been doing to capitalize on the wealth of experience and generate new opportunities?

Nathan Vallette: That's a great question Tiny. Well, our team recently attended the National Charter School Conference in Las Vegas, Nevada, which brought together over 5,000 educators, charter school leaders and policy makers. We spent the majority of our time there meeting with financial advisor firms, charter school development groups, state representatives and charter school authorizers. This enabled us to talk about how we believe Tortoise is well-positioned to make a positive impact in the market, but it also gave us the ability to listen to the most recent needs of those groups as well. This back and forth has generated a lot of buzz in the market, and we have each had subsequent follow-up meetings with additional groups since that time. Even earlier this week, I attended the North Carolina Charter School Conference where I had the chance to mingle with the movers and shakers in charter school policy, operations and development in that state. Tortoise attends each state charter school conference and national conferences related to charter schools, when it makes sense, to not only stay on top of political issues and state education topics, but to also conduct business development. I can't tell you how many people were excited to talk to me and hear about the Tortoise team our social infrastructure platform specifically and our efforts to help schools operate in high quality, purpose-built facilities. The response since the national conference has been fantastic and our team is really excited as we move forward into another school year.

That said, Tiny, I think I hear the dismissal bell in the background so we better get on.

Tiny McLaughlin: I think you are right Nathan. We thank you all very much for your time and for joining us today. Tortoise is excited to start the new school year and the opportunity to invest in exceptional charter schools across the country.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

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