Lighthouse Academies, a not-for-profit charter school management organization that operates schools in six states, partnered with concerned New York City citizens to found the Bronx Lighthouse Charter School (BLCS) with the intention of providing children with an arts-infused education. The school opened in 2004 with a kindergarten, first grade and second grade, and for the past seven years has added a grade each year. The inaugural class of second graders will enter the ninth grade in the fall of 2011, filling the existing building. BLCS plans to continue its practice of adding one grade each year until it reaches grade 12.

To alleviate crowded conditions, BLCS will use a new markets tax credit (NMTC) investment from the Low Income Investment Fund (LIIF) and JPMorgan Chase to build a state-of-the-art facility for the class of 2015 and beyond. “The [NMTC] program provides a way for the school to finance its dream building,” said Priscilla Forsyth, vice president of Lighthouse Academies’ New York region.

**New Building**

According to Forsyth, BLCS is retaining most of its eighth graders; because the new building will be under construction, they will enter the ninth grade attending class in the existing building. BLCS has configured the seventh through ninth grade classes to share instructors. Students entering the ninth and 10th grades will attend classes in the new building, which has an anticipated completion date of July 2012, for the 2012-2013 school year.

BLCS’ enrollment for the 2011-2012 school year is about 535 students in kindergarten through ninth grade. Most grades have two classes with a total of 46 students; one grade has four classes with 92 students and one grade has three classes with 69 students. Applications for kindergarten, which

**NMTCs Expand Bronx Charter School**

*By Jennifer Dockery, Assignment Editor, Novogradac & Company LLP*

Rendering: Courtesy of Partners For Architecture, Copyright 2011

Construction of a high school at The Bronx Lighthouse Charter School is under way in New York City, N.Y.

*continued on page 2*
serves as the school’s first entry point, numbered more than 500 this year and there are 1,600 students on the school’s waiting list. The majority of students come from The Bronx, with a small number coming from other areas of New York City. Co-located at a New York City public school for its first two years, BLCS moved into its current building in 2006. It was intended to serve as classroom space for the entire student body, but program needs made that impossible. To add the high school classes, BLCS needed to expand.

“Ideally, we wanted to keep the elementary school and the high school as close together as possible so we could keep things simple and straightforward for students and their families,” Forsyth said. Property adjacent to the school opened up and BLCS acquired it in July 2010. This June, the school closed on construction financing and began construction of a high school building next to the existing combined elementary and middle school building.

The high school building replaces a defunct social club, garage and parking lot. The four-story, 30,000-square-foot building will feature a gym, media center, science lab and instructional rooftop deck, and warming kitchen. The gym, which many charter schools lack, will allow BLCS to host charter school sporting events. High school students will receive college preparatory instruction in all subjects. Internships with local businesses and not-for-profits, and instruction on study skills and character building will help prepare the students for college.

“It’s a gem on the block. … [E]xpanding the school … is a huge benefit to the neighborhood. … BLCS provides amazing educational opportunities for students,” said Hannah Blitzer, LIIF senior loan officer. She added that one of the reasons LIIF invested in BLCS is that the families the school serves align with LIIF’s mission to fight poverty. The poverty rate in BLCS’s neighborhood is 55 percent.

New Financing
BLCS worked with JPMorgan Chase and LIIF to finance the project. LIIF’s $14.5 million NMTC investment resulted in $4.1 million in equity through the Chase LIIF NMTC Fund for High Performing Charter Schools. Chase provided a $7 million subordinate loan and LIIF provided $3.1 million in junior debt.

“It’s really an extension of an existing program for kids in grades K through eight. We saw it as a benefit to the community and students. … [It] really fulfilled a need that we saw,” said Sarah Schulte, Chase vice president. Chase has earmarked $325 million for charter school investments throughout the country.

Blitzer said that the NMTCs helped the school obtain financing at an extremely low interest rate, a rate that it would not have been able to obtain otherwise.
The financing is coming at the exact needed time. ... It filled a very important gap and enabled BLCS to get low-cost money to build its high school campus,” Blitzer said.

A BLCS board member suggested looking into NMTC financing in August 2008 and the board began serious discussions in early 2009. “The whole concept of new markets tax credits is a lot more complicated than anything we’ve ever done before,” said Forsyth. School officials and board members debated whether using the complicated program would benefit the school more than a market-rate loan. The interest rate would be higher on the market-rate loan, but the school would have fewer restrictions than with the NMTC-backed financing. In the end, the benefits of the NMTC financing, such as the below-market interest rate and seven-year loan term, made it worth the steep learning curve and restrictions. “There were some very clear benefits to the New Markets Tax Credit program,” said Forsyth. At the end of the compliance period, Forsyth said that the school hopes to be investment grade.

New Jobs
During the 18-month construction period, 250 temporary jobs will be created. BLCS plans to hire four teachers for the 2011-2012 school year and hire two teachers each year for the three years after that.

This article first appeared in the August 2011 issue of the Novogradac Journal of Tax Credits.

© Novogradac & Company LLP 2011 - All Rights Reserved

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.