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Strategies

## Portland firm fuels the \$3 billion charter school market

**Charter School Capital fuels the national charter school movement, tops \$1.5 billion in deals.**🔑 **SUBSCRIBER CONTENT:**

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Watching the movie “The Big Short” was stressful for [Stuart Ellis](#), co-founder and CEO of Charter School Capital.

The film depicts the months after the 2008 economic crisis. Credit markets had dried up. Wall Street bankers were getting laid off in droves. Ellis was in Manhattan at the time, trying to raise money to get Charter School off the ground. He remembers sitting in lobbies and seeing newly laid-off bankers with whom he was trying to do business walk out with boxes of personal effects.

Before the crash, those bankers were all ears for Ellis’ pitch. He got term sheets from “everybody,” including a \$100 million credit line from Barclays. Then the crash, fueled by esoteric investment products, pulled the rug out from under Charter School and other companies pedaling new asset classes.

“Overnight it went from everybody would fund us to regrouping,” Ellis said.

Nearly a decade later, Charter School Capital’s early battle scars are nearly invisible. The company is one of Portland’s fastest growing investment firms and is possibly about to hit the jet stream, thanks to a growing track record, the burnished resumes of its executive team, a unique spot in the market and the nomination of [Betsy DeVos](#), a charter school advocate, to a position in President-elect [Donald Trump](#)’s cabinet.

The company has done more than \$1.5 billion in deals, including \$100 million in November alone. It’s regularly posting 20 percent to 30 percent annual growth, hitting \$14.2 million last year.

It employs 45 and has done deals in nine states: California, Michigan, Ohio, Minnesota, North Carolina, Indiana, Arizona, Florida and Louisiana.

“We think that we’re at a relative inflection point,” Ellis said.

### The engine



CATHY CHENEY | PORTLAND BUSINESS JOURNAL

Stuart Ellis, CEO of Charter School Capital, said the Portland-based firm has done more than \$1.5 billion in deals, including \$100 million in November alone.

Charter schools are public. They get paid a certain amount per student per month by the state. Since the money drips in, charter schools need to wait years to pile up enough cash to make capital investments or hire new teachers.

That's where Charter School Capital comes in. It buys the stream of monthly state payments at a discount. The charter school gets paid in one lump sum. Charter School Capital gets the right to the "receivable," or payment from the state.

Charter School Capital can collect the monthly payment or bundle it with others and make a security it can sell to Wall Street.

One of the keys is co-founder and Chief Financial Officer Brad Coburn, a Wharton MBA who previously worked at the highest levels of structured finance. Coburn's experience includes bundling mortgages for Countrywide in the '90s, similar to what Charter School does with school receivables, what Ellis calls the company's "Ferrari engine."

Coburn's last deal at Countrywide was \$4 billion, Ellis said. His first at Charter School nearly a decade ago: \$290,000.

Ellis remembers Coburn's reaction when they first discussed the business.

"This is puny and if it wasn't puny you'd be disintermediated immediately," Coburn said, meaning the idea was either too small to be worth the time or a Wall Street whale would soon gobble it up with its lower cost of capital.

But then Coburn asked Ellis to estimate the size of the market. Ellis' answer: about \$3 billion in receivables.

That got Coburn's attention. He said it was too small a target for financial powerhouses, which typically want to see \$1 trillion in potential before entering a new asset class.

"In five minutes, he went from 'never' to 'forever,'" Ellis said, and became one of the company's three co-founders.

The third co-founder, John Helgeson, no longer works for the company.

The "Ferrari engine" convinced Portland financier Irving Levin to jumpstart the business with \$2 million after Wall Street banks walked in the wake of the credit crisis. Two Sigma, a New York hedge fund, ultimately bought out Levin and took a 40 percent equity stake. The three founders own the other 60 percent and control decisions.

Ellis and Coburn have since added an arm of the company called American Education Properties, a deal with American Infrastructure Funds, a \$2 billion REIT. American Education Properties focuses on real estate deals for charter schools. It's roughly 25 percent of the business today, but Coburn and Ellis expect it to grow to 50 percent within three years.

"It provides the schools something they all need, which is stability of their location," Ellis said.

Charter School Capital has financed more than 500 schools. Experts said the cash is critical.

"Charter schools don't have the luxury of having the reserves that facility financing takes," said Darlene Chambers, senior vice president, the National Charter Schools Institute. Chambers, who's known Ellis for

years, said he's known for his willingness to partner with competitors to get deals done, as well as his willingness to get on the phone with charter school founders, a welcome gesture.

"Stuart is willing to talk to you," Chambers said.

The American Education Properties arm purchased the Imagine Prep Superstition property and campus in Arizona earlier this year.

"Charter School Capital understands the challenges and opportunities that charter schools face, so having them as our partner focused on the real estate side of the business helps us focus on educating students and making sure that we're doing the best we can to support them for their future," Imagine Schools CEO Barry Sharp said, in a news release.

## **Lifestyle changes**

Before co-founding Charter School Capital in 2007, Ellis and Coburn worked jobs that required frequent travel. Both wanted to cut back on plane flights.

After a career that included two stints at Bain & Co., where he got steeped in analytics and gained operational experience, Ellis most recently worked as a bank consultant.

"I was on the road 50 weeks a year," he said. "I'd leave Sunday or Monday, then fly back Friday night. I had a young family that I wanted to be with."

His resume includes working as a president of the Upper Deck sports memorabilia business and co-founding the student credit union at the University of California, Berkeley, while he was a student there.

"All I've ever wanted to do is start and build businesses," he said.

Ellis decided to start one with a social mission. He made a list of ideas before settling on Charter School, which he thought married skills mastered at Bain with his penchant for entrepreneurship and his belief in the value of education. Ellis serves on the board of Catlin Gabel and is a founding board member of KairosPDX, a Portland charter school.

While critics say charter schools can undermine public schools, Ellis views his company as apolitical. "The only reason anyone would go to a charter school is the family believes it's better than the traditional district school."

Last week, President-elect [Donald Trump](#) nominated [Betsy DeVos](#), a strong charter school advocate, to serve as secretary of education. The nomination could give Charter School Capital a boost, although Ellis said it's easy to overstate how much DeVos could accomplish since most K-12 funding comes from the state.

"The impact is, I think, generally neutral. It's positive for the charter school movement, but it's not as positive as people might think."

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## **CLOSER LOOK**

**The company:** Charter School Capital

**Headquarters:** Portland

**Top executive:** Stuart Ellis, CEO and co-founder

**Business:** Investment firm focused on providing funding for charter schools.

**Key stat:** The firm has provided more than \$1.5 billion in funding to more than 500 charter schools.

**On the web:** [Charterschoolcapital.org](http://Charterschoolcapital.org)

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