

SCHOOLBUILD WEBINAR SERIES: CHARTER SCHOOL FACILITY FINANCE 101

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Presented by:

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THE FACILITIES CHALLENGE AND ITS CONSEQUENCES



No taxing authority



Little to no funding



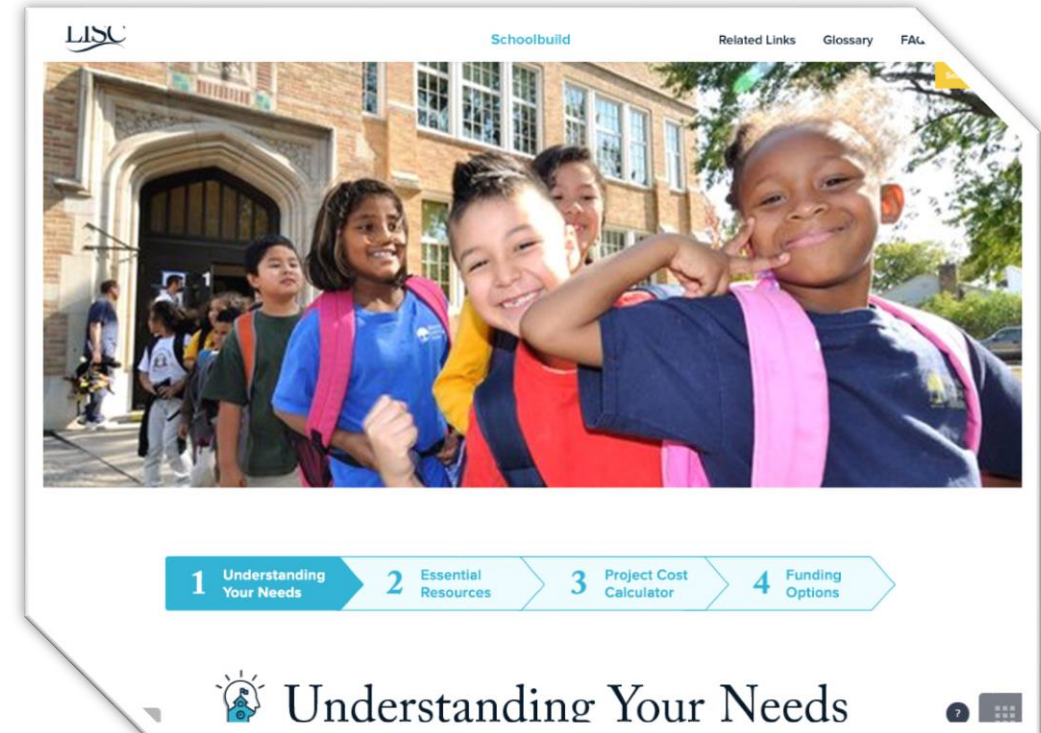
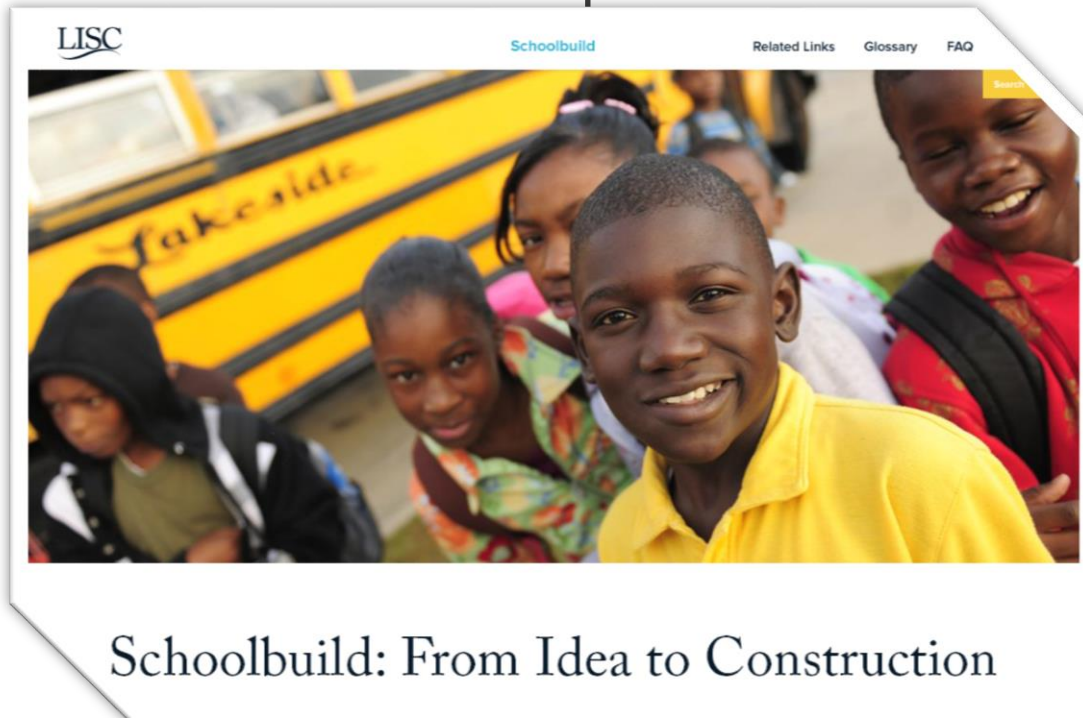
No buildings

One million students remain on waitlists; denied their opportunity to access high quality education options



ABOUT THE SCHOOLBUILD WEBINAR SERIES

Purpose: As we prepare to launch our SchoolBuild website to connect schools to the resources and partners they need to complete their facility projects, our SchoolBuild webinar series allows schools to preview the information that will be available on the site.



ABOUT US



- \$16.2 billion invested, leveraging \$48.5 billion in total development
- Over \$278 million in loans, tax credit allocations, guarantees, and grants invested in 194+ charter schools across the country
- LISC-financed charter schools had test scores that out-paced those of other schools in their respective districts by 20%



- National nonprofit turnkey facility developer & charter school lender
- \$60 million in credit enhancement invested in 160 charter school facility projects serving 52,000 students
- Developed over 5 million square feet of educational facilities in 17 states
- Leveraged over \$470 million in private sector financing for facility leases and loans



REINVESTMENT FUND

- \$1.3 billion in 3,150 community investments
- Manages \$864 million in capital with 850+ investors
- Headquartered in Philadelphia since 1985
- Over \$331 million to 90 charter schools serving over 46,000 students

AGENDA

- Introductions
- Overview of the School Lifecycle
- Lending Requirements
- Development Options
- Designing and Building Your Own Facility
- Q&A

WHO IS IN THE AUDIENCE?

School staff

School board members

Real estate developers/consultants

Financing consultants

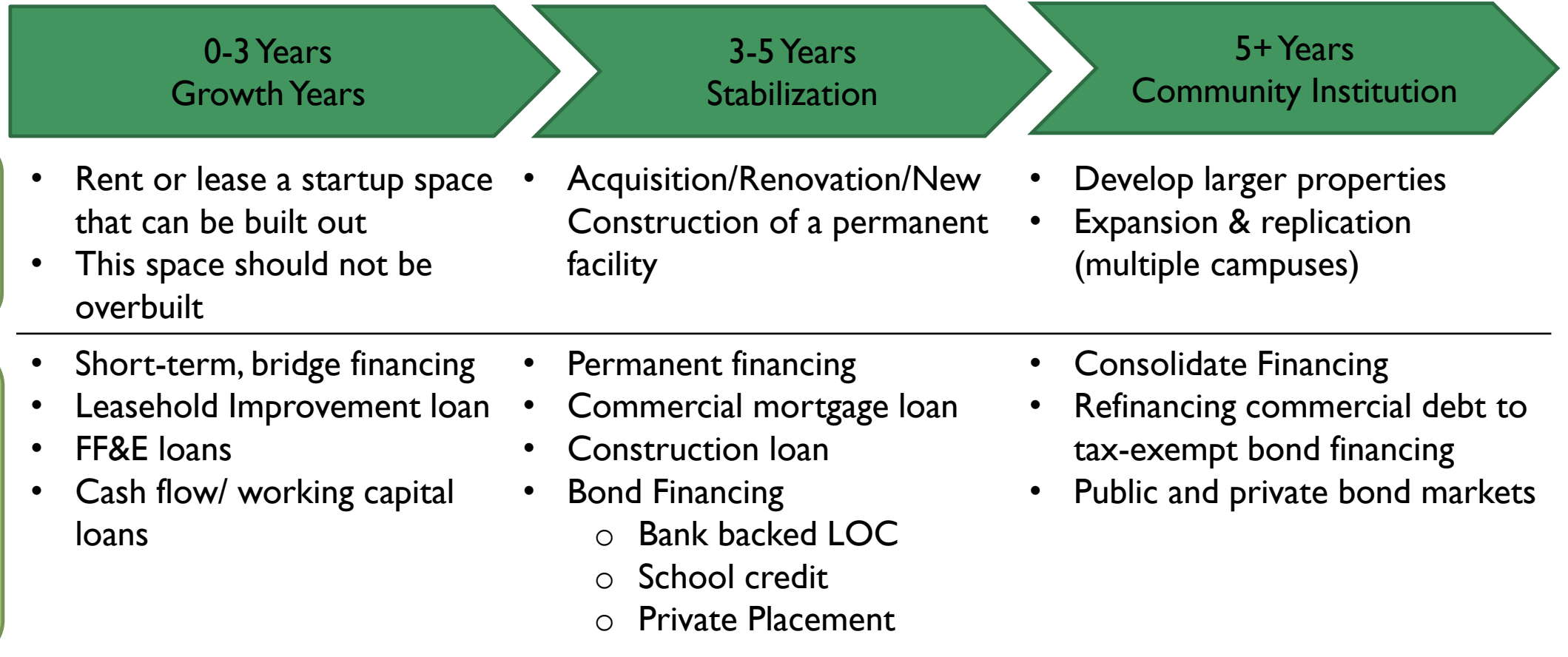
Lenders

Authorizers

Others?



SCHOOL LIFECYCLE



LENDING REQUIREMENTS

- Lenders want to avoid risk
 - Character (organizational) risk
 - Charter risk
 - Cash flow or repayment risk
 - Collateral risk
- ✓ Lenders don't like uncertainty or surprises
- ✓ Avoid, mitigate or manage



CHARACTER RISK

- **Goal:** Schools with staying power
- Mission
- Enrollment
- Market Demand & Community Support
- Academic Results
- Governance
 - Board Level
 - School Level



CHARTER RISK

- **Goal:** Quality program that is well positioned for renewal
- Prepared for authorizer evaluation process, meets or exceeds expectations
- Good relationship with authorizer
- Approved for projected enrollment



CASH FLOW / REPAYMENT RISK

Historical Financials

- Audited financial statements, budget-to-actual financial report, tax returns
- Trends, liquidity, leverage

Financial Covenant	Days of Cash on Hand	Current Ratio	Debt to Net Assets
Benchmark	More than 30 days	>1.0	<3.0



CASH FLOW / REPAYMENT RISK

Cash Flow Projections

- Realistic operating & expansion assumptions
- Enrollment demand to support projections
- Fundraising included only if proven track record
- Program vs. occupancy expense (15-20% occupancy)
- Minimum debt service or lease coverage ratio requirement: ranges from 1.1 – 1.2x



COLLATERAL RISK

- Goal: In cases where a charter school cannot make debt repayments, assess the collateral available to pay off the loan
- Collateral = real estate
 - CDFIs have more comfort with leasehold
- Constraint for amount you can borrow
- Loan to Value 75%-90%
 - Depends on lender and type of loan
 - Mitigated by guarantors, other assets
- Lenders look at prior liens and lien position



RED FLAGS



Character

- Little or no year over year improvement in academic results
- Lack of management depth – concentration of multiple roles within one person
- High staff turnover
- No succession plan
- No community relationship
- Negative press
- High student turnover
- No evidence of pre-enrollment by late spring/ early summer
- Disengaged board

Charter

- Lawsuits, charter violations, early warning letters
- Unresponsive or hostile authorizer

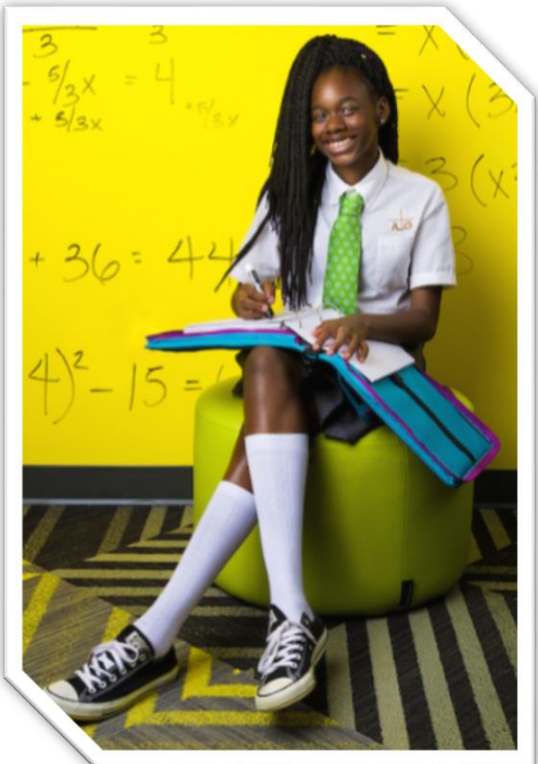
Cash Flow

- Low liquidity
- High leverage
- History of declining net assets
- Deficiencies or material weaknesses noted in audit

Collateral

- Prior liens on available real estate
- Minimal collateral value
- Minimal equity available to bring to project budget

CASE STUDY: GREEN STREET ACADEMY



Green Street Academy
Request: \$2.0M subordinate loan for acquisition and rehab of historic school building

Character

- **Mission:** Prepares students for college and career through hands-on, project, based learning; Partnered with green industry leaders in Baltimore
- **Enrollment:** Opened in 2010 with 185 students, grew to serve 345 students in grades 6-9 by 2014, plans to serve 875 students at full enrollment for grades 6-12
- **Demand:** 56 students on the waiting list; Some attrition between 8th & 9th grade
- **Academics:** Trending upwards on state assessments, outperforming district peers; proficiency results fell during the transition to common core
- **Governance:** Experienced management team with growth plans to support school at full enrollment; Diverse and engaged board

Charter

- Opened as a “transformation school”
- Approved to convert to a charter school in fall 2014
- Operates under a five-year charter, with renewals in years 1 and 5

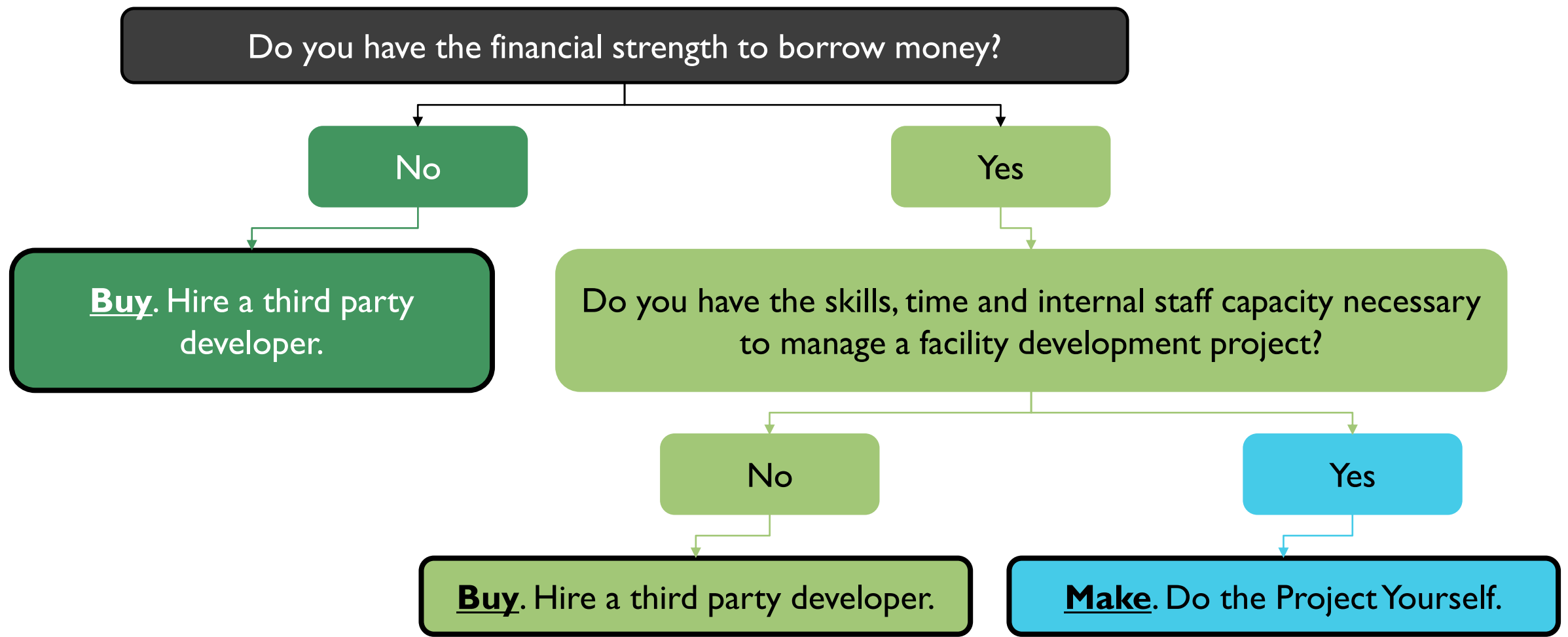
Cash Flow

- Historical financials have minimal surpluses and low cash balance
- Projections support 1.2x debt service coverage

Collateral

- LTV: 84%
- Projected LTV at maturity date: 76%
- Credit Enhancement

DEVELOPMENT OPTIONS: MANAGE THE PROJECT YOURSELF OR PARTNER WITH A DEVELOPER?



FACTORS TO CONSIDER

	Do it Yourself	Hire Third Party Developer
People	<ul style="list-style-type: none"> Broker to find site Lawyer for contracts Architect Owners Rep Contractor 	<ul style="list-style-type: none"> One stop shopping Owners Rep (optional)
Finances	<ul style="list-style-type: none"> Sufficient balance sheet to borrow money Banking relationships 	<ul style="list-style-type: none"> One stop shopping
Ownership	<ul style="list-style-type: none"> You own the property Property Management 	<ul style="list-style-type: none"> You lease the property with purchase option You own the property but hire a fee developer
Costs	<ul style="list-style-type: none"> Internal staff time Typical mortgage around 6% of project costs 	<ul style="list-style-type: none"> Development fee Typical mortgage around 8% (non-profits) or 10% (for-profits). Acquisition fee

DESIGNING AND BUILDING YOUR OWN FACILITY

Phase I – Design and Development:



Program Needs
Cost Estimates
Timing
Financing
Legal Rights
Community Support
Political Opposition
Scenario Analysis

Land Acquisition
Conceptual Design
Constructability
Program Implications
Timing
Financing/Budget
Entitlements
Community Relations
Political Support
Contingency Planning
Risk Assessment

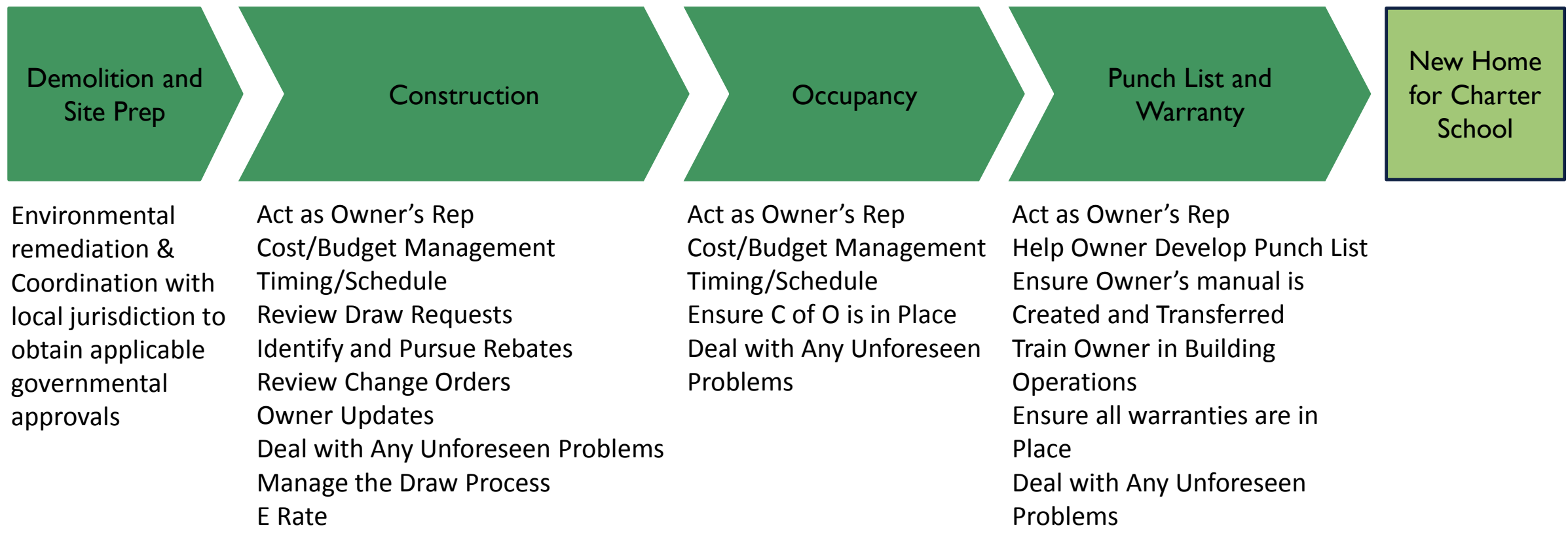
Negotiation
LOI
Draft Purchase and
Sale Agreements
Manage Due Diligence
Coordinate Timing
Contingency Planning
Risk Assessment
Manage Entitlements
and Variances

Identify and Explore Financing
Options
Recommend Financing Source
and Structure
Ensure Team is Assembled
Create and Assemble
Required Information
Negotiate Price
Manage Application Process
Manage Timing of Process
Ensure Timely Closing
Contingency Planning

Act as Owner's Rep
Review and Assess Plans
Program Needs Reviews
Cost/Budget Reviews
Timing
Community Support
Ensure Owner's Requirements are Met
Obtain Timely Owner Approvals
Security
Telecommunications
Technology
FFE

DESIGNING AND BUILDING YOUR OWN FACILITY

Phase 2 – Construction



DEVELOPER'S ROLES AND RESPONSIBILITIES

- Take project lead on behalf of school (if outsourced)
- Generate cash flow and affordability scenarios
- Manage site control and financing
- Generate and track project schedule
- Generate and track project budget
- Review and negotiate contracts
- Participate in design meetings
- Participate in construction site meetings
- Manage value engineering and quality control
- Secure and participate in construction financing
- Secure take out financing



KEY QUESTIONS FOR DEVELOPERS

About the Developer

- What is your development model, i.e. lease with option-to-purchase, long-term lease, lease-to-own and/or fee developer?
- How many charter schools have you developed nationally and locally?

Predevelopment Costs & Fees

- What documents do you require the school to sign before you engage/incur costs?
- Who covers upfront predevelopment costs?
- Do you charge upfront fees to the school?
- What happens if the project does not move forward after costs are incurred

Financing

- Do you require lease guarantees or lease deposits?
- How are your annual rents established?
- Do you provide a purchase option, and if so, when can it be exercised?
- How is purchase price calculated?



SCHOOL'S ROLES AND RESPONSIBILITIES

- Designate key decision making individuals to participate in design and steering committee meetings
- Generate design guidelines and program needs
- Enter into lease / sublease
- Provide community outreach
- Maintain and advance program quality
- Recruit and enroll students to meet projections



RED FLAGS: LEASE TERMS

- Long-term exclusive agreements w/real estate brokers
- Total occupancy costs (lease payments, utilities, maintenance, taxes, etc.) exceeding 20% of revenue
- No purchase option
- Purchase option and/or renewal terms based on “Fair Market Value”
- Rent escalations greater than projected PPR increases
- Personal guarantees!!



CASE STUDY: HIAWATHA ACADEMIES



Hiawatha Overview:

3 campuses, \$19M total facilities development cost, 131,375 total square feet, 25 year leases

Character

- **Mission:** To empower students with knowledge, character and leadership skills to graduate from college. Dedicated to closing achievement gap in Minneapolis.
- **Enrollment:** 98% students of color, 83% ELL, 97% FRL, 12% SPED students
- **Demand:** 5 schools by 2020, serving over 2,000 students in grades K-12
- **Academics:** 4th graders outgrew 72% of peers nationally in reading & 70% of peers across MN. 8th graders outgrew 74% of peers nationally in reading and 60% across MN
- **Governance:** Diverse board w/teacher, parent & comm. reps, clear succession plan for leader

Charter

- Authorizer: 17 year track record, 5 charter schools, mission to promote schools serving low-income students and college readiness
- Minnesota Business Partnership – Future Award, 2013 for closing achievement gap
- MDE high-quality school – 2014, 2015, 2016
- *Star Tribune* Beat the Odds School – 2012, 2013, 2014, 2015

Cash Flow

- Maintains a board mandated 20% fund balance at all times
- Projections heavily reliant on fundraising to meet facility costs, but proven track record of philanthropic investment; Single funding stream supports occupancy costs at all locations
- Philanthropic support from over 30 foundations

Collateral

- Two surplus public school buildings, one newly constructed facility
- MBT provided senior financing @ 75% LTV; Multiple CDFI sub-debt lenders, including LISC, sharing collateral to fill 25% gap
- \$1,045,000 cumulative credit enhancement support



QUESTIONS?

JOIN US FOR OUR NEXT WEBINAR



We hope you will join us in January for our **Project Cost Calculator Webinar!**

Additional details to come.

Please email Sybil St. Hilaire with any questions at sshilaire@lisc.org