

Red Flags: Mitigating Risks		
Risk	Red Flags	Ways to Mitigate
Organizational Risk	<ul style="list-style-type: none"> ▶ Being a start-up school ▶ Changes in leadership or inexperienced staff ▶ Small and unengaged board 	<p>Note: Very few lenders offer facility financing to start-up schools. They usually wait until schools have a track record of three years</p> <ul style="list-style-type: none"> ▶ Seek out organizations that provide grants to high-quality start-ups (e.g., NewSchools Venture Fund, Building Excellent Schools Fellows program, and Silicon Schools Fund). Also, seek state or federal start-up grants. See the “Finding Other Sources of Funding” section. ▶ Demonstrate depth of management and board experience. Organize site visit and in-person meeting with lenders ▶ Present strong business plan with strong school model and conservative financial projections ▶ Demonstrate support from charter authorizer, local community, and philanthropic partners ▶ Have a related entity or individual with strong financials provide a repayment guarantee
Charter Renewal Risk	<ul style="list-style-type: none"> ▶ Charter has never been renewed ▶ Charter authorizer is not charter-friendly 	<ul style="list-style-type: none"> ▶ Explain your local process and plans for receiving, keeping, and renewing your charter ▶ Demonstrate that you are on track to meet the requirements of charter renewal (especially academic performance) ▶ Demonstrate ability to repay loan before charter expires ▶ Demonstrate good relationship with authorizer

<p>Construction Risk</p>	<ul style="list-style-type: none"> ▶ No staff or board expertise with real estate development ▶ Short timeframe to complete the construction project before school opens 	<ul style="list-style-type: none"> ▶ Hire an experienced project manager ▶ Be conservative in your assumptions for project timeline, project costs (project budget), and financial projections (revenue and expense). Include ample contingency in your estimates ▶ Select an experienced and strong development team ▶ Have an alternative space available in case construction is delayed and school needs to open
<p>Cash Flow Risk</p>	<ul style="list-style-type: none"> ▶ Decline in enrollment ▶ History of per-pupil funding cuts or payment deferrals in your state ▶ Strong reliance on grants and/or fundraising revenue ▶ Uneven operating performance track record 	<ul style="list-style-type: none"> ▶ Demonstrate solid enrollment and waiting lists ▶ Show strong financial performance for the most recent period (ideally surpluses and positive fund balance for three years) ▶ Provide conservative and detailed five-year cash flow projections with debt service coverage ratio above 1.25 times. Lenders will run sensitivity scenarios to test some assumptions ▶ Demonstrate ability to make loan payments without relying on grants or fundraising ▶ Have a related entity or individual with strong financials provide a repayment guarantee ▶ Fund debt service reserve that will be used in case of cash flow shortfall

<p>Collateral Risk</p>	<ul style="list-style-type: none"> ▶ Value of the school property is not sufficient to repay the loan in case of default (LTV is above 100%) ▶ There is limited demand in your area for school facilities 	<ul style="list-style-type: none"> ▶ Demonstrate the value of the property through an appraisal by a certified appraiser (the lower the LTV, the better it is for lenders) ▶ Provide information on how the property could be used for other purposes if liquidated (e.g., other schools could use/purchase) ▶ Describe a property management plan and funds to be set aside for repairs to the building to maintain value ▶ Demonstrate good relationship with landlord. In case the school is leasing its facility, lenders want to be able to find a strong operator to replace you as tenant
<p>Regulatory Risk</p>	<ul style="list-style-type: none"> ▶ Charter law is new or at risk ▶ State has a track record for per-pupil funding cuts and/or payment deferrals 	<ul style="list-style-type: none"> ▶ Document political support for charter law ▶ Explain the terms of your current charter and how the per-pupil allocation is disbursed