



HIGH SCHOOL

From Here to Facility

*How a Lender Looks at a
Charter School . . . And
How You Can Look Your Best*

California Charter School Conference

March 15, 2016

Goals & Agenda



Goals

- Learn **how to best prepare** your charter school for a facility project
- Identify **what lenders look for** in charter school financing applicants
- Understand **how one CMO evaluates finance options** for school facilities

Agenda

1. **How to Prepare to Look Your Best**
2. **How a Lender Looks at a Charter School**
3. **Apply New Knowledge**
4. **Evaluating Options**

Download today's presentation on the Conference website or at
EdtecInc.Box.com/CCSA2016

Who Are We?



Adam Miller
@EdTecConnect

Will Robison
@CapitalImpact



Laura Kozel
@RocketshipEd

Who Are You?



School Leaders?

**New School
Developers?**

Board Members?

Lenders?

Others?

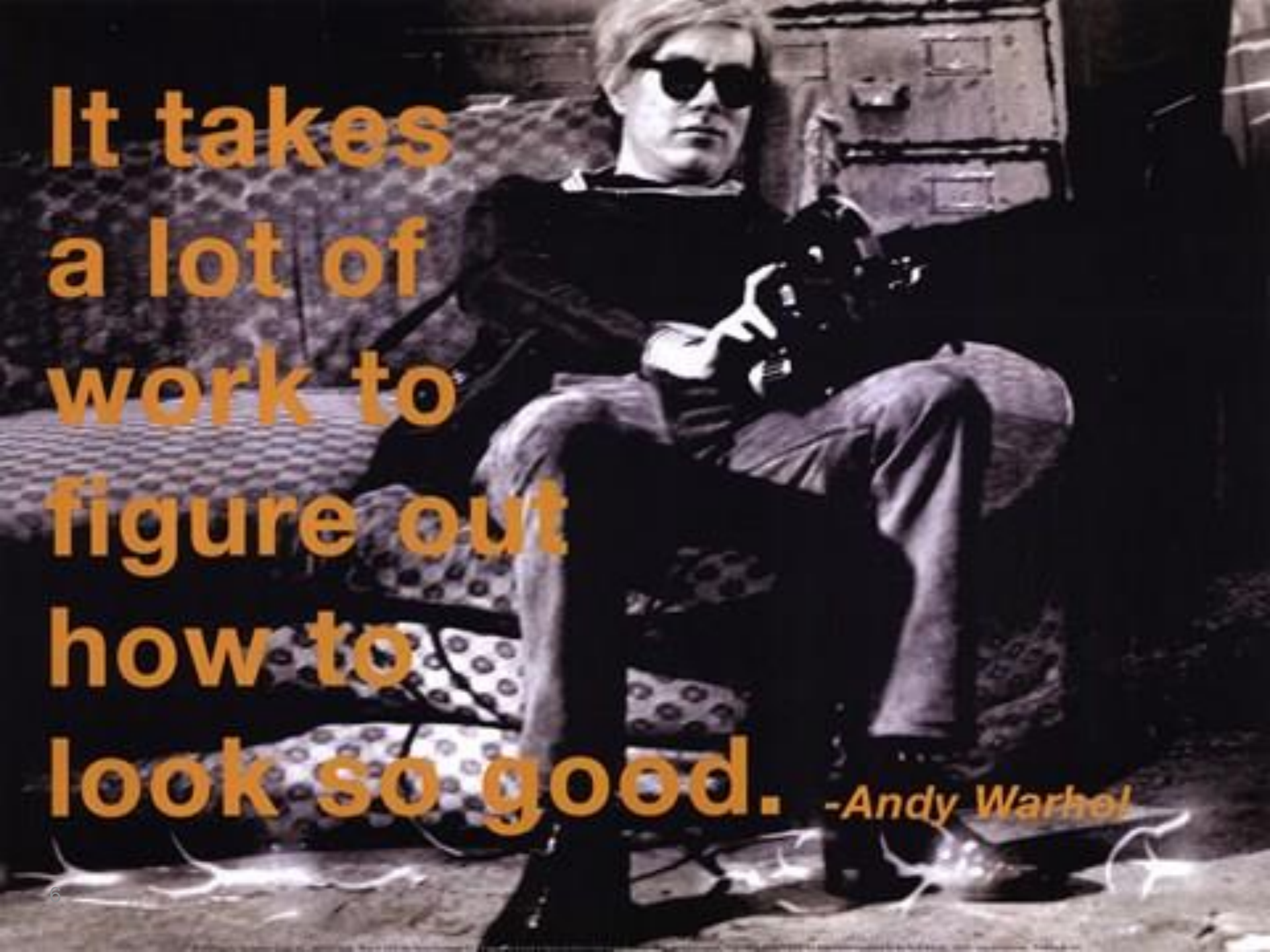
About EdTec



- Social venture founded in 2001 to develop, support and advance quality charter schools

- Our top caliber team delivers on EdTec's mission by providing partner schools with expertise and support across a comprehensive range of services, including:
 - Back-Office Business Services
 - Board Governance, Strategic Planning, and Financial Planning
 - Student Information & Assessment System Support

- Team of 75 charter school experts with offices in Northern and Southern California



It takes
a lot of
work to
figure out
how to
look so good. *-Andy Warhol*

Taking Stock

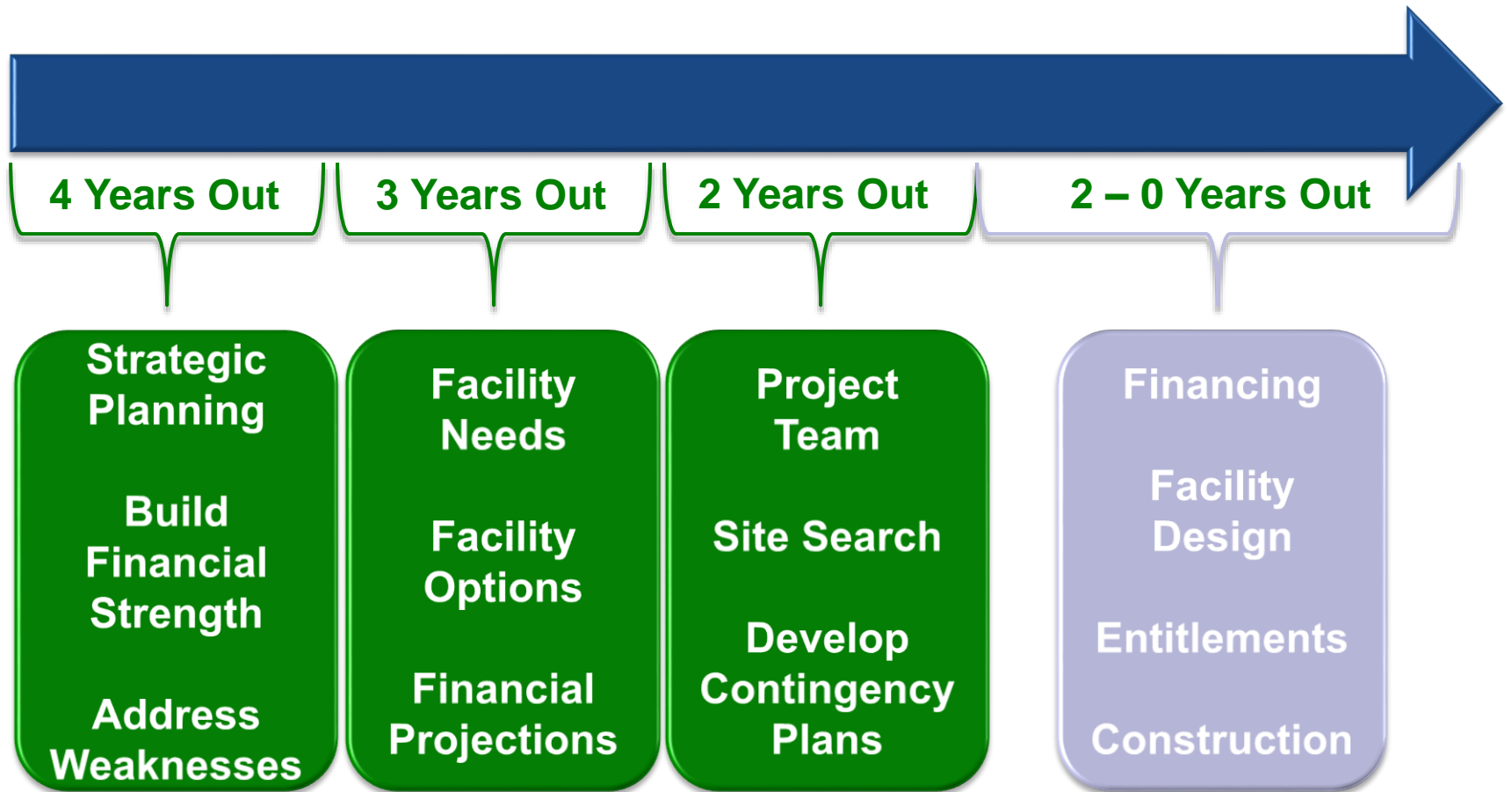


What You Want:	An amazing long-term facility built to support your specific school model
What You Need:	A legal building that will fit your students this fall
What You Have:	Community relations, board members, predictable revenue
What You Lack:	Expertise, money, track record

Getting What You Need and Maybe What You Want



Timeline to a New Facility



Strategic Questions



- **Enrollment Plan**
- **Expansion Plan**
- **Importance Of Permanent Facility**
 - What tradeoffs? Music program Vs. Facility; Field trips Vs. Facility
- **Determine Facilities Needs Vs Wants**
 - Classroom size & design
 - Specialized classrooms
 - Open space
 - Neighborhood
 - Parking

What You Lack: Expertise



- Educational Leadership
- Financial Expertise
- Fundraising
- Real Estate
- Legal
- Community/Government Relations
- Construction
- Project Management
 - External
 - Internal

Building Your Expert Team



Board Members

- Committee members

Staff

Parents

Professionals

- Key qualities
 - School experience
 - Local area experience
 - Mission interest
 - Meeting availability
 - Billing arrangements

What You Lack: Strong Track Record



Annual Financial Goals

- Positive Net Income
- Improve financial performance from prior year
- Monthly board discussion of forecasts
- Clean audit
- Savings for facility

Long Term Goals for Facility

- Pre-Development fund - \$75k
- Project equity– 10%
- Clear pattern of free cash flow

What You Lack: Money



Fundraising

- Establish history

Debt

- Debt today affects debt tomorrow

Strengthen What You Have



Political and Community Support

- Identify stakeholders – current *and* potential communities
- Outreach plan *before* you need support
 - Engage your families
- Maintain working relationships with authorizer and city

Enrollment

- Believable growth plan
- Identify and address enrollment dips
- Build a waitlist

Academic

- Define and measure success

Did You Do The Hard Work to Look Good?



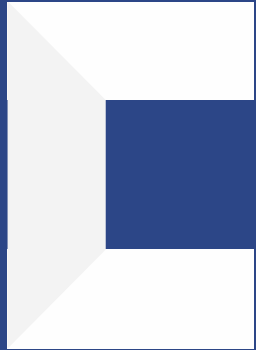
- ✓ Have a Strategic Plan
- ✓ Addressed Weaknesses
 - ✓ Brought in expertise
 - ✓ Built a financial and academic track record
- ✓ Increased Community Support
- ✓ Can Show Demand for Your School



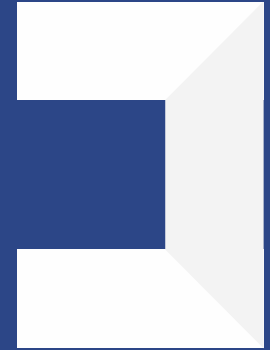
*All right, Mr.
DeMille, I'm ready
for my close-up.*

Norma Desmond
Sunset Boulevard

www.quotezone.com



Who are we?





CAPITAL IMPACT
PARTNERS

Capital Impact Partners

- Nonprofit that lends to nonprofits. Financing charter schools for 30 years
- Acquisition, construction, equipment purchasing and working capital loans from as low as \$500,000 to more than \$5 million
- Expertise working with small schools and large networks
- Focus on underserved communities

DELIVERING EDUCATION IMPACT NATIONWIDE

\$664 MILLION+
in financing to charter
schools over **30 years**



Creating
219 
charter schools



Providing **228,000+**
 children with
high-quality education annually





CAPITAL IMPACT
PARTNERS



ACQUISITION LOANS
to purchase land
and buildings



BRIDGE LOANS
to bridge grant funding or
tax-credit equity investment



CONSTRUCTION LOANS
to finance ground-up construction
and renovation projects



PRE-DEVELOPMENT LOANS
for feasibility planning, architectural
drawings and other early needs



TENANT IMPROVEMENT LOANS
to finance renovation at
a leased facility



TERM LOANS
to take out construction loans
or leverage New Markets Tax
Credit transactions



EQUIPMENT LOANS
to purchase equipment



WORKING CAPITAL LOANS
to finance operating
cash flow needs



LEVERAGE GOVERNMENT PROGRAMS
to offer New Markets Tax Credits and
Federally Guaranteed Bonds





Terms and Conditions

What you, the borrower, need to consider

Pricing and Costs

- Interest rate: fixed or variable
- Fees: origination fees, third party fees, legal costs
- Prepayment penalty
- Reserves required

Term/Maturity and Amortization

- Balloon payment at maturity

Loan amount

- Loan-to-value (LTV)
- Equity requirements

Collateral

- Real estate, Leasehold Deed of Trust, UCC filing

Mission of the lender





Financing Options

	CDFI Loan	New Markets Tax Credit	Bonds	Lease Purchase
Typical Dollar Amount	\$500,000 to \$7,500,000	\$5,000,000 to \$20,000,000	\$5,000,000+	
School Age	A few years of operations	A few years of operations	Well established	Newer schools
Amount Financeable	+/- 90%	Up to 100%	+/- 100%	Up to 100%
Typical Term	10-25 years	7 years	25-35 years	20-30 years
Complexity	Low	High	High	Medium
Other	F&RL requirement, Refinancing risk, No prepayment penalty	20-25% of loan forgiven, higher closing fees, need to be in qualified tract	Various covenants, higher closing fees, lower interest rate	Could be restrictive



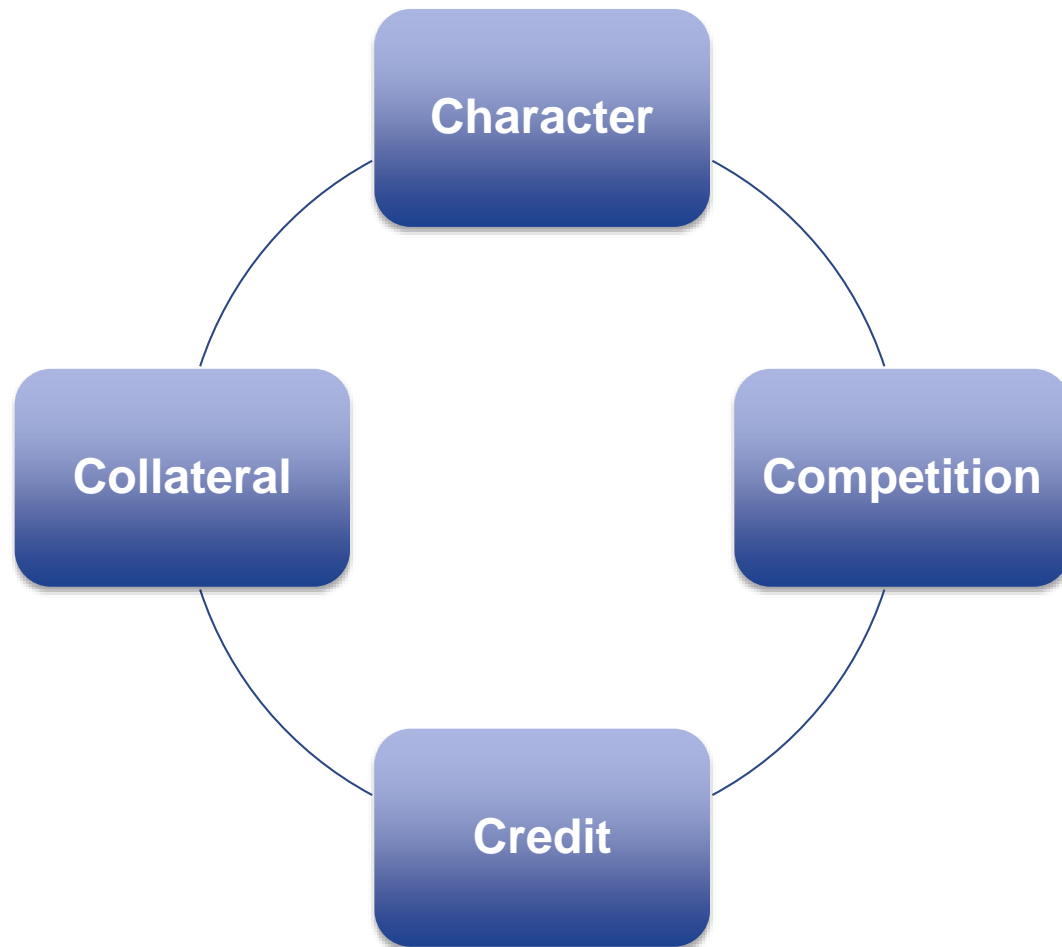


What do we look for?





The Four C's of Lending...



Character





Character

Experience and Trust

School Management	Project Management	Students
<ul style="list-style-type: none">• Board	<ul style="list-style-type: none">• General Contractor	<ul style="list-style-type: none">• % FRL, ELL, minority
<ul style="list-style-type: none">• Executive Director	<ul style="list-style-type: none">• Architect	<ul style="list-style-type: none">• Curriculum
<ul style="list-style-type: none">• Principal	<ul style="list-style-type: none">• Project Manager	<ul style="list-style-type: none">• Student/Teacher Ratio
<ul style="list-style-type: none">• Finance Manager		<ul style="list-style-type: none">• Participation
<ul style="list-style-type: none">• Teachers		



Competition





Competition

Charter and Academic Performance

Market	Performance	Enrollment
• District Schools	• Test scores	• Growth Trends
• Other Charters	• Graduation Rates	• Waiting List
• Authorizer		• Retention
• State Law		



Credit



FOX



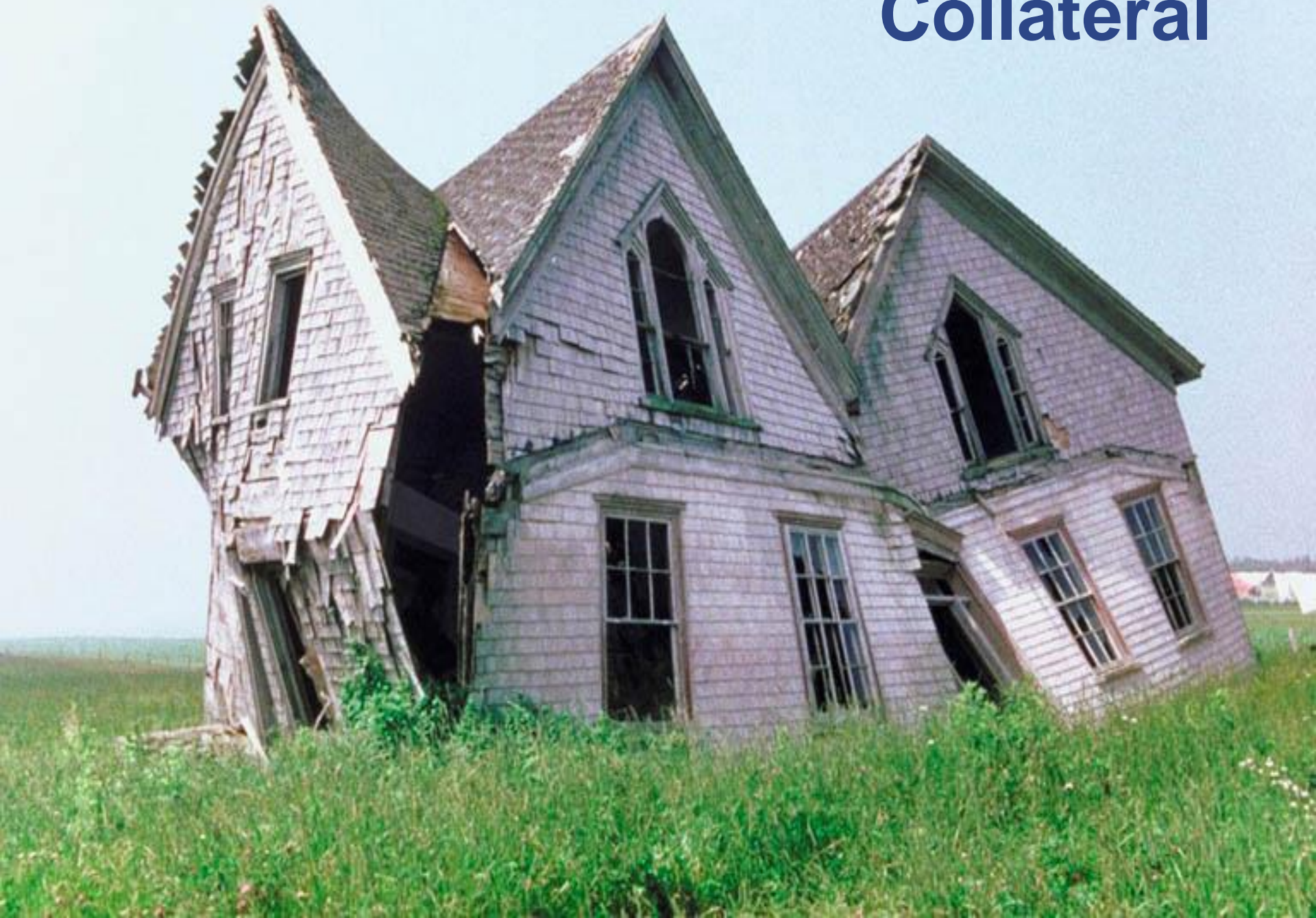
Credit

Financial Condition and Performance

Balance Sheet	Income Statement	Cash Flow
<ul style="list-style-type: none">• Cash on Hand	<ul style="list-style-type: none">• Operating Income	<ul style="list-style-type: none">• Operating EBIDA
<ul style="list-style-type: none">• Existing Debt	<ul style="list-style-type: none">• Net Income	<ul style="list-style-type: none">• DSCR
<ul style="list-style-type: none">• Leverage	<ul style="list-style-type: none">• Trends	



Collateral





Collateral

Recourse After Cash Flow

Real Estate	Credit Enhancement	Reserve Accounts
<ul style="list-style-type: none">• Down Payment	<ul style="list-style-type: none">• Guarantees	<ul style="list-style-type: none">• Debt Service
<ul style="list-style-type: none">• Appraisal	<ul style="list-style-type: none">• Letter of Credit	<ul style="list-style-type: none">• Maintenance
<ul style="list-style-type: none">• Loan-to-Value		
<ul style="list-style-type: none">• Improvements		



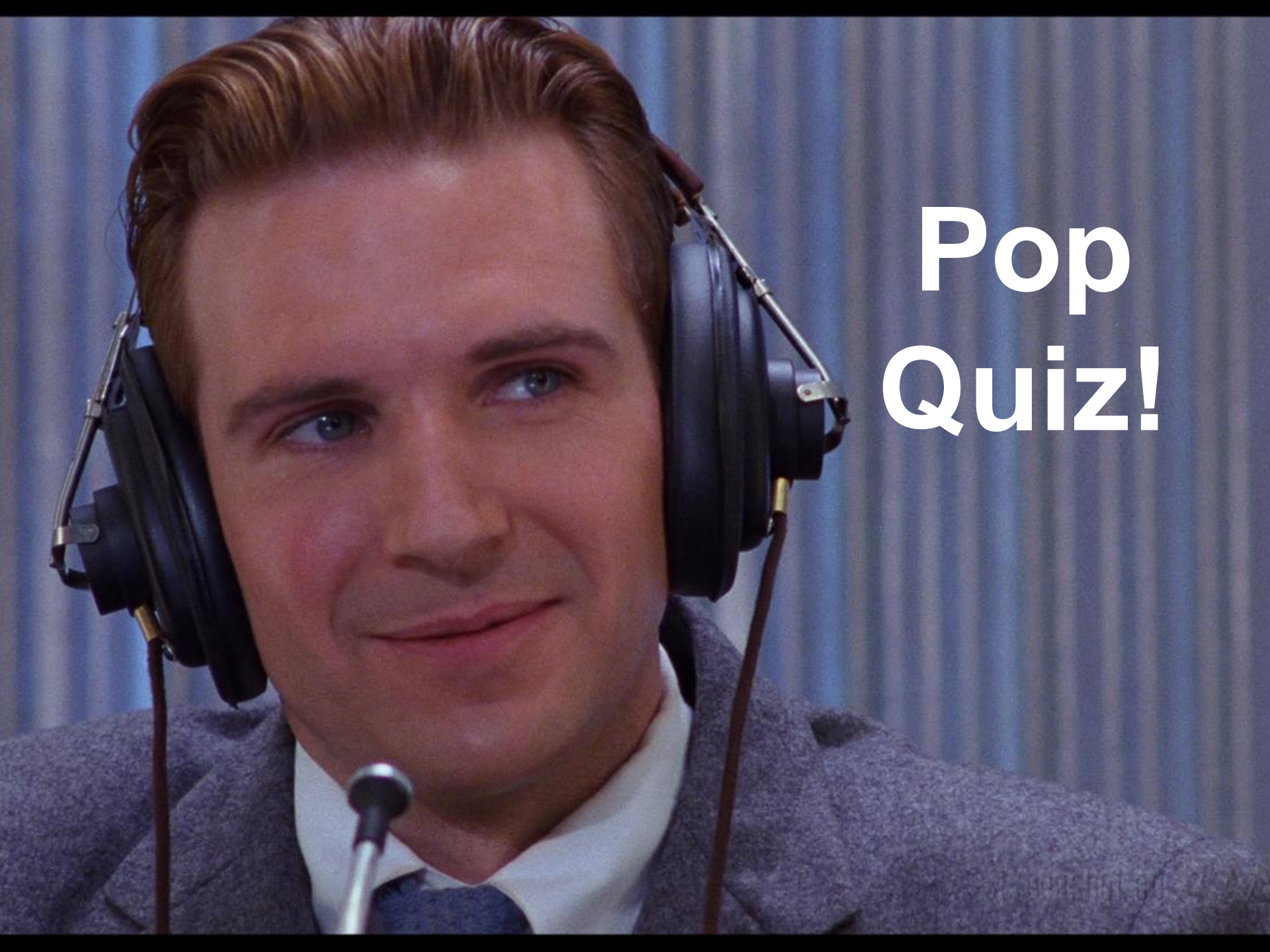


Conclusion

Tips & Tricks from a Lender

- Disclose (and then disclose)
- Strong projections
- Detailed request
- Talk to us early on
- Stay in compliance



A close-up photograph of a man with neatly combed reddish-brown hair and light blue eyes. He is wearing a dark grey suit jacket over a white collared shirt and a dark blue tie. He has large, black, over-ear headphones on his head, and a vintage-style microphone is positioned in front of his mouth. He has a slight, pleasant smile and is looking off-camera to the right. The background is a soft-focus, light blue-grey wall with vertical lines.

Pop Quiz!

Using Poll Everywhere



1. Take out your cell phone
2. Text **EDTEC248** to **22333**
3. Get ready to text your answers!



School 1 Review – South Los Angeles



- Middle and high charter school operating grades 6-12 in South Los Angeles
- In 3rd year of 2nd charter term
- Authorized and renewed at state level via appeal
- Adversarial relationship with local district
- Currently outperforming other local public schools on state tests
- Current facility is a district space (begrudgingly) that has capacity for up to 525 students
- Interested in upgrading to a facility that will provide space for up to 700 students

School 1 – Key Numbers



Enrollment	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
6th Grade	82	85	78	65	66	70	55	59
7th Grade	-	70	82	70	70	66	65	56
8th Grade	-	-	68	80	70	68	65	64
9th grade	-	-	-	90	55	70	72	70
10 th Grade	-	-	-	-	82	59	68	70
11 th Grade	-	-	-	-	-	80	57	66
12 th Grade	-	-	-	-	-	-	74	50
Total	82	155	228	305	343	413	456	435
Waitlist	25	15	-	-	-	-	-	-

Other Indicators	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
API*	710	715	716	718	745	746	N/A	N/A
Net Attrition %**	-	15%	3%	-5%	9%	-	3%	18%
Graduation Rate***	-	-	-	-	-	-	80%	64%



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School 1 – Discussion



- Does this school show strong fundamentals based on what Capital Impact covered/discussed?
- What may be problematic based on the information provided?

School 1 - Comments



- Example of “Competition”
- Early Track Record with Enrollment but Languishing
- Less Enrollment Risk Due to Serving All Grades Since 2013/14 School Year
- Attrition and Waitlist Indicators Problematic
- Academic Indicators Nuanced
- One Renewal is a Positive Sign

Ultimately, can they afford the project with ~450 students?

School 2 Review – Central California



- Elementary school in Central California ending its 2nd year
- Authorized by district and has great relationship
- No state assessment data available
- Current facility has 3 portables, but no additional space
- School is applying for a loan to fund leasehold improvements to a vacant parochial school building
- New facility would provide space through 4th grade
- Additional growth may be possible by adding portables
- Contemplating a \$2M loan with a 30 year term at 4.9%
 - Payment of \$10,615 monthly or \$127,380 annually

School 2 - Financials



	Year 0	Year 1	Year 2	Year 3*	Year 4 *	Year 5*	Year 6*
Total Revenue	\$265,000	\$585,000	\$1,228,500	\$1,842,000	\$2,457,000	\$3,042,000	\$3,627,000
Total Expenses	\$95,000	\$425,000	\$1,099,500	\$1,650,000	\$2,257,000	\$2,800,000	\$3,355,000
Operating Income*	\$170,000	\$160,000	\$129,000	\$192,000	\$200,000	\$242,000	\$272,000
Beginning Fund Balance	\$	\$170,000	\$330,000	\$459,000	\$651,000	\$851,000	\$1,093,000
Ending** Fund Balance	\$170,000	\$330,000	\$459,000	\$651,000	\$851,000	\$1,093,000	\$1,365,000

*Assume this is EBIDA

**Assume this is the school's cash balance as well; no other assets or liabilities at the end of each year



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School 2 – Discussion



- Does this school show strong fundamentals based on what Capital Impact discussed earlier?
- What may be problematic based on the information provided?

School 2 - Comments



- Example of “Credit”
- DSCR is Strong

	Year 3	Year 4	Year 5	Year 6
Operating Income	\$192,000	\$200,000	\$242,000	\$272,000
Annual Debt (Principal & Interest)	\$127,380	\$127,380	\$127,380	\$127,380
DSCR Ratio	1.51	1.57	1.90	2.14

- Some Contingency Room
- School is Scaling
- Projection Assumptions?
- Too Much Debt as a Tenant?
- What About 5th Grade?

What We Have Learned

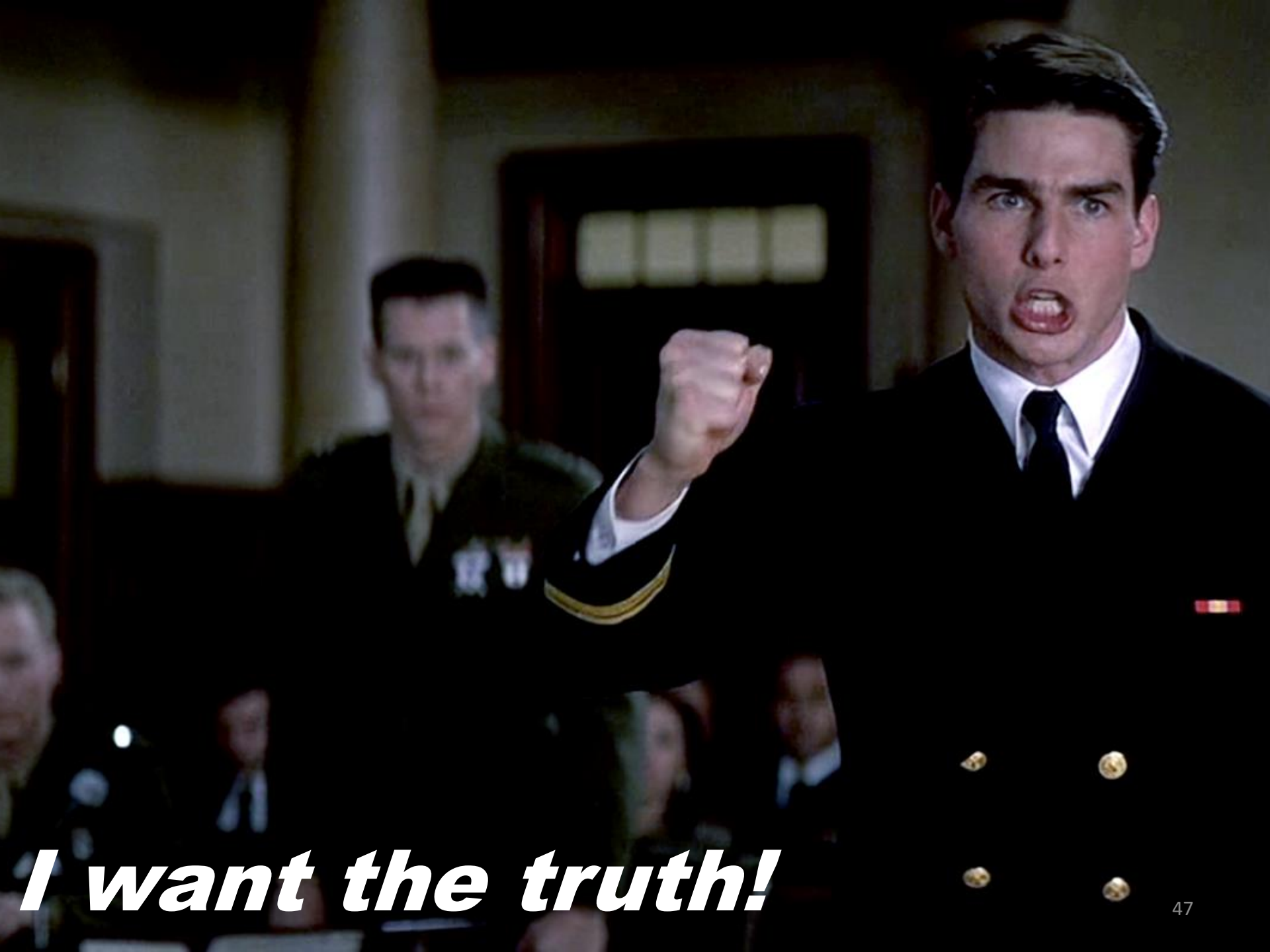


Goals

- Learn **how to best prepare** your charter school for a facility project
- Identify **what lenders look for** in charter school financing applicants

Lessons

1. **Build Organizational Capacity and Plan Ahead**
2. **Have Short Term and Long Term Plans**
3. **Get A's on the Four C's**

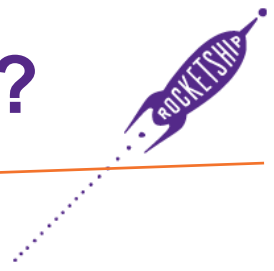


I want the truth!



Evaluation Options for School Facilities

Threshold Question - Lease or Purchase?



1. Are you already located in the area you want to serve?
2. What space is necessary to support your program?
3. Are you still growing as a school?
4. Do you have an equity contribution to assist with financing?

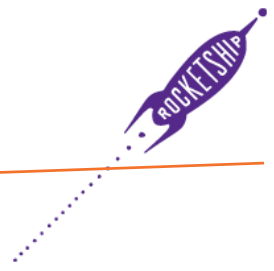
Typical Scenarios for Lease:

- Small school, still growing in size and financial capacity
- Resources limited
- Will need / want better or more space after enrollment is stabilized

Typical Scenarios for Purchase:

- Enrollment has stabilized, or sufficient to support permanent space
- Equity sources committed
- Specialized programming necessitates non-traditional space

What Financing Do We Want?



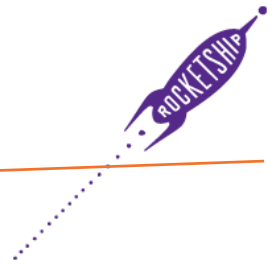
Short-Term or Long-Term Options

- Leasehold financing on renovations will likely be shorter term
- Mini-perm debt can be a good bridge to permanent financing
- Whether you are creditworthy enough to support tax exempt bonds is a key question to finding longest term and most affordable solutions

General Preparation for Lenders

- Know what you can afford – and have an understanding of the sensitivity you have around pricing and amortization period
- Matching the time you need with the term of the loan can be difficult – what is your refinance strategy?
- Investigate what various loan programs offer, early and frequently
- Try to understand all the terms you are looking for before you receive the term sheet; have your multi year projections and past audits ready
- Know how you measure up to typical lender covenants on debt coverage, liquidity, etc.

Lender Term Sheet Reviews



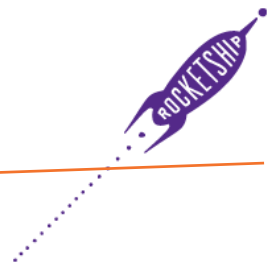
Term Sheet Reviews

- Term sheets are the initial tool to discuss structuring your loan, not a final commitment
- The lender is motivated to work with you to have a successful project
- Some things are negotiable, so don't be afraid to ask

Typical Borrower Trade Offs

- How sensitive is your organization to cost, timing and compliance driven metrics?
- Cost vs. Structure, Timing
 - Acceptance of a cost premium to gain predictability or improve structure
 - Acceptance of a less than optimal structure to gain lower cost

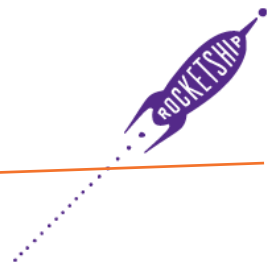
Lender Term Sheet Reviews



Salient Terms and Conditions

- Monetary terms
 - Equity requirement by the Borrower (when is it necessary and what % of the total budget?
 - Costs / Deposits, Interest Rate.
 - Are the costs what was expected, and are they affordable for your organization? Are they refundable, and will any portion be credited at closing if not used for third party costs?
 - What rate index is used and is it variable or fixed (assessment of risk)? If variable, do you want to hedge interest rate risk over the life of the loan?
- Timing
 - Final due diligence and closing dates.
 - Maturity and option periods (option periods may carry different amortization requirements).

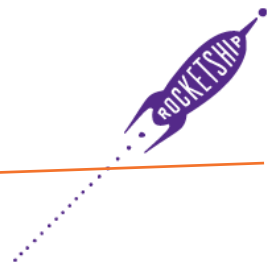
Lender Term Sheet Reviews



Salient Terms and Conditions

- Non-monetary terms
 - Term of the loan, loan covenants and reporting requirements.
 - Is an option available to extend the maturity?
 - Are the covenants attainable based on 'current' conditions? Sensitivity analyses or a 'look-back' analysis can be helpful.
 - Does the reporting make sense for your organization? (Some reports may already exist as required by authorizers, etc.)
 - Collateral (other than real estate) – Are you being asked to pledge receivables; Are your management fees, if any, subordinated or deferred?
- Closing
 - Conditions to meet in order to close.
 - Typical conditions; valid charter, entitlements complete, board resolutions, legal review and opinions, and 3rd party reports - appraisals, environmental review, title and surveys, etc., are all favorable.

Examples / Recommendations



School 1

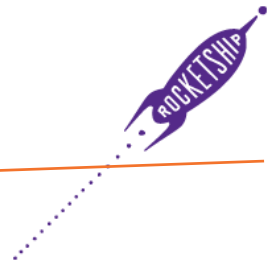
Assessment –

- Middle / High School in district space with some room to grow in the current space
- Enrollment not yet stabilized at Year 3
- Will need new space in the coming years to grow, perhaps needing debt to improve a space
- School has no credit track record, and is not yet meeting AYP
- May have some near term charter renewal risk
- Facilities should not be relied upon as a driver for enrollment; a good education opportunity will usually trump a less than optimal facility experience

Recommendations –

- *A commercial landlord (or lender) may not be willing to bear (or fund) the expense of improvements based on the lack of a good track record and with the school's charter renewal in 2 years*
- *Remaining in the current space as a short term alternative until the charter can be renewed and demand can be generated*
- *Build / improve track record to prepare for charter renewal and plan for increased space if renewed*

Examples / Recommendations



School 2

Assessment –

- Small school in district space, but outgrowing it quickly
- No achievement data yet, but good relationship with district and enough time to prove results before renewal
- Next space identified with friendly landlord, with room to grow

Recommendations –

- *Ensure the lease with the church is long enough to attract a lender that will provide long term amortization, otherwise affordability pressure will increase*
- *Explore a two-phased financing approach with your lender, only drawing exactly what you need during the first phase – and obtaining a forward commitment for the next phase provided you meet certain school health and financial metrics*



Questions?

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