



# Been There, Done That

## Facilities Planning Options & Advice

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**edtec**  
Business and Development Specialists  
for Charter Schools

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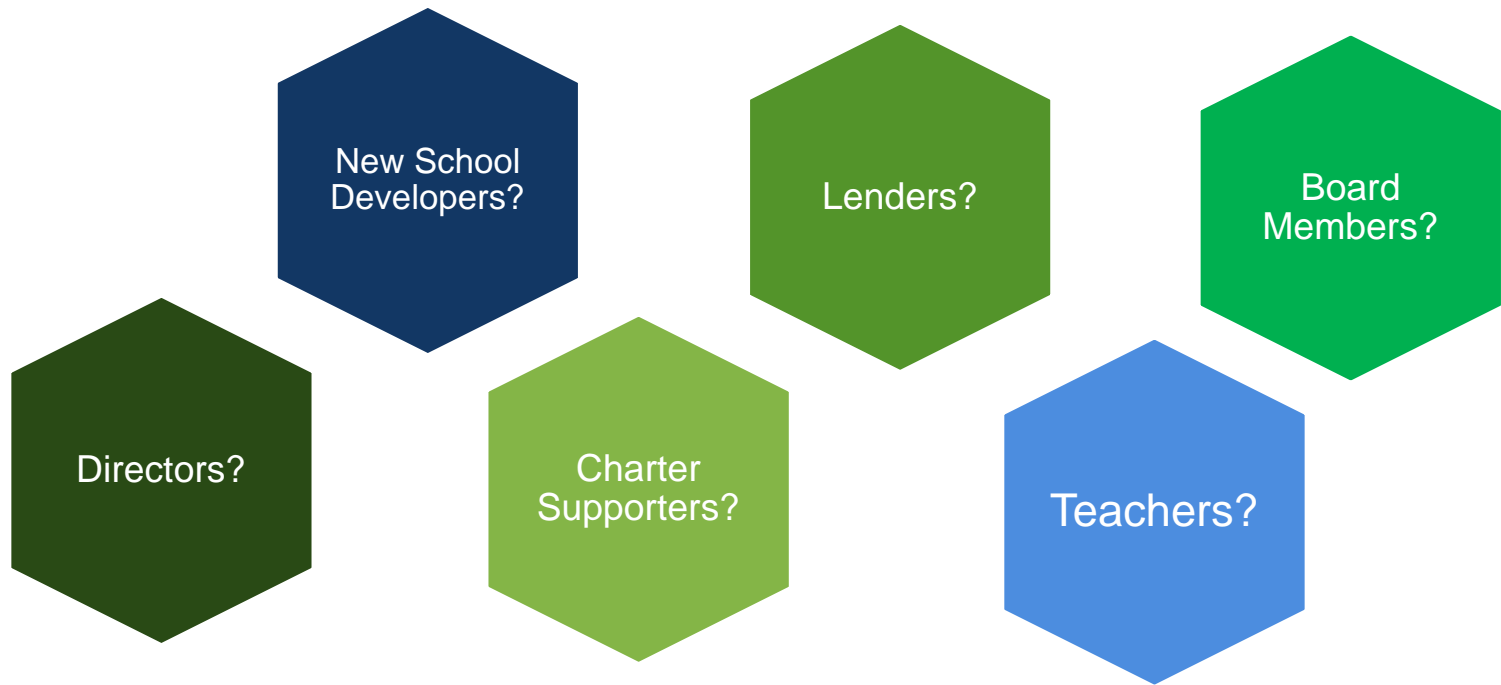
# Agenda



- Introductions
- Facilities challenge
- Facilities funding options
- Financing 101
  - Key terms
  - Loans
  - Bonds
  - Private equity
- How to get started
- First-hand experience and lessons learned

# Introductions

# Who Are You?



# Who Are We?



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# The Facilities Challenge

# Where Are We



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
What you lack:	Money, track record, credit, real estate license, expertise
What you have:	Community relations, board members, predictable revenue

# The Charter Facilities Challenge



- New business
- Little money
- Unique function
- Community-based
- Dramatic growth

# The Facilities Life Cycle: Example 1



## Kepler Neighborhood School – Fresno

2013 – Opens with 199 students. Leases from Cornerstone Church in the Tower District.

2014 – 241 students – Starting to outgrow facility. Does not have adequate space. The search begins. Kepler visits over 20 possible locations.

2015 – 322 students – Locates a property around the corner. Working with developer for “turn-key” development and have recently secured an agreement for a lease.

2016 – 388 students. Must stay in current space until December when new facility will be ready. Will need to do a bond deal to purchase the building in first year.

### Future facilities plans

- Complete permanent facility for 440 TK-8 students
  - Construction is about to begin; est. completion December 2016
  - Meanwhile, classes will be held at current location. This means adding temporary classrooms for growth and a mid-year move.
- Secure bond financing to purchase the building
  - Currently working with bond financiers to secure a \$9M deal to purchase the building from the developer this year

# The Facilities Life Cycle: Example 2



## Central City Value High – Los Angeles

2003 – Opens w/ 83 ninth-graders. Shares a leased facility with the CMO's K-8 school.

2004 – 179 students. Uses modular classrooms on a district school's campus.

2005 – Negotiates deal w/ private investor to purchase & renovate permanent facility in Mid-Wilshire area. Anticipated move-in: September 2006.

2006 – Permanent building delayed. Meanwhile, in three years the school moves between a series of temp locations: Westchester High (Prop 39), a campus in East LA, and two different churches.

2007 – Moves in to permanent facility in May 2007.

2013 – Issues \$13 million in bonds to refinance the high school & K-8 facilities.

## Future facilities plans for Value Schools

- Complete permanent facility for second HS
  - Construction is underway; est. completion Summer 2017
  - Meanwhile, classes held in an office building this year. Considering a Prop 39 site next year.
- Secure permanent facility for second K-8 school
  - Currently holding classes in space leased from a church

# Cost Areas



- Site selection
  - Studies: traffic, environmental, seismic
  - Design fees
    - Facility master plan
  - Appraisal fees
- Site acquisition
  - Attorney fees
  - Purchase price
  - Financing costs
- Site development
  - Environmental assessments and abatement projects
    - Hazardous-materials clean-up
    - Traffic issues - drop off & pick up zones or street widening
  - Americans with Disabilities Act (ADA) modifications
  - Fire/life/safety (e.g. wider hallways, sprinklers)
  - Permits
  - Architect
  - Construction costs

Recommend a minimum of 10% down on project plus \$75k for tests/design before beginning process

# Facility Funding Options

# Facilities Funding Options



- General purpose funds
  - Recommended not to exceed 15%
- Grants
  - State Facilities Incentive Grants – competitive
    - \$250k for lease max or \$500k for construction max
- SB740
  - Reimburse up to the lesser of 75% of lease costs or \$750/ADA
  - 55% FRL restriction
  - Cannot receive more than the 75% of lease costs from SB740 and Incentive Grant combined
- Prop 39
  - Districts required to provide “reasonably equivalent” facilities to eligible charter schools
  - Charter pays either a pro-rata share of district’s cost or 3% oversight fee
  - Need ADA ≥ 80 in-district students
  - One-year agreement typically

# Financing Options



- Loans
  - Types
    - Construction
    - Permanent & mini-perm
    - Leasehold or tenant improvement
  - Incentives
    - New Market Tax Credits
    - Credit enhancement
    - Community Reinvestment Act
- Tax-exempt bonds
- Private equity

# Financing 101

# Financing: Loans



- Traditional banks
- Community Development Financial Institutions (CDFIs)



- Non-profit lenders focused on health clinics, low income housing, childcare, “food deserts,” and charter schools
- LIF and LISC with offices in Manhattan
- Types of loans
  - Pre-development – hard to get
  - Construction – six-to-18-month loan just for construction period
  - Mini-perm – seven years
  - Leasehold/tenant improvement

# Key Terms



- Interest rate
  - The cost of borrowing money
  - Charters historically around 7 to 8.5%
- Fees
  - Origination and servicing fees – usually 1 to 2%
- Loan to Value (LTV)
  - What % you need to have in cash
  - 90% LTV means 10% down payment
- Loan term
  - How long until the loan is due
- Amortization period
  - How monthly payments are determined. If have a 30-year amortization, monthly payments are determined as if you were paying it off over 30 years (even if loan is due in five years).
  - Balloon payment: When amortization period > loan term. Must seek replacement financing.

# Financing: Incentive Programs



- New Market Tax Credits (NMTCs)
  - Private investors receive a tax credit for investment in low-income communities
  - Credit to investor of 39% of investment (over seven years)
  - Usually cannot refinance during seven-year period
  - Very competitive
    - 2015 round: \$16.6B in applications for \$3.5B in available funding
  
- Credit enhancement
  - Dept. of Education – Office of Innovation
  - Usually \$1 of enhancement for \$10 of debt
  - Acts as a first loss
  - Examples
    - California Charter Building Fund (CCBF)
    - California School Finance Authority (CFSA)
  
- Community Reinvestment Act
  - Federal law to encourage investment in low income areas

# Tax-Exempt Bonds



## □ Investors purchase charter school debt

- Usually 30-year, permanent financing
- LTV = 100% or more
- Rates historically ~6.5 to 7.5% (varies with overall interest rate environment)
- High fees: 3.5 to 4%
- Historically for mature charter schools only, but getting easier for new schools over time
- Investors often pension funds or high net worth individuals

## □ The Players

- Investment bankers
- Bond counsel
- Conduit issuer



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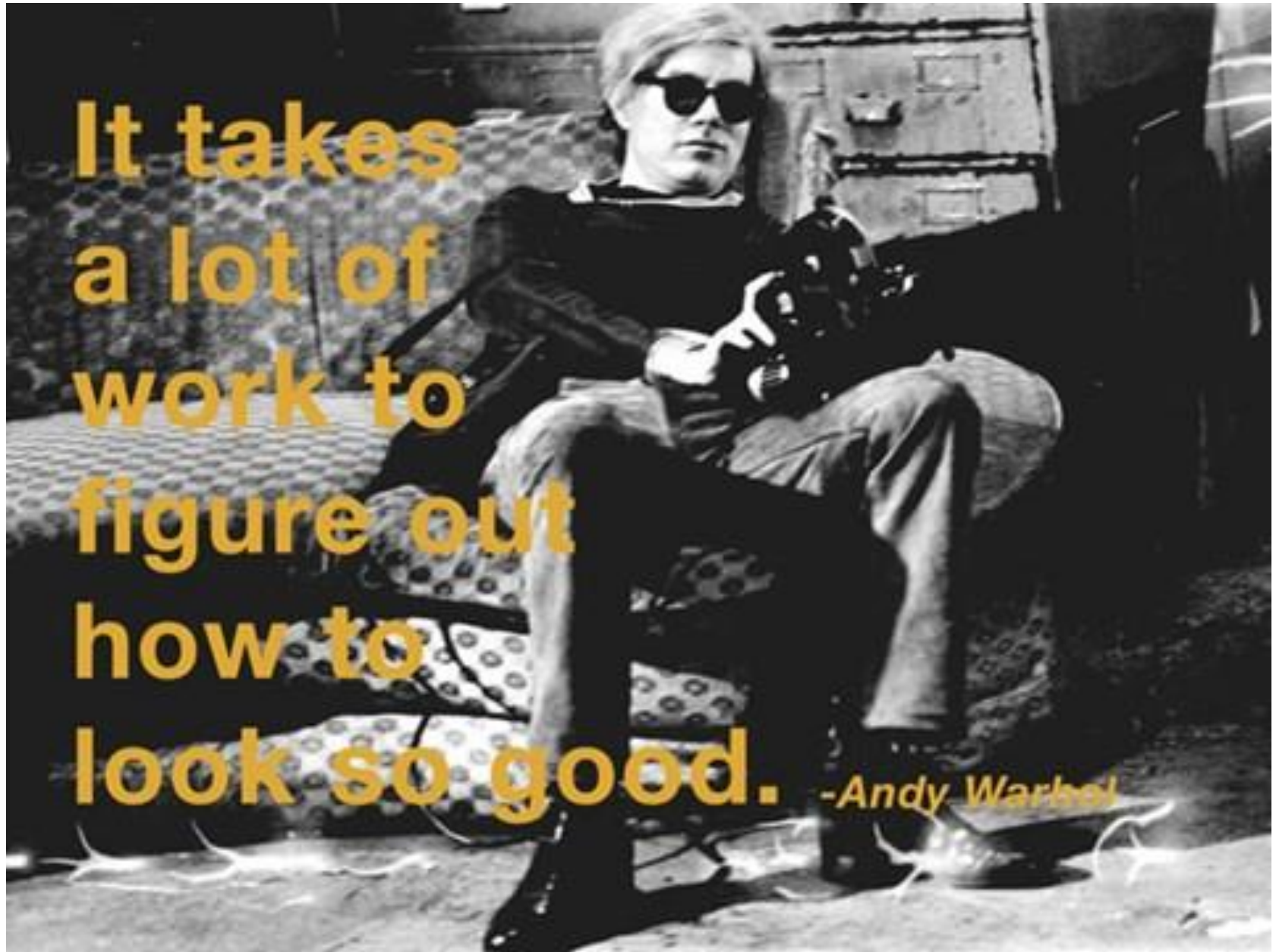


# Private Equity



- Typically investment firms partnered with private investors
- Scope of services ranges by firm
  - Financing
  - Site selection
  - Development
  - Lease-to-own options
- Some firms take entitlement risk
- Pricing depends on deal structure
  - Investor returns
- The players





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

# How to Get Started

# Getting What You Need and Maybe What You Want



# Ideal Timeline to a New Facility



4 Years

- Strategic plan (growth plan, facilities needs, timing)
- Review possible weaknesses

3 Years

- Explore facility options
- Financial projections

2 Years

- Site search
- Round out project team
- Have contingency plans

# Know What You Can Afford



## Step 1 – Calculate highest affordable annual payment

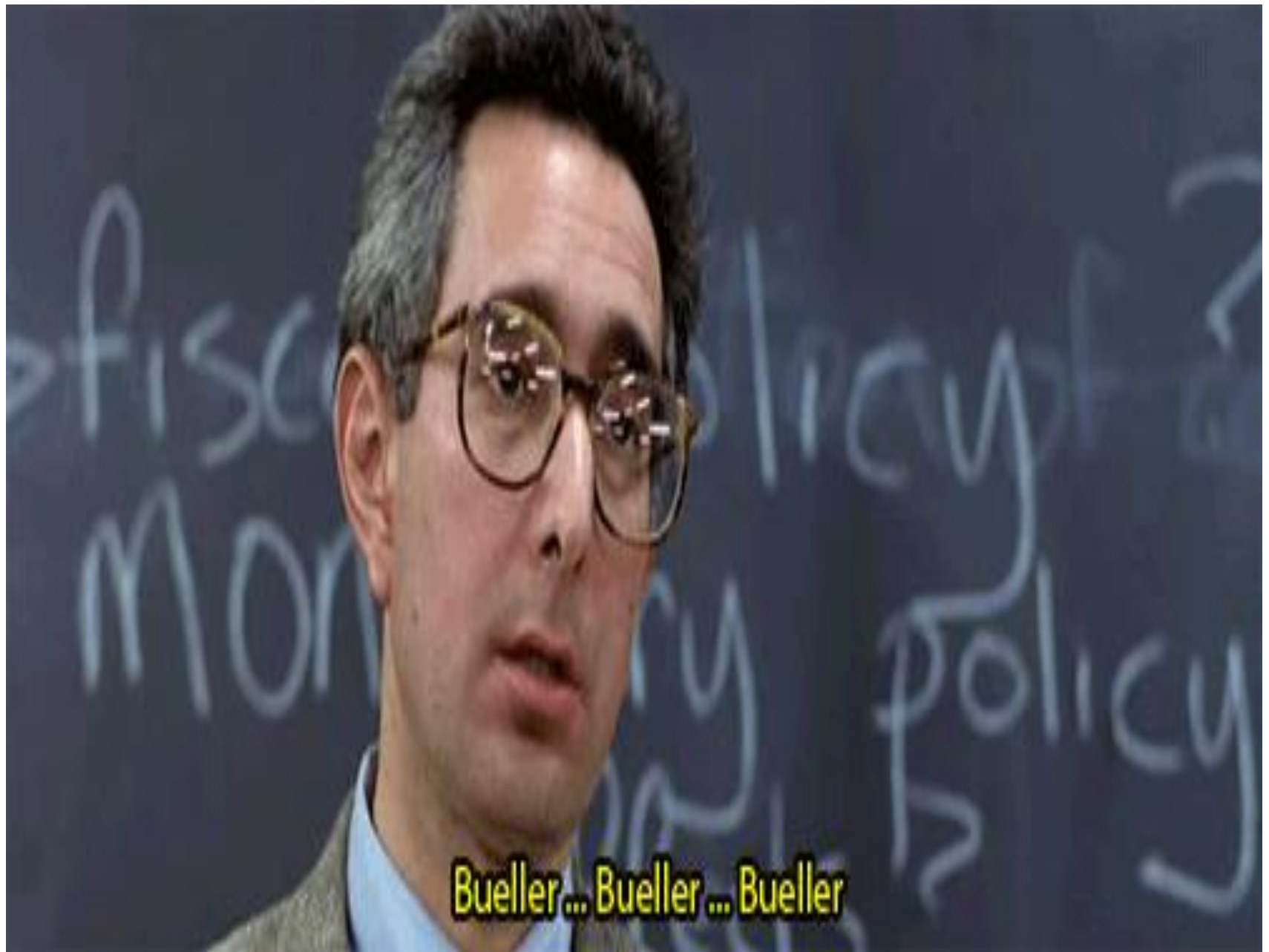
- Multiply **Average Daily Attendance** x **Per Pupil Funding** x 15%
  - ADA = enrollment x attendance rate
  - PPF = LCFF funds + facilities funds + lottery funds.
  - 15% = Mortgage payment. Mortgage payments greater than 15% of revenue may be hard to make. 12.5% or below should be your goal.
- *Example:*
  - 300 students at 95% attendance = 285 ADA; PPF = \$7,000
  - $285 \times \$7,000 = \$1,995,000$ ;
  - $\$1,995,000 \times 15\% = \mathbf{\$299,250}$  per year

## Step 2 – Calculate the annual payment on a loan

- Principal = \$3,000,0000; interest rate = 7%; term = 25 years
- To calculate the annual payment for a loan compounding monthly do the following:
- Open Excel
- Click on a cell and insert the following formula:
  - =PMT(Interest Rate/12, Term in Years\*12, Principal)
    - =PMT(7%/12, 25\*12, 3000000)
  - This equals \$21,203 per month
- Multiply by 12 to get **\$254,440** per year

## Step 3 – Make sure Step 1 > Step 2

- $\$299,250 > \$254,440$  ✓



Bueller... Bueller... Bueller

# What a Lender Wants to Know



## Credit

- Current and historical financial performance
- Current and historical enrollment information
- Cash Reserves (DOCH)

## Competition

- Academic performance
- Waiting lists
- Ease of charter renewal

## The Four C's

## Capacity

- Leadership of board and staff
- Management sophistication
- Project team

## Collateral

- Adequate in case of default
- Obstacles to lender being in first position

# Building Your Team



## Board Members

- Committee members

## Staff

## Parents

## Professionals



## □ Key Questions

- Experience working with charter or K-12 schools
- Work done in the local area
- Interest in your mission
- Availability to meet outside of “work hours”
- Financial/billing arrangements

# Find What You Don't Have

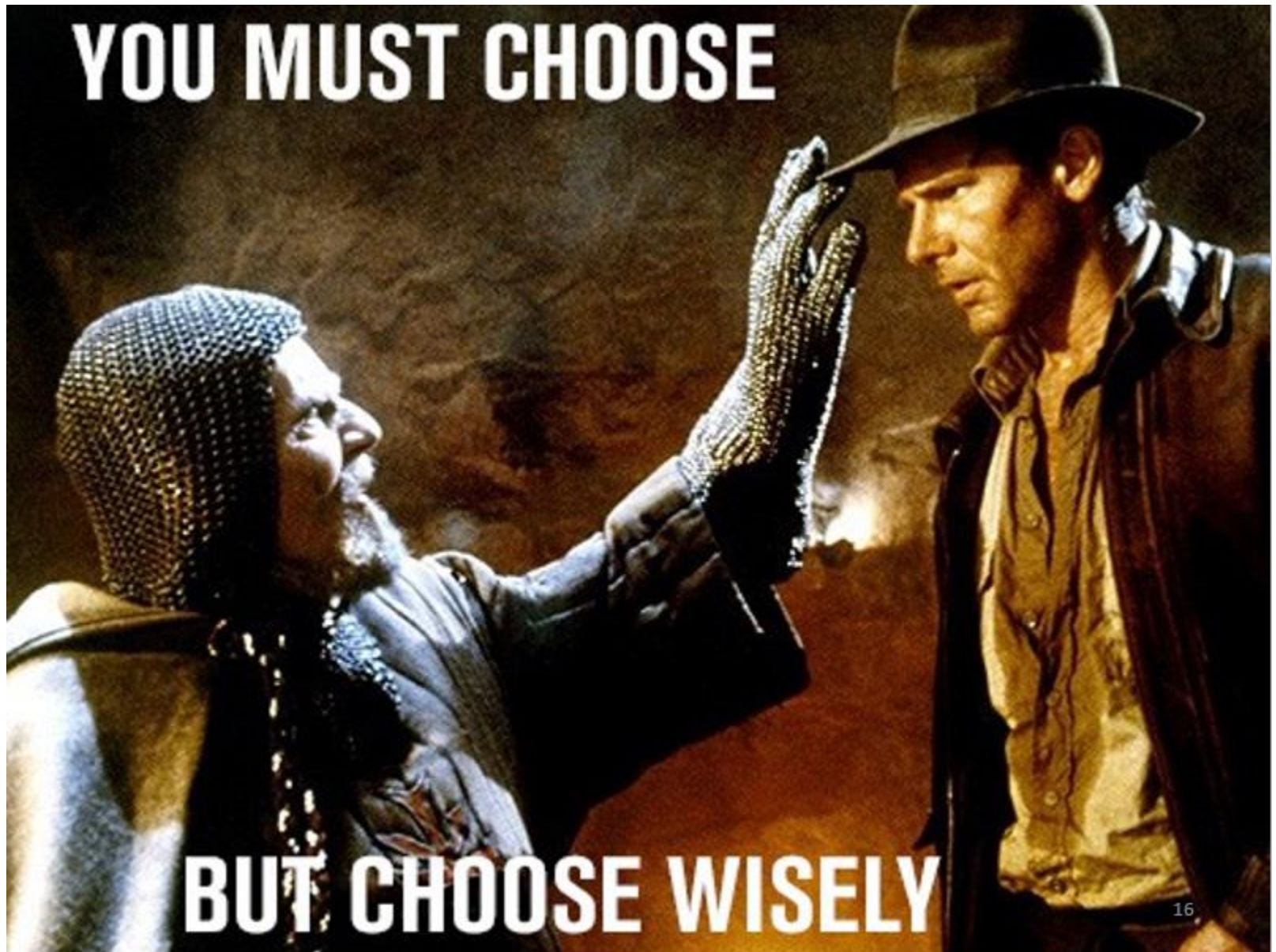


## Build organizational capacity

### Skill sets needed for facilities project

- Educational leadership
- Financial expertise
- Fundraising
- Real estate
- Legal
- Community/government relations
- Construction
- Project management (both internal and external)

**YOU MUST CHOOSE**



**BUT CHOOSE WISELY**

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# Find What You Don't Have: Money



## Step 1: Set financial goals

### Annual

- ❑ Monthly forecasts
- ❑ Positive net income
- ❑ Improve financial performance from prior year
- ❑ Set savings goal for facility
- ❑ Clean audit

### Long term for facility

- ❑ \$75,000 to pay for pre-development work (varies greatly!)
- ❑ At least 10% equity for a project
- ❑ Clear pattern of free cash flow to cover potential debt

# Find What You Don't Have: Money



## Step 2: Meet financial goals

### Fundraising

- Establish a long history of fundraising

### Debt

- Enter any debt agreement with eye towards facility plan



# Strengthen What You Have



## Political and community support

- ❑ Identify stakeholders – in current *and* potential communities
- ❑ Communication/outreach plan *before* you need support
- ❑ Engage your families
- ❑ Maintain working relationships with authorizer and city

## Enrollment (predictable revenue)

- ❑ Logical growth plan
- ❑ Identify and address causes of enrollment dips
- ❑ Don't be satisfied with just reaching your goal, build a waitlist!

## Academic

- ❑ Clearly define how your school defines and measures success

# Did You Do The Work to Look Good?



- ✓ Have a strategic plan
- ✓ Addressed weaknesses
  - ✓ Brought in expertise
  - ✓ Built a financial and academic track record
- ✓ Can show demand for your school
- ✓ Increased community support

# First-Hand Experience

# Kepler Neighborhood School



# Kepler's Lessons Learned



- Timing is key!
  - Revitalization of Fresno
  - Publicity through marketing and videos is important
- Know your program
  - Don't settle!
  - Growth plans
- Strong board is a huge plus
- Have a third-party appraiser
  - Understand the building's value upfront
- Location is important
  - Need to follow your charter
  - Staying in mural district limited options

# Value Schools



# Value's Lessons Learned



- Team selection
  - Assemble a team who knows the real estate landscape
- Anticipate delays and overruns
  - Plan for at least a year longer than you thought
  - Expect to spend at least \$1 million more than you anticipated
- Communicate
  - Keep parents & staff informed along the way to keep the dream alive
- A school is not a building
  - It is the people who work together to achieve big things!
- Become part of the community you will settle in

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