



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. Lights
2. Camera
3. Action

Download today's presentation on the Conference website or at EdtecInc.Box.com/v/CCSA2017

Who Are We?

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Who Are You?

School Leaders?

Board Members?

Others?

New School Developers?

Lenders?



About EdTec

- Founded in 2001 to **develop, support and advance quality charter schools**
- A **social mission-driven** organization, EdTec's social impact spans:

300+

Partner Schools

160K+

Students Supported

380+

Staff Years of Charter Expertise
- Known for **best-in-class business and operations services**:

Back-Office Business Services

Data Services

Charter Development

Governance Support

Section I: Lights

Examine Your School and Set Off on the Right Path





Create a Strategic Plan

Agreement on Priorities

Enrollment Plan

Expansion Plan

Community Support Plan



4 Years Out

Strategic Planning

Financial Strength

Address Weaknesses

Determine Desired Facility Features

Needs vs. Wants

- Classroom size & design
- Capacity for growth
- Special function classrooms
- Gym and/or cafeteria
- Open space
- Neighborhood
- Parking
- Public transportation

3 Years Out

Facility Needs

Facility Options

Financial Projections

Identify Project Team Skills

Skills Needed

- Real estate
- Legal
- Facility design
- Construction
- Finance
- Fundraising
- Community and government relations
- Education leadership
- Project management

2 Years Out

Project Team

Site Search

Contingency Plans

Build Your Expert Team

Internal

- Board and board committee members
- Parents
- Staff

External

Key qualities

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

2 Years Out

Project Team

Site Search

Contingency Plans

Prepare to Look Your Financial Best

Establish Financial Goals and Practices

- Positive net income
- Pattern of free cash flow
- Clean audit
- Improving financial performance year after year
- Establish fundraising track record
- Make borrowing decisions today with eye on tomorrow
- Discuss financial performance every month

> 2 Years Out

Build Reserves

- Pre-development fund - \$75k+
- Project equity – 10%

Financing
Facility Design
Entitlements
Construction

New Facility Timeline



Section II: Camera Show a lender your best side



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



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

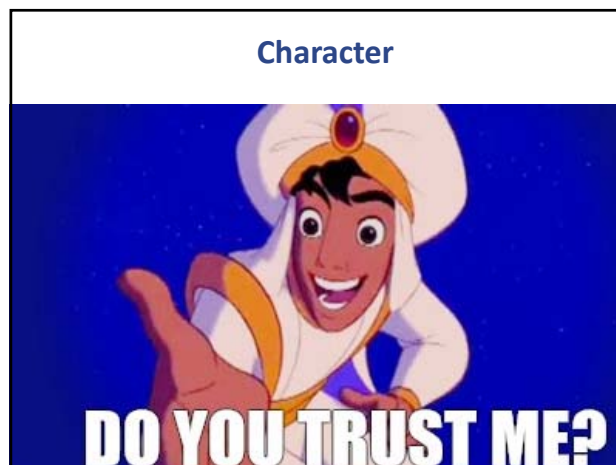
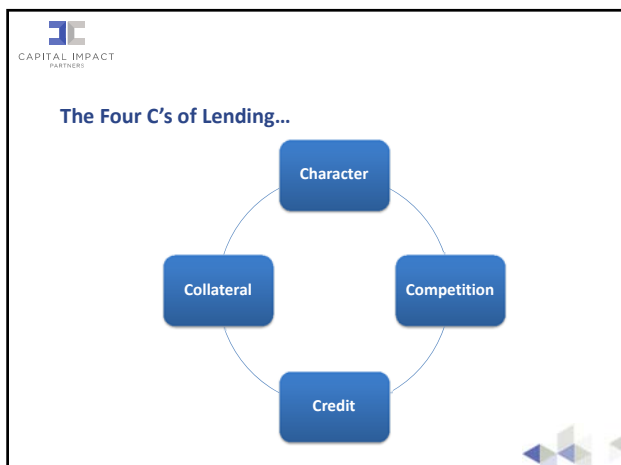
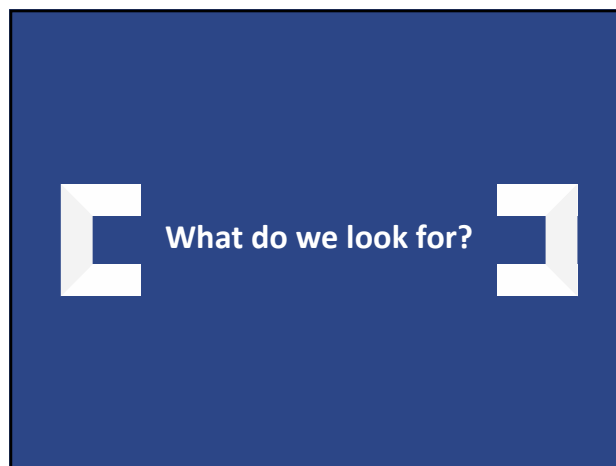
Collateral

- 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



CAPITAL IMPACT PARTNERS

Character

Experience and Trust

School Management	Project Management	Students
• Board	• General Contractor	• % FRL, ELL, minority
• Executive Director	• Architect	• Curriculum
• Principal	• Project Manager	• Student/Teacher Ratio
• Finance Manager		• Participation
• Teachers		



CAPITAL IMPACT PARTNERS

Competition

Charter and Academic Performance

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



CAPITAL IMPACT PARTNERS

Credit

Financial Condition and Performance

Balance Sheet	Income Statement	Cash Flow
• Cash on Hand	• Operating Income	• Operating EBIDA
• Existing Debt	• Net Income	• DSCR
• Leverage	• Trends	



Collateral
Recourse After Cash Flow

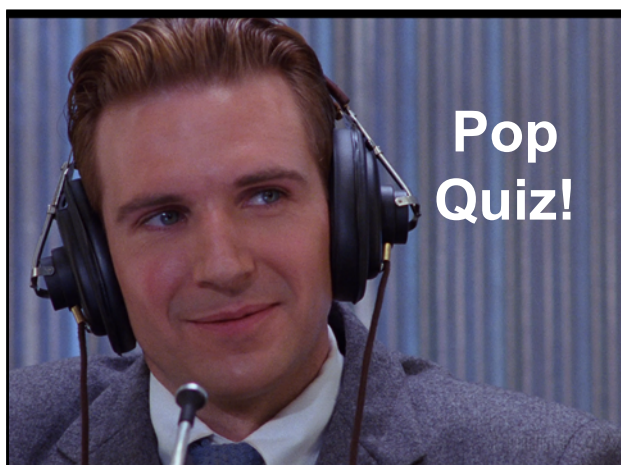
Real Estate	Credit Enhancement	Reserve Accounts
• Down Payment	• Guarantees	• Debt Service
• Appraisal	• Letter of Credit	• Maintenance
• Loan-to-Value		
• Improvements		

Conclusion
Tips & Tricks from a Lender

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



Pop Quiz!



School 1 – South Los Angeles
Details

- Middle and high charter school operating grades 6-12
- 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 (begudgingly) 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 2012	FY 2013	FY 2014	FY 2015	FY 2016
6th Grade	66	70	55	59	60
7th Grade	70	66	65	56	57
8th Grade	70	68	65	64	54
9th grade	55	70	72	70	70
10 th Grade	82	59	68	70	70
11 th Grade	-	80	57	66	68
12 th Grade	-	-	74	50	66
Total	343	413	456	435	445
Waitlist	15	5	-	-	-

Other Indicators	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
API	725	750	N/A	N/A	N/A
CAASPP - ELA	N/A	N/A	N/A	N/A	42% met
CAASPP - Math	N/A	N/A	N/A	N/A	25% met

School 1 – South Los Angeles
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 – South Los Angeles
Comments and Questions

- Example of “Competition”
- Early strong 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 – Central California
Details

- Elementary school ending its 2nd year
- Authorized by district and has great relationship
- Current facility has 3 portables, but no additional space
- School would like to move to a vacant parochial school site and is applying for a loan to fund leasehold improvements
- New facility would provide space through 4th grade
- Additional growth may be possible by adding portables
- Contemplating a \$1.75M loan with a 30 year term at 5.6%
 - » Payment of \$10k monthly/\$120k annually

School 2 - Financials

(\$000)	Year 0	Year 1	Year 2	Year 3*	Year 4*	Year 5*	Year 6*
Total Revenue	\$250	\$600	\$1,250	\$2,000	\$2,500	\$3,000	\$3,500
Total Expenses	\$100	\$450	\$1,125	\$1,800	\$2,250	\$2,750	\$3,200
Operating Income	\$150	\$150	\$125	\$200	\$250	\$250	\$300
Beginning Fund Balance	\$	\$150	\$300	\$425	\$625	\$875	\$1,125
Ending Fund Balance	\$150	\$300	\$425	\$625	\$875	\$1,125	\$1,425

School 2 – Central California
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 – Central California
Comments and Questions

- Example of “Credit”
- DSCR is Strong

	Year 3	Year 4	Year 5	Year 6
Operating Income	\$200	\$250	\$250	\$300
Annual Debt (Principal & Interest)	\$120	\$120	\$120	\$120
DSCR Ratio	1.67	2.08	2.08	2.50

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

What We Have Learned: Check-in #1

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. **Shine a light** on your organizational capacity and plan ahead
2. **Be camera ready** on the Four C's

Section III: Action

Make the best financing decision for you



Evaluation of 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-term 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
 - Do the financial covenants work?
 - 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
 - *How much reporting and control are they seeking?*
 - 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 for the parochial school site is long enough to attract a lender that will provide an attractive, 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*

What We Have Learned: Check-in #1

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

Lessons Learned

1. **Shine a light** on your organizational capacity and plan ahead
2. **Be camera ready** on the Four C's
3. **Take action** and select the best financing solution for your project

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Questions?



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