



buildinghope

Building Hope... A Charter School Facilities Fund

Investing Wisely. Doing Good. Building Hope.



The Role We Play

Building Hope assists public charter schools with facility acquisition, renovation, construction, and financing.

Our services include:

- ▶ Real Estate Financing
 - ▶ Direct Lending and Credit Enhancement
- ▶ Pro Bono Technical Assistance
- ▶ Incubator Facilities
- ▶ Property Development Services
 - ▶ Turnkey Development
 - ▶ Project Management
- ▶ Business Services



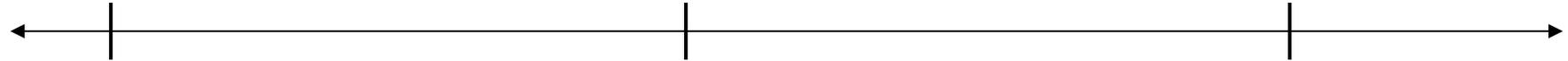


History of Charter School Facilities

1990s

2000s

2010s



Whatever schools
could find

Primarily focused on
commercial markets:

- Office space/ Industrial parks
- Churches/Community Center
- Surplus School buildings

More focus on reuse of
former school locations:

- Incubator space
- Co-location with Districts
- Lease of surplus District buildings
- Commercial market

There are many groups that specialize in charter school facilities.

1. We recommend you talk with experienced professionals
2. Talk to other charter schools that have been in your situation





Charter School Solutions

School Demand

Early Stage *Mature*

Commercial Space/ New Development	District disposition process
Community Facility Lease	Incubator Initiative

Private Facility

Public Facility

Building Supply





buildinghope **Construction and Renovation Financing**

- Space Planning
- Financing Capacity
- Site Identification
- Cost Estimating
- Loan Applications
- Covenants
- Timeline
- Closing
- Monitoring



Determining Space Needs

General rules of thumb:

1. 100 s.f. per student
2. Space planning exercise with an architect
 - There are a few architects that specialize in charter schools. Building Hope's Technical Assistance Center can help facilitate this process for free

There are charter school facility specialists:

- They can help with the brokerage process and new site development from the ground up.
- We recommend you do not enter into an exclusive relationship with a broker. There are too many stories of schools who regret that decision.



Facility Budgeting

There are rules of thumb for facility costs:

- Keep the annual facility costs (including operating costs) below your states' per student facility funding allocation of around 15% of PPR
- Operating costs average \$7/s.f. or \$700 per student (assuming the 100 s.f./student). The balance is for lease/mortgage
- Construction costs range from \$150-\$250 per s.f. or \$20,000 per student (assuming the 100 s.f./student)
- This can be translated into \$X per s.f. for built space – or much less for space requiring build outs.



What can you afford?

1. ASSUMPTIONS

Number of students	500
Number of square feet per student	100
Amount of square feet required	50,000
Facilities allowance (15% of PPR). Say \$10,000 PPR	\$1,500

2. CALCULATION

# of students	500
Facilities allowance	\$1,500
TOTAL AVAILABLE FOR ALL FACILITIES-RELATED COSTS	\$750,000
LESS: Operating expenses (estimated at \$7 per square foot)	\$350,000
TOTAL AVAILABLE FOR RENT AND/OR DEBT SERVICE	\$400,000

3A. LEASE

Maximum amount that school can pay for all facility related costs (rent and operations)	\$30.72
Maximum amount that school can pay for all facility related costs (fully renovated building with triple net rent)	\$23.72
Maximum amount that school can pay for all facility related costs (build-to-suit facility requiring \$14/s.f. in renovations with triple net rent)	\$9.72

3B. DEBT FINANCING

Assumes debt service coverage requirements of 20-30% are met through savings from operations.	\$1,186,000
Maximum mortgage amount that school can afford (Mortgage payment assuming 25 years at 6.0%)	\$15.16 M
Total all-in project cost per square foot	\$303
Construction cost per square foot (less soft costs)	\$233





Real Estate Financing

Real estate/facility general considerations

- ▶ Availability in marketplace
- ▶ Affordability (“What can you afford?” slide)
- ▶ Real estate trends – cost
- ▶ Commercial vs. public
- ▶ Lease vs. buy



Understand the proposed property transaction

Buy/Develop

- ▶ Purchase of property: down payment; due diligence; letter of intent from bank
- ▶ Building improvements: realistic projections of cost; realistic timeframe
- ▶ Experienced project management team



Real Estate Financing (cont'd)

Lease

- ▶ Term - \$\$ and years
- ▶ Improvements: cost; bank considerations; guarantee
- ▶ Option to buy

Understand the financing proposal – develop or lease

- ▶ Quality of lender - type of commitment
- ▶ Terms/covenants
- ▶ Defaults/guarantee
- ▶ Impact on future expansion
- ▶ Relationships with lenders – may need in future for financing



Sample Project Sources and Uses

Sources		Uses	
Senior Loan	\$10,500,000	Construction	\$11,500,000
Subordinate Loan <i>70%</i>	3,000,000	Contingency	1,100,000
School Equity – SOAR Grant <i>20%</i>	500,000	Architect and Engineering	700,000
School Equity <i>10%</i>	1,000,000	Financing costs and capitalized interest	650,000
		Acquisition Costs (Note: Renovation)	0
		Furniture, fixtures and equipment	400,000
		Local fees and permits	150,000
		Predevelopment and development management	150,000
		Project management	100,000
		Studies and surveys	100,000
		Utilities	100,000
		Direct project costs	50,000
Total Sources	\$15,000,000	Total Uses	\$15,000,000

30%





Incubator Initiative

- For start-ups, this may be the best **alternative** – quality space at affordable price
- Example: Public/private partnership between Building Hope and DC State Dept of Ed (OOSE). Includes OSSE's Credit Enhancement.
- Goal is to provide short term, affordable space for start up charter schools
- Rent is based on [facilities allowance x number of students - 20% withholding]
This withholding is for new schools to use on other facilities-related items



Incubator Initiative (cont'd)

Rent is full service and includes all costs except phone and internet, security, and furniture and fixtures.

Currently have 7 sites across the District

- ▶ 3029 14th Street NW (Ward 1)
- ▶ 100 41st Street NE (Ward 7) – former DCPS
- ▶ 908 Wahler Place SE (Ward 8) – former DCPS
- ▶ 4600 Livingston Road SE (Ward 8) – former DCPS
- ▶ 3301 Wheeler Rd, SE (Ward 8) – former DCPS
- ▶ 301 Douglas St., NE (Ward 5) – former DCPS
- ▶ 5601 E. Capitol St., SE (Ward 7) – former DCPS



Lenders Needs

Financial Statements and Budgets

- ▶ Proforma: balance sheet
statement of operation
statement of cash flows
- ▶ Financial & operating metrics
- ▶ Previous Financial Audits (if applicable)

Make sure assumptions are realistic

- ▶ Enrollment trends, demographics, competition
- ▶ Staff capabilities/trends
- ▶ Facility size and cost
- ▶ Fundraising goals





Lenders Needs (cont'd)

Due Diligence

- ▶ Organization: Mission, Strategic Plans
- ▶ Academic performance: Metrics, Results, Adherence to contract
- ▶ Management and Governance: Bios, Tenure, Minutes
- ▶ Authorizer relationship: Approval documents, Renewal reports, Annual reports
- ▶ Community Support: Parents, Community Organizations, Foundations
- ▶ Project Details: Team, vendor bids, Pricing, Environmental reports
- ▶ Financing: Bank considerations, credit enhancements, previous borrowing



Timeline, Closing, Covenants, Monitoring

Covenants

- ▶ Board Representation Option

Timeline

- ▶ From the loan application to closing can average 90 days

Closing

- ▶ Legal Counsel
- ▶ Board Approval
- ▶ Closing Costs

Monitoring

- ▶ Construction monitoring
- ▶ Annual academic reports
- ▶ Financial audits



Resource Centers

- The National Charter School Resource Center has a website with access to numerous reports from around the country.
<http://www.charterschoolcenter.org/priority-area/facilities>
- Building Hope has a technical assistance center on its website with free tools and resources. Or call Tom Porter anytime for pro bono advice.
<http://www.buildinghope.org/>
tporter@bhope.org
202-457-1991