Building Hope…
A Charter School Facilities Fund

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

<table>
<thead>
<tr>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
</tr>
</thead>
</table>
| 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

<table>
<thead>
<tr>
<th>School Demand</th>
<th>Early Stage</th>
<th>Mature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Space/New Development</td>
<td>District disposition process</td>
<td>Community Facility Lease</td>
</tr>
<tr>
<td>Community Facility Lease</td>
<td>Incubator Initiative</td>
<td></td>
</tr>
</tbody>
</table>

**Private Facility**  
**Public Facility**  
**Building Supply**
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 state’s 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

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of students</td>
<td>500</td>
</tr>
<tr>
<td>Number of square feet per student</td>
<td>100</td>
</tr>
<tr>
<td>Amount of square feet required</td>
<td>50,000</td>
</tr>
<tr>
<td>Facilities allowance (15% of PPR). Say $10,000 PPR</td>
<td>$1,500</td>
</tr>
</tbody>
</table>

### 2. CALCULATION

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td># of students</td>
<td>500</td>
</tr>
<tr>
<td>Facilities allowance</td>
<td>$1,500</td>
</tr>
<tr>
<td>TOTAL AVAILABLE FOR ALL FACILITIES-RELATED COSTS</td>
<td>$750,000</td>
</tr>
<tr>
<td>LESS: Operating expenses (estimated at $7 per square foot)</td>
<td>$350,000</td>
</tr>
<tr>
<td>TOTAL AVAILABLE FOR RENT AND/OR DEBT SERVICE</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

### 3A. LEASE

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum amount that school can pay for all facility related costs (rent and operations)</td>
<td>$30.72</td>
</tr>
<tr>
<td>Maximum amount that school can pay for all facility related costs (fully renovated building with triple net rent)</td>
<td>$23.72</td>
</tr>
<tr>
<td>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)</td>
<td>$9.72</td>
</tr>
</tbody>
</table>

### 3B. DEBT FINANCING

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

<table>
<thead>
<tr>
<th>Sources</th>
<th>Uses</th>
<th>Sources Percentage</th>
<th>Uses Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Loan</td>
<td>Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subordinate Loan 70%</td>
<td>Contingency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>School Equity – SOAR 20%</td>
<td>Architect and Engineering</td>
<td></td>
<td></td>
</tr>
<tr>
<td>School Equity 10%</td>
<td>Financing costs and capitalized interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Acquisition Costs (Note: Renovation)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Furniture, fixtures and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Local fees and permits</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Predevelopment and development management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Project management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Studies and surveys</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Utilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Direct project costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Sources</td>
<td>Total Uses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$15,000,000</td>
<td>$15,000,000</td>
<td>30%</td>
<td>30%</td>
</tr>
</tbody>
</table>
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