WELCOME

Charter Schools Facility Center

Pre-Conference Session

CHARTER SCHOOL FACILITY CENTER

GOALS:

To leave with resources, not necessarily a deep understanding

APPROACH:

Shotgun approach to training

FOLLOW UP:

Experts in hall for 1-1 help
(Feel free to get up and go out in the hall)

Check out the Homeroom on Monday
(plan your schedule for the week)

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AGENDA

Topics Covered

- 1:35 - 2:25 (50 min) - Planning
- 2:25 - 3:05 (40 min) - Financing part 1
- 3:05 - 3:15 (10 min) – Break
- 3:15 - 4:05 (50 min) - Financing part 2
- 4:05 - 4:45 (40 min) – Development
- 4:45 - 4:55 (10 min) - Post project
- 5:00 - 6:00 (60 min) - Happy Hour

{PLANNING}

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INTERNAL ASSESSMENT

Cameron Quick

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Tennessee Charter School Center

INTERNAL CAPACITY

- Who within your organization (paid positions or volunteer positions, i.e. board members) is going to help you with this project?
- Who are the experts you are going to have to hire?
- Who will co-lead this project?
- What’s the approval process for your organization?

WHERE TO START?

- Always start with:
  -reviewing your charter contract
  -school bylaws
  -any additional state and local regulations as it pertains to this process

NEXT STEPS

- Always bring multiple companies to the table for EVERY aspect.
- Review your state or authorizer requirements for procurement as well as any specific construction requirements.
- RFP/RFQ – Include all minimum requirements by law
- Ensure they have experience tackling the project you are setting up
  - i.e. new build, renovation, or modifications
- Make sure the selected group is not over leveraged

GROWTH STRATEGY CONDITIONS

Shawn McCormack

Developing a real estate development and financing growth strategy

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WHEN YOU'RE A GROWING CHARTER…

	Founding School	Growing Network	Mature Network
CMO Characteristics	• School leader is CEO • Rented/leased space • Staff wears lots of hats • Growth of balance sheet	• Growing to multiple schools in multiple locations • Designing central offices functions to support growth • Expand Board capacity	• Expansion & replication strategy • In-house real estate expertise • Established balance sheet reserves • Ability to service debt w/ coverage

Facilities Needs	• Incubator space for startup
	• Rented/leased long-term home
	• Tenant or leasehold improvements
	• Lack of extracurricular space
		• Mixed real estate portfolio
		  ◦ Leases for new schools
		  ◦ Owned schools at full enrollment
		• Adding extracurricular spaces
		• Partnering with developers
			• Construction of new buildings
			• Building larger facilities for feeder patterns
			• Consistent school design
			• Partnering with contractors

Financing Options	• Short-term, bridge financing
	  ◦ TI loans
	  ◦ Path to ownership
	• Cash flow / working capital loans / grants
		• Construction / mini-permanent financing
		• Potential permanent financing
		• Grants for replication
			• Tax-exempt bond financing
			• Debt consolidation
			• CDFI Bond Guaranty Program
			• Grants to fund auxiliary programs

TO BUY OR LEASE?

Benson Sainsbury

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InSite Educational Facility Services

Should you

LEASE

or

PURCHASE

A quick look at the

ADVANTAGES &

DISADVANTAGES

DISADVANTAGES & ADVANTAGES - LEASE

DISADVANTAGES

- ☹ Potential hidden costs (CAMS, HVAC & other bldg. maintenance)
- ☹ Shared space with other tenants
- ☹ Security issues
- ☹ Tenant Improvements (who will be paying for which improvements)
- ☹ Financing tenant improvements for a charter school can be more difficult (not impossible) for a charter & more difficult for a landlord
- ☹ What is considered a fixture and other lease considerations
- ☹ Once the lease expires are there future permanent locations in the area the school can consider that are affordable
- ☹ Permitting issues (is the space zoned for a school and will the school or landlord be able to obtain a certificate of occupancy
- ☹ Analyze the building is if you are buying the building

ADVANTAGES

- ☺ Flexibility – move to a new area or grow quicker or slower
- ☺ Less debt & cash required by the school
- ☺ Potential of finding a turn-key location
- ☺ Cost savings if the right location is found eliminating costly entitlements, construction and permitting
- ☺ Potential for a purchase option as the end of the term of the lease
- ☺ Opportunity to allow the school to grow slowly
- ☺ Limited long term exposure in changing real estate market

DISADVANTAGES & ADVANTAGES - PURCHASE

DISADVANTAGES

- ☹ Significant debt, investment and possible cash outlay
- ☹ Fundraising may be needed
- ☹ Should the school need to relocate, downsize or expand it may take time and expense to sell or lease the building
- ☹ Less flexibility should enrollment decline
- ☹ Potential longer lease times to complete a ground up school building
- ☹ Other issues include dealing with zoning, entitlements, environmental, construction timing, construction costs, market conditions
- ☹ School typically note experienced in the multifaced process and will need to rely on multiple consultants

ADVANTAGES

- ☺ Equity Opportunity in ownership
- ☺ Stability with parents, teachers and staff knowing the school has a permanent home for its students
- ☺ Designed to fit the needs and programing of the school
- ☺ Potential lower cost than that of a lease
- ☺ Control over the building & land
- ☺ Not dealing with a landlord
- ☺ No co-tenants

DO IT YOURSELF OR OUTSOURCE?

Laura Fiemann

TO PLAN OR TO OUTSOURCE

… that is the question

Pros	Cons
▪ Cost savings (e.g., no project management related expenses) • Complete control of process	▪ Requires expertise in the following areas: ▪ Needs Assessments ▪ Site Considerations Parcel/Property ▪ General construction ▪ Material/labor pricing ▪ Design and Engineering Team ▪ Inspection and permitting processes

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BENEFITS TO OUTSOURCING

Short and Long Term

- Pre-development Consulting – Short-term planning
  - Early stage facilities consulting – Lease, Buy or Build?
    - Needs Assessment, Affordability & Feasibility Analysis
  - Analyze multiple options & deliver workable solutions
  - Build relationships and trust that lead to future projects

- Project Management Consulting – Long-term planning
  - Pay fixed fee for specialized expertise & skillset
  - Guide the School through the development process
    - Sight search, set up financing, assist with bidding process, analyze budget, etc.
  - Deliver a facility on time and on budget
  - School focuses on operations, not finance/facilities development

OUTSOURCING

The Developer’s Roles and Responsibilities

- Take project lead on behalf of school
- Financial risk on developer/predevelopment costs
- Generate cash flow and affordability scenarios
- Manage site control and financing
- Generate and track project schedule
- Generate and track project budget
- Review and negotiate contracts
- Participate in design meetings
- Participate in construction site meetings
- Manage value engineering and quality control
- Secure and participate in construction financing

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BUILDING YOUR TEAM

Shawn McCormack

PROJECT TEAM

Charter School Representatives

The Board sets the long-term course for the school to align with its mission and should be asking the right questions throughout the project. The School Administrator must work closely with the project manager (see below) to define and lead the project, communicate regularly with the board about project progress, and "manages the manager" who oversees the project on a daily basis.

Real Estate Agent

Tasked with securing the project site in close collaboration with school leadership, board and architect

Architect

Sorts through the school's facility needs, considers functional uses of space, provides alternative design ideas, flags potential zoning or regulatory issues

PROJECT TEAM (CONT)

Owner’s Representative / Project Manager

- Coordinates every aspect of the project and manages each development team member, has daily project responsibility for all the project details

General Contractor

- Coordinates all aspects of construction, most often selected through a bidding process after the construction documents are completed, works from the architect’s final drawings & specifications

Legal Counsel

- Protects the school’s interests throughout the development process, including negotiates legal issues, drafts legal agreements and advises the school

Other potential consultants

- Financial Advisor

SCHOOL-BASED TEAM

- **School Board**
  - **Head of School**
  - **Operation**
  - **Staff / Teachers**

Developer/Project Manager

Development
- Real Estate Broker
- Legal Counsel
- Government Relations (Entitlements and Permitting)

Construction Management
- Design Team – Architect and Engineer
- Contractor
  - Construction Project Manager
  - Site Superintendent

Capital Markets
- Lender
- Financial Advisor (if bond financing)
- Underwriter (if bond financing)

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{FINANCING}

{Long Term}

- survived growing pains
- 3 years of audits
- near full enrollment
- strong academics
- stable mgt and govern

{Short Term}

- working on solidifying all of the components of long term

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{FINANCING – PART 1}

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DOCUMENTS TO PREPARE FOR THE PROCESS

Paul Jasin

Specialized Public Finance Inc.
FINANCIAL ADVISORY SERVICES

Charter School Facility Center

DOCUMENTS TO PREPARE FOR THE FINANCING PROCESS

School Documents	
Form 1023	Form 990
Bylaws and Policies (conflicts of interest, non-discrimination)	Charter Contract
Board meeting minutes	Board member biographies
Test scores by grade level (for the school and compared to district and neighboring schools)	Enrollment by grade level including waitlists (historical and projected)
Current and projected staff	State and local funding data
Operating Budgets	Annual Reports
Projected 5-year forecast	Lease Agreement / Purchase Agreement

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DOCUMENTS TO PREPARE FOR THE FINANCING PROCESS

Project Documents	
Third party reports • Alta Survey • Title • Phase I Environmental • Engineering Reports • Insurance • Appraisal	Site specific information • Restrictions • Access • Encroachments
Costs incurred	Project specific information

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CDFI LENDING

–Will Robison

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CAPITAL IMPACT PARTNERS

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI)

Private, regulated, financial institutions that provide affordable lending to projects that help underserved communities & populations.

National CDFIs active in charter school lending:

- Capital Impact Partners – Will Robison
- Low Income Investment Fund (“LIIF”) – Sarah Simms
- Reinvestment Fund (“RF”) – Molly Melloh
- IFF (formerly Illinois Finance Fund) – Alexis Dishman
- LISC – Yvonne Nolan
- Self-Help – Brittany Bennett
- Nonprofit Finance Fund (“NFF”) - Emily Weissman
- Civic Builders – David Umansky
- Building Hope - Shawn McCormack
- CSDC - Laura Fiemann

All non-profit, all mission focused, located in and focused on different areas of the country

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FINANCING OPTIONS

ACQUISITION LOANS
to purchase land and buildings

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

CONSTRUCTION LOANS
to finance from-the-ground-up construction and renovation projects

TENANT IMPROVEMENT LOANS
to finance renovation at a leased facility

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

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

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CDFI LOANS

- Typical Dollar Amount: $1.0 million to $10.0 million (can co-lend up to ~$20.0 million)
- School age: varies, but usually need 2+ years of operations; some can lend to earlier schools
- School size: no minimum or maximum; usually get first loan at 300-600 students
- Interest rates: 4.5% to 7.5%
- Origination Fee: 1.0% to 1.5%
- Loan-to-value: typically up to 90%
- Term: 2-25 years, but a lot only go to 10 years with longer amortizations
- Complexity: Low (relative to bond or NMTC)
- Requirements: usually targeted to schools that serve low-income students and have high academic results
- Advantages: school owns the property, little-to-no prepayment penalty, disburse over construction period, capitalized interest held-back, small-to-no debt service reserves
- Disadvantages: school takes on debt, refinancing risk in year 10, school has to come up with some equity

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Plug: www.capitalimpact.org/the-answer-key/

NMTC LENDING

Will Robison

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CAPITAL IMPACT PARTNERS

NEW MARKETS TAX CREDITS

Overview

- One option to finance the construction of a facility
- Financing covers up to 100% of project costs and can go over 100% on loan-to-value
- Must be used to make improvements on a site; can’t just purchase a site
- Seven year financing that then requires some refinancing in year 7
- Must qualify for the program and be attractive to potential partners (see second slide)
- Major benefits to the school but is very competitive and complicated (see third slide)

ATTRACTIVE PROJECTS

What do Community Development Entities look for

- Eligible census tract (www.novoco.com/resource-centers/new-markets-tax-credits/data-tools/nmtc-mapping-tool)
- Timing – would like to start the ~3 month closing process as soon as announcements come out. If allocation comes out in May 2020, would like to close the financing in fall/winter 2020; for the school to open in fall 2021
- High impact – typically that means strong academic results for underserved students (need some track-record)
- Substantial improvements must made on the property
- Dollar size = usually needs to be between $5mm and $30mm

NEW MARKETS TAX CREDITS

Has major benefits for the school:

- Lower blended interest rate: the equity investment, covering 30% of project, is at 0% interest; most projects are at <4.0%
- Long-term interest only: normally, seven years of interest only payments, far beyond construction and stabilization periods
- Higher than standard loan to value; a lot of projects at 110-125% LTV
- Equity creation: Substantial debt forgiveness of 20-25% of project costs. Borrower recognizes gain after year 7
- Borrower can participate in the NMTC financing to further decrease both the interest rate and the "hard debt" owed at the end of 7 years

Very competitive

- Try to get it, but don't fully relying on securing it

Very complicated

- Will require dedicated staff time to complete

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USDA LENDING

Jim Griffin

USDA COMMUNITY FACILITIES DIRECT LOAN & GRANT PROGRAM

- This program provides affordable funding to develop essential community facilities in rural areas (including educational facilities) through Direct Loans and Loan Guarantees.

- Between 2008 and 2018, 98 rural schools have received $573.8 million.
  - 23% have been repeat recipients
  - financed 128 rural charter projects (through 169 transactions)

- Schools in 26 states have received financing, but the distribution is uneven:
  - Delaware (23 total charter schools) includes 10 USDA projects for 5 schools totaling $54.9 million
  - By contrast CA, MN, CO, TX and MI (combined over 2,500 charters total) include 7 projects for 6 schools totaling $6.5 million

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USDA COMMUNITY FACILITIES DIRECT LOAN & GRANT PROGRAM

- **Eligible areas:** Cities, villages, townships, towns with less than 20,000 residents
- Recommended to be operational for at least 5 years
  - however 33% of the schools were financed at 5 years or less
- **Interest rate:** currently 4.25%
  - average 3.64% (from 2011 to 2019)
- **Loan uses:** facility expansion, purchasing an existing facility, building a new facility, purchasing property, purchasing buses or technology
- **Loan amount:** ranges from $22,000 to $18 million
  - $4 million average

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Contact Info

- For more policy information or data results:
    - **Jim Griffin,** jgriffin@momentum-sr.org
- USDA assistance and guidance:
    - Alton Kimura, USDA Community Facilities Senior Loan Specialist - meet with him **Tuesday from 12-3** in the library.
- Find your state/local USDA Community Facilities contact:
    - www.rd.usda.gov/programs-services/community-facilities-direct-loan-grant-program

{BREAK}

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{FINANCING PART 2}

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FAMILY FUNDS

Ryan Alexander

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FACILITIES INVESTMENT FUND

CONSTRUCTION/SEMI-PERMANENT FINANCING LANDSCAPE

Commercial Banks	Facilities Investment Fund	CDFIs
Interest rate: 4.5% - 5.5%	Interest rate: 4.48%*	Interest rate: 6.0% - 7.0%
LTV: 65% - 75%	LTV: up to 90%	LTV: up to 90%

* As of June 2019. Subject to change.

WHO CAN ACCESS THE FACILITIES INVESTMENT FUND?

- High-performing charters
  - Academic performance consistently exceeds performance of peer district schools
  - Robust demand for seats
- Shovel-ready projects
  - Site control, no zoning issues, team in-place
- Project must be affordable
  - All-in facilities costs within ~15% of state and federal revenue
- 50% FRL guideline / Diverse-by-Design
- Two years of operating history
- Located in a priority geography

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FACILITIES INVESTMENT FUND – THE DETAILS

- Why is FIF so attractive to charters?
  - Current interest rate of 4.48%*
  - Single source of debt for up to 90% LTV (school equity or sub-debt for remaining ~10%)
  - Loans of up to $20 million
  - Interest-only during construction phase (up to 24 months, capitalized)
  - Fixed, 5-year loan term (25-year amortization)
  - No prepayment penalty
  - Leasehold and fee interest financing (first lien)
  - Borrower costs
    - Appraisal, environmental review, plan and cost review, property conditions, lender legal (total ~$65k)
    - 1% origination fee due at loan closing

- FIF consideration items
  - Programmatic requirements
  - $20 million per transaction loan limit
  - Post construction & once stabilized, charter to secure permanent financing

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* As of June 2019. Subject to change.

FAMILY FUNDS

Mark Medema

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CHARTER SCHOOL GROWTH FUND AND SCHOLA FUND

CHARTER SCHOOL GROWTH FUND

- Flexible, affordable loan capital available to CSGF portfolio members

SCHOLA FUND

- Flexible, affordable loan capital available to schools working with Quarterbacks in select cities

CHARTER IMPACT FUND - NOW EQUITABLE FACILITY FUND

- Long-term (30 year) loan capital provides an alternative to tax-exempt bonds and some non-profit lenders capital
- National program focused on quality schools
- New non-profit created to operate this fund
- Approximately $600 million expected to be available
- Interest rates based on credit worthiness of school, first few transactions show significant savings compared to traditional financing
- 100% financing

LENDING – BONDS: FA APPROACH

Paul Jasin
Steven Adams

SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES

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FINANCIAL ADVISOR APPROACH TO FINANCING CAPITAL IMPROVEMENTS

FINANCIAL ADVISOR

Financial Advisor serves with a fiduciary duty to the Borrower.

They assist with the:

- financing team selection,
- development of financing timetable,
- capital planning,
- financial structure development,
- financial covenant negotiations,

SOURCES OF CAPITAL

- Developer Loan
- New Money Tax Credits
- Bank Loan
- USDA Loan
- Municipal Bonds
  –

CAPITAL PLANNING

- Long-term capital planning is a key first step to any debt issuance process.
- Developing a multi year capital planning model to provide a comprehensive, long-term solution that does not impede future growth.

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FINANCIAL ADVISOR APPROACH TO FINANCING CAPITAL IMPROVEMENTS

BOND RATING PROCESS

- The rating process involves a number of critical steps:
  - Selection of a credit rating agency
  - Initiation of request and establishment of a timeline
    - Information submission deadlines
    - Site visit
    - Committee review
    - Rating decision (Approve / Appeal)

- Qualitative Analysis
- Quantitative Analysis
- Comparative Analysis
- Bond Rating

- Information Submission Considerations
  - Rating Agency questionnaire
  - Historical and projected financials
  - Legal covenants
  - Industry and economic data
  - Demographic data

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LENDING – BONDS: UNDERWRITER APPROACH

Maggie Chachette

BOND BASICS

PUBLIC BOND ISSUE (FIXED)	
TERMS	• +1 years of operating history • Typically 300+ students • No required student population served
PROS	• 100% financing (no equity or sub-debt requirement) • Fully fixed interest rates through final maturity (4% to 6.5%) • Long term capital solution • Historically low interest rates • Fully amortizing • No loan to value requirement • Pre-payment after 5 to 10 years (as structured) • Flexible covenant package • Additional indebtedness flexibility
CONS/RISKS	• Debt service reserve fund required (equals one year of debt service) • Extensive legal documentation • High costs of issuance (funded with bond proceeds – 3% to 5%) • Expansive reporting requirements

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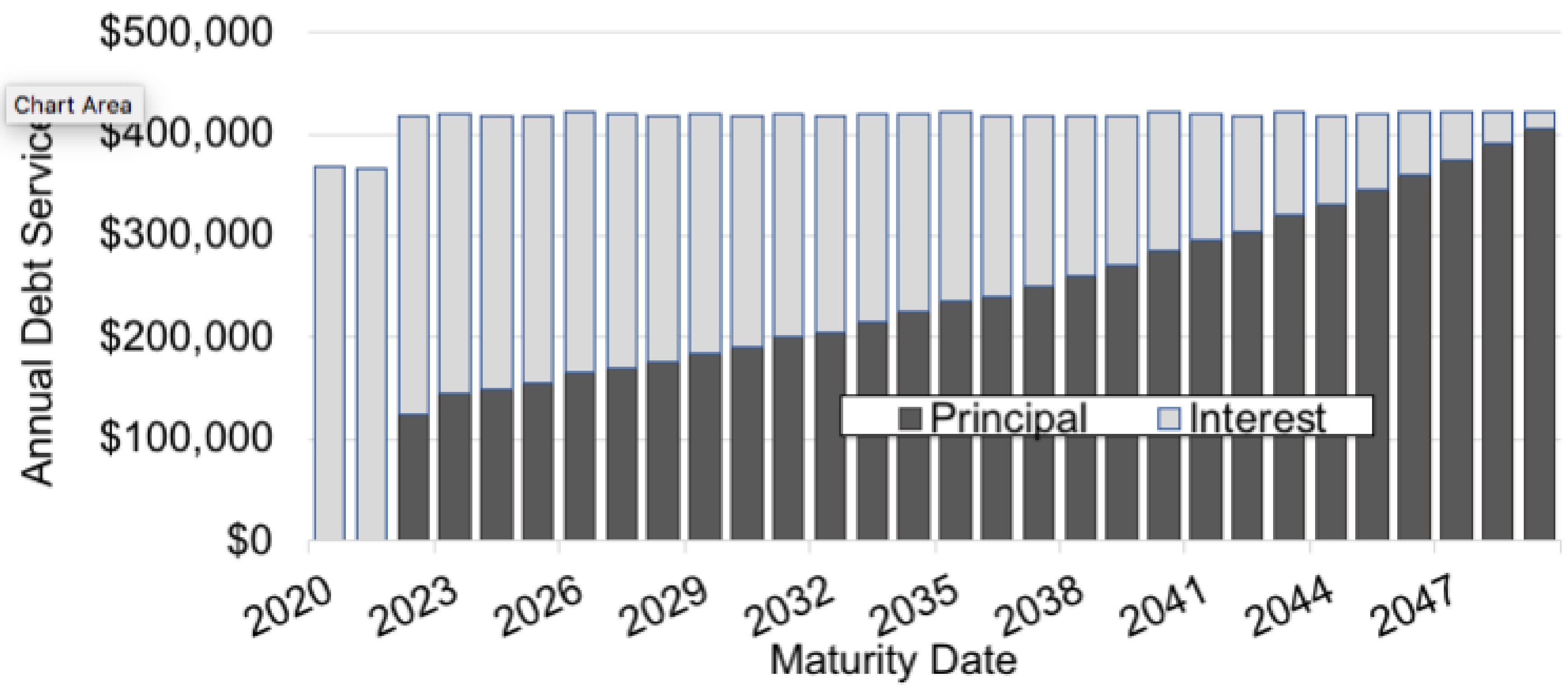
FOR THE VISUAL LEARNERS

- The following displays a general bond structure:
  - ➢ 30 year bond with a fully fixed interest rate
  - ➢ Two years interest only
  - ➢ Level debt service



BORROWING RULES OF THUMB

- Bond investors and rating agencies will scrutinize **key financial ratios** including debt service as a % of revenue, debt per student, and debt service coverage
- The following provides the financial ratio **range** in which charter school **bond buyers will invest capital**, as well as, levels that **maintain the integrity of your academic program**

Debt Service Coverage:	Debt Per Student:	% of Revenue Dedicated:
High Estimate: 1.60x	Low Estimate: $15,000	Low Estimate: 12%
Low Estimate: 1.30x	High Estimate: $25,000	High Estimate: 15%

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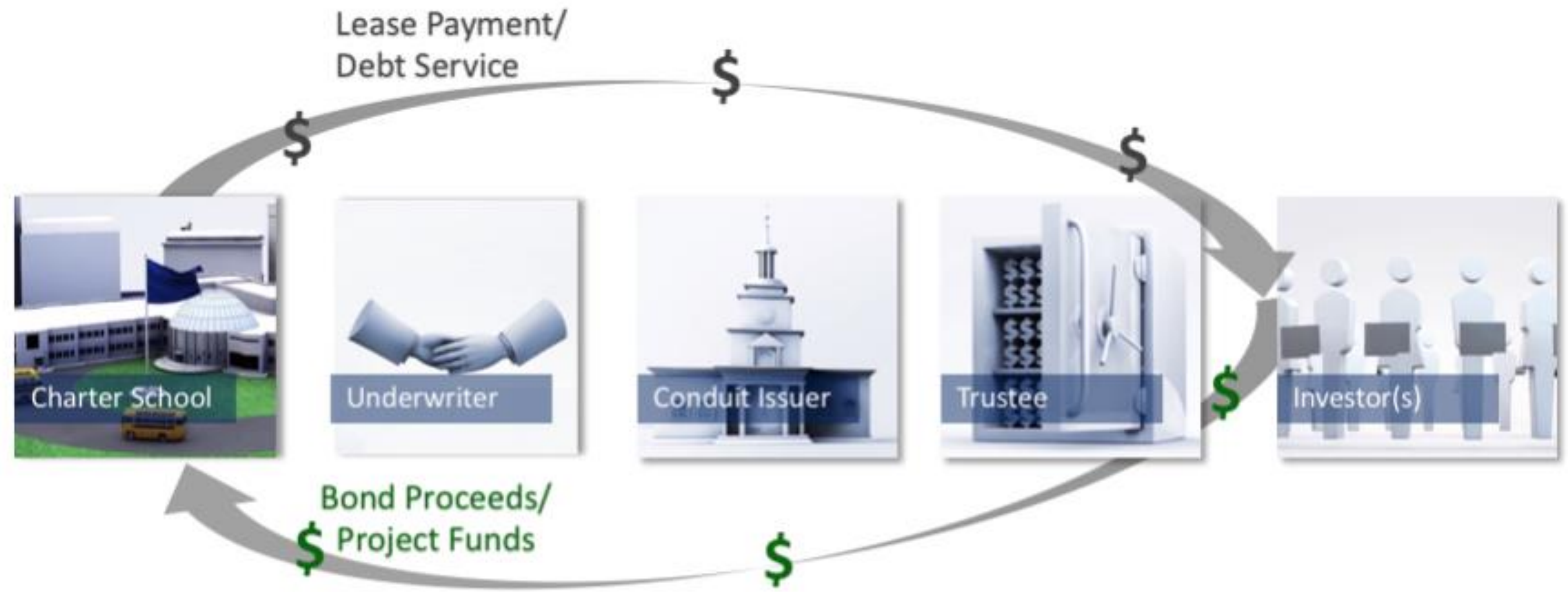
NAVIGATING THE BOND MARKET



A **Charter School** with a need for financing to fund the construction of a new middle school facility

The **underwriter** negotiates terms regarding structure, pricing, collateral and timing. An underwriter agrees to purchase all the bonds from the Issuer and resell them to investors

Charter schools rely on **conduit issuers** as public bonding authorities to issue tax-exempt bonds on their behalf

A **Trustee** is the holder of the funds. Ensures investor is paid principal and interest; protects interest of the bondholder in an event of default

Investor provides the capital required to finance the project. Like a mortgage, investors receive principal and interest payments (debt service) over the life/term of the bonds

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LENDING: TRADITIONAL BANK

Rebecca Kuhle

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MutualofOmahaBank

BANK FINANCING

General Client Profile

- Minimum operating history – 3 years
- Minimum enrollment – 300
- Grade levels served – K-12
- Minimum equity – 20% (sub debt / grant funds)
- Maximum bank advance rate – 80% (lesser of cost or value)
- Minimum Debt Service Coverage Ratio
- Minimum Days Cash on Hand
- Maintain primary operating banking relationship
- Other

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GENERAL STRUCTURE SAMPLES

Ground Up Construction to Mini-Perm

- Loan Amount - 80% Cost or Value.
- Term – 5 years.
- Amortization – 25 years.
- Payments –Interest only period converting to P&I payments.
- Prepayment Penalty.
- Interest Rate – Fixed at close.
- Origination Fee.
- Other Fees – legal, appraisal, misc. bank fees i.e., good standings.

Term – Refinance or Purchase

- Loan Amount – 80% Cost or Value
- Term – 5 years; 7 or 10 year possible.
- Amortization – 25 years.
- Payments – monthly P&I payments.
- Prepayment Penalty.
- Interest Rate – Fixed at close.
- Origination Fee.
- Other Fees – legal, appraisal, misc. bank fees i.e., good standings.

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PROS AND CONS – BANK FINANCING

Pros:

- Own versus lease.
- 100% financing with sub debt.
- Bridge financing to and from permanent market.
- Prepayment flexibility.
- No reserve requirements.
- Lower origination costs.
- Replication to new markets.
- Industry banking expertise, online banking, cash/treasury management, etc.

Cons:

- Fixed rate term less than 30 years.
- Interest rates may be lower elsewhere.
- Historical performance heavier weighting than projected.
- Bank advance rate, maximum 80% LTV/LTC (lesser of).

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LENDING : DEVELOPER

Jesse Shetlar

PERFORMANCE
CHARTER SCHOOL DEVELOPMENT

CHARTER SCHOOL FACILITY CENTER

DEVELOPER CRITERIA

- Will work with Start-Ups or medium to well established schools in charter friendly states.
- Acquisition/rehab or ground-up construction is acceptable.
- Minimum 300 students and able to work with any student population (does not need to be low-income).
- Target rent to be equal to or less than 20% of school's revenue.
- Target debt as a % of student to be less than $25,000.
- Square foot per student should be a maximum 75 SF per student.
- 25 year Triple Net Lease (school is responsible for real estate taxes, insurance and maintenance).
- Developer total costs to include land, hard costs (building, on and off-site improvements, FF&E and start up capital), soft costs (architect, engineer, survey, environmental reports, traffic reports, permit fees), developer fee, financing fees (investor fees, interest during construction, deferred rent, appraisal, title fees) and contingency.
- Rent is typically charged as a % of cost.
- Purchase prices are typically charged as a % premium over cost.
- Prior to starting, recommend signing a pre-development agreement outlining the expectations of the school and developer (include timelines, rates of return, estimated budget).

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PROS VS. CONS OF A DEVELOPER

Pros

- One stop shop (acquisition, design, build, purchase options).
- Developing is difficult and likely hard for a school to manage on its own.
- Qualified development team with a track record of performance.
- A good developer will handle all due diligence (architect, engineering, entitlements with the city, traffic studies, environmental reports, etc.)
- Allows schools to grow off balance sheet (typically) faster than it could with other financing sources.
- The school does not have to worry about RFP or RFQ processes.
- Some developers will lend start-up fees so you can get your team up and running early!

Cons

- Finding developers who are transparent can be difficult.
- Some developers may not allow school input in the design.
- Potential lock-out periods where the school is not allowed to purchase the facility for a period of time.
- Potential hidden fees.
- Buyout may be expensive and hard to calculate.
- This form of capital can be more expensive than other forms of lending due to the amount of risk being taken on by the lender.

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KEY QUESTIONS TO ASK A DEVELOPER

1. How involved does the developer allow the school to be?
   - Without your input you may end up with a facility that will not work for your school long-term.
2. What is their source of capital and how available is it?
   - Some sources of capital will cause the school's rent and purchase prices to increase and some may cause the financing of your facility to fall through.
3. What is the school actually paying for?
   - If a developer cannot be upfront and transparent about their charges, the school may be blindsided with expensive hidden fees. You should know what your rent and purchase prices will be before you enter into a lease.
4. What is the developer's reputation in the industry?
   - You may be able to learn a lot about the quality, reliability and timeliness of a developer (and their product) based on speaking to those within the industry.
5. What will be required under the lease agreement (pledge of state revenue, covenant structure, any ongoing fees outside of the required rental payments, ability to take over school, etc.)
   - It's important that you understand what all is included in your lease agreement so you can ensure you've selected the best option for your school.

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OTHER DEVELOPERS

NON-PROFIT

- CSDC
- Building Hope
- Civic Builders
- PCSD
- IFF

FOR PROFIT

- Highmark
- American Charter Development
- Schoolhouse Development
- Turner Agassi

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{DEVELOPMENT}

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SITE SELECTION

Benson Sainsbury

InSite
Educational Facility Services

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REAL ESTATE SITE SELECTION

- Demographics - Information to inform your real estate search
- Plan Accordingly – Time is of the essence
- Understand your needs & your affordability to define your real estate search
- Define your Search Area
- Zoning analysis
- Search for both on & off market opportunities
- Should you consider land or an existing building?

CHARTER SCHOOL FACILITY CENTER

ENTITLEMENTS & TIMELINES

Laura Fiemann

CHARTER SCHOOL FACILITY CENTER

Charter Schools Development Corporation

TIMING & RESPONSIBILITIES

Development cycle

- Team selection
- Property identification and feasibility analysis
  - Site Considerations
    - Alta
    - Phase I ESA
    - Geo Tech
    - Asbestos
- Financing
- Design
- Predevelopment – how are you going to pay upfront costs?
- Permit and regulatory improvements
- Implementation
- Certificate of Occupancy

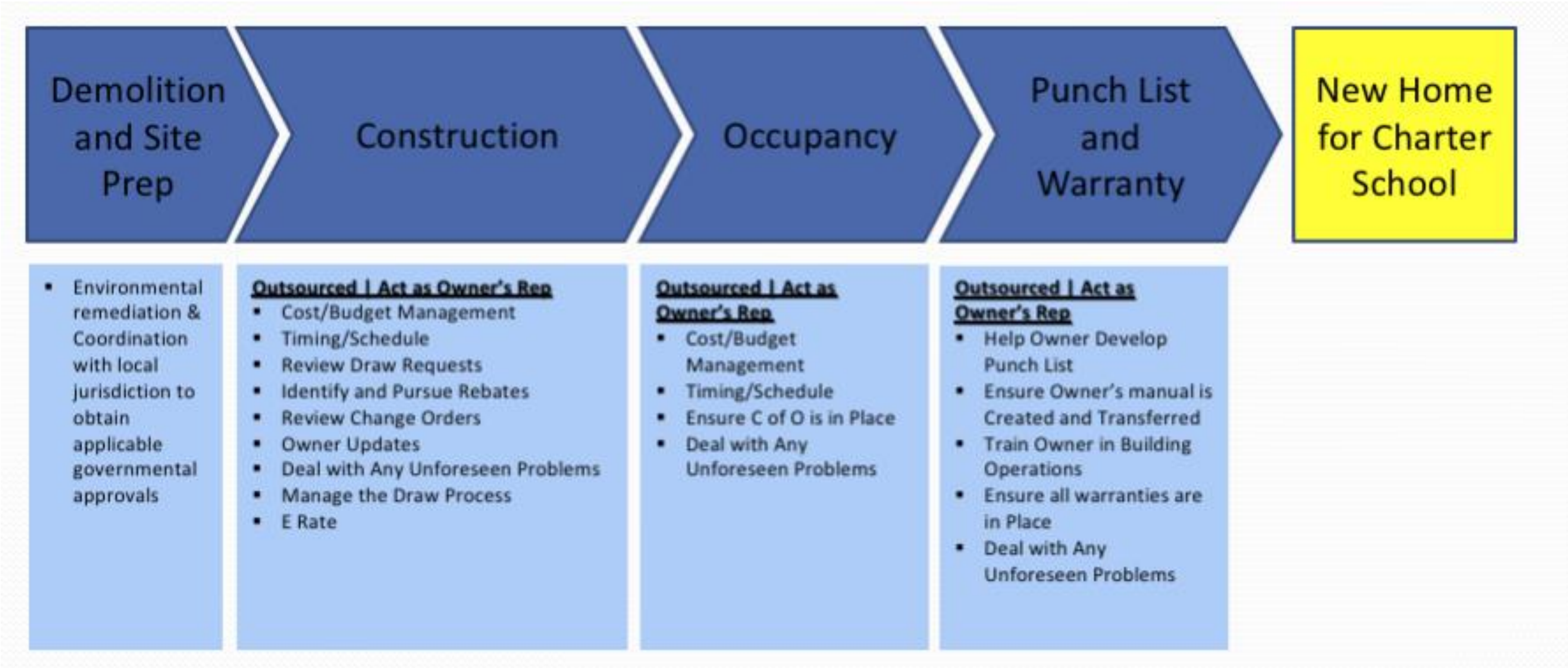
CHARTER SCHOOL FACILITY CENTER

DESIGNING AND BUILDING A FACILITY

Phase 1 – Design and Development

DESIGNING AND BUILDING A FACILITY

Phase 2 – Construction



CHARTER SCHOOL FACILITY CENTER

COSTS :
SAMPLE BUDGET

Shawn McCormack

PROJECT BUDGET COMPONENTS

Summary	Components	Example
Project Acquistion	**Due Diligence**	1%
	Closing Costs	1%
	Purchase Price	
Soft Costs	Architecture and Engineering	
	Entitlements	
	Legal	
	Direct Project Costs	**Proj Mgmt Fee**
		Contingency
		Insurance
		Inspections
		Admin Exps
Hard Costs	New Construction	
	Onsite Improvements	
	Off-Site Improvements	Traffic
	General Conditions/Liability	
	Construction Contingency	

Summary	SF	Max Students	Cost Per
Elementary and Middle School (K-8)	66,500	750	$ 22,667
TOTAL BUILDING Square Footage	**66,500**		$ 256
Gross Land Area	304,920	7.0 acres	$ 8.20
Total Square Footage	**371,420**		

TOTAL PROJECT FUND		%	Cost Per Sq.
Acquisition Costs	2,500,000	15%	$ 38
Hard Costs	12,000,000	71%	$ 180
Soft Costs	2,500,000	15%	$ 38
SUB-TOTAL PROJECT COSTS	*17,000,000*	*100%*	*$ 256*
First Year's Rent	0	0%	
TOTAL PROJECT COSTS	**17,000,000**	**100%**	$ 256

Predevelopment Budget:
- Acquisition Due Diligence
- Portion of Soft Costs
  - Architecture, Engineering, and Entitlements

Costs for New Construction	$ per Sq Ft
Florida	$185-$205
Texas	$185-$190
Washington DC	$350-$400
New York	$400-$450
New Jersey	$200-$210
Idaho	$155-$165

CHARTER SCHOOL FACILITY CENTER

PROJECT BUDGET CONSIDERATIONS

Timing of costs:

- Deposits and extension fees for acquisition
  - Who is responsible? When are deposits non-refundable?
- Financing in place at closing
- Interest-only period during construction
  - Capitalized interest part of project budget
- Lease/debt payments start when Certificate of Occupancy is received

Budgeting Risks:

- Enrollment drives the budget process! (Phasing for growth)
- Changes in design/construction delays impact timeline
- Entitlements different by city, county, and state
  - Zoning and Permitting
- Off-site improvements could add significant costs
  - Traffic mitigation
- How much contingency do you need?
  - Lenders may require a certain amount

Additional Considerations:

- Lease vs. debt payments
  - What is applied to principal?
  - Budget for depreciation?
- Purchase price structure
  - Total Project Cost + Premium
  - Fair Market Value
- Project Management/Developer Fees
- Comparing project budgets for developers
  - Total cash outlay through take-out plan
    - Annual lease payments
    - Capitalized interest/rent
    - Total purchase price
- Out of scope costs - Is it in the budget?
  - Fixtures, Furniture, and Equipment
  - IT infrastructure
  - Playground structures

CHARTER SCHOOL FACILITY CENTER

{POST PROJECT}

CHARTER SCHOOL FACILITY CENTER

AFTER IT’S FINISHED

Laura Fiemann

YOUR NEW HOME!

- Retain Property Due Diligence materials
  - ALTA Survey
  - ESA Phase 1
  - AHERA-Asbestos Survey
- Facility turn over
  - Operations and Maintenance (O&M) Manual and warranty information from the General Contractor
  - Contractor/subcontractor/vendor contact list for any post-project issues
- Review/retain permitted “As Built” drawings
  - Develop familiarity with mechanical, plumbing, and electrical (MPE) equipment/shut offs
- Transferring and setting-up utilities and other required vendor related services.
- Ongoing Maintenance-Establish Repair and Replacement Reserves
- Insurance
  - Property and Liability Coverage
  - Flood?

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{RESOURCES}

School Build: www.lisc.org/charter-schools/

The Answer Key: www.capitalimpact.org/the-answer-key/

CHARTER SCHOOL FACILITY CENTER

{APPENDIX}

CHARTER SCHOOL FACILITY CENTER

Appendix - CDFI

CAPITAL IMPACT PARTNERS

What is a CDFI?

- What: Private financial institutions that are 100% dedicated to delivering responsible, affordable lending to projects that help underserved communities & populations have equitable access to critical social services.

- When: With roots back to various movements dating back as early as the 1800s, the CDFI industry began to take shape in the late 1960s. Under Johnson's 'War on Poverty' campaign, the first community development corporations (CDCs) were created. They later became CDFIs as we know them today.

- How & Why: The first organizations were created through government efforts to address poverty alleviation and racial discrimination through community development initiatives. Today's CDFIs focus on a range of activities including revitalizing local economies; creating access to quality education, health care, housing, and healthy foods; rebuilding small businesses; and ensuring responsible banking for people with limited or poor credit histories.

- Certification: CDFIs are certified by the Community Development Financial Institutions Fund (CDFI Fund), a program of the U.S. Department of the Treasury.

- Types: A CDFI may be a community development bank, a community development credit union, a community development loan fund, a community development venture capital fund, a microenterprise development loan fund, or a community development corporation. Capital Impact Partners is a loan fund.

- Scope: Approximately 1,200 CDFIs are based across 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

CAPITAL IMPACT PARTNERS

- Mission-driven Community Development Financial Institution (CDFI)

- 30 year track record of successful investments in underserved communities
  - Average delinquency rate of 0.79% over past 5 years

- $2 billion+ loans disbursed to projects increasing access to critical social services

- AA S&P Issuer Credit Rating and Issue Long-Term Credit Rating as of September 7, 2017*
  - Capital Impact is 1 of only 5 CDFIs (out of 1,200) to be rated by S&P

- One of a handful of CDFIs with national presence
  - With offices in Arlington, VA; Detroit, MI; & Oakland, CA

- Member of Federal Home Loan Bank Atlanta

- Strategic Pillars: Address systemic poverty; create equity; build healthy communities; promote inclusive growth

* S&P will update its credit rating at the time of sale of each series of Notes offered for sale.

CAPITAL IMPACT
PARTNERS

FOCUS AREAS

Health Care

Education

Healthy Foods

Inclusive Growth

Aging in Community

Cooperative Development

Affordable Housing

Appendix - NMTC

CAPITAL IMPACT
PARTNERS

NMTC Program Overview

The goal of the program is to encourage investment in low-income communities

- Program created in 2000
- The Treasury Department awards allocation to community development entities (CDEs)
- Banks then invest in the project and receive tax credits from the CDE in exchange
- The projects must be in an eligible, low-income census tracts –or – the project must demonstrate that it serves a low-income population
- Investment must remain in eligible project during the seven year compliance period

Year	Qualified Equity Investments	New Markets Tax Credits
2018 (announced 2019)	$3.5 billion	$1.365 billion
2019 (announced 2020)	$3.5 billion	$ 1.365 billion

NMTC Program Re-Authorization Status:

- H.R. 1680, the House NMTC permanency bill: As of 5/3/19, 62 co-sponsors in the House
- S. 750, the Senate NMTC permanency bill: As of 5/3/19, 20 co-sponsors in the Senate.

CAPITAL IMPACT
PARTNERS

Players

Who are the parties involved in a NMTC financing transaction?

- INVESTORS: make an equity investment in the project representing approximately 30% of the project costs and receive federal tax credits representing 39% of the total investment
- LENDERS: provide the hard debt for the project
- CDEs: apply NMTC allocation to the project and receive an allocation fee of 2-7% at closing
- BORROWERS/SPONSORS: receive an attractive financing option for their project

CAPITAL IMPACT
PARTNERS

Process Overview

For Charter School with a construction project

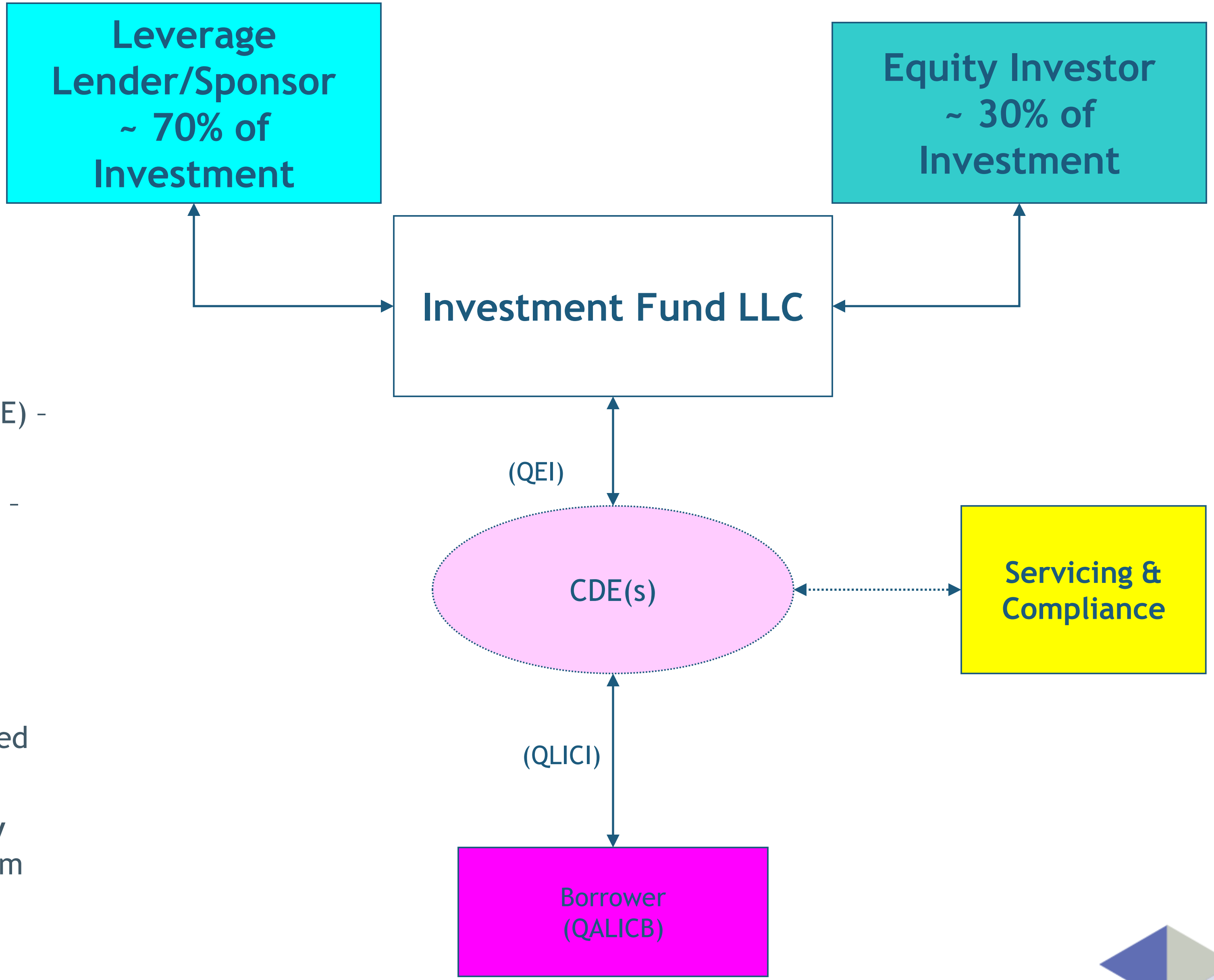
1. CDEs apply to CDFI Fund (i.e. the Treasury Department) for NMTC allocation – be one of the CDE's example projects in their application, not necessary, but helpful
2. CDFI Fund competitively award CDEs NMTC allocations (roughly annually) – be speaking with a lot of CDEs as you never know who will or won't get allocation
3. CDEs select projects to apply allocation to – be the most attractive project

Program Eligibility

What makes a census tract eligible for NMTC?

- Project located in a census tract with poverty rate greater than 20% or Median Family Income (MFI) lower than 80% of statewide income
- Can qualify as "highly distressed" area if poverty rate greater than 30%; MFI lower than 60%; unemployment rate at least 1.5 times national average
- Targeted populations test if census tract does not meet above, can look at employees, owners, or customers
- Several other business "tests" required

Standard Leverage Model



KEY TERMS

Certified Development Entity (CDE) – NMTC eligible recipient of QEI

Qualified Equity Investment (QEI) – Funds for investment; determines amount of tax credit

Qualified Active Low Income Community Business (QALICB) – Operating company & borrower responsible for repayment. Targeted tax credit beneficiary

Qualified Low Income Community Investment (QLICI) – Takes the form of a loan to QALICB