NCAlliance for Public Charter Schools
advancing quality education

Finance & Ownership of a Charter School

Brailsford & Dunlavey

Building Hope

AUGUST 2, 2011

Agenda

- Panel Session (35 minutes)
  - Learning Outcomes…Goals
  - Introductions
  - Key Considerations
  - Funding Structures
  - Case Studies
- Case Study Exercise (10 minutes)
- Questions & Answers (15 minutes)

Learning Outcomes….Goals

- Identify decision making criteria for developing a charter school facility
- Analyze and assess factors for program space
- Determine financing alternatives and funding structures
- Balance space and flexibility with funding limitations
- Plan for future expansion options

Introductions

- Brailsford & Dunlavey
  - National facility planning and program management (i.e. concept development to dedication ceremony)
  - Charter schools, independent schools, colleges & universities
  - Educating our clients to be strong Owners and protecting their interests, vision and mission
- Brad Noyes, Senior Vice President
  - Charlotte, NC Office, 5 other offices nationally
  - 17 years experience, Architecture & Real Estate background
  - $3 billion in projects over the last 5 years including EL Haynes PCS, Elsie Whitlow Stokes CFPCS, DC Prep, ATA PCS

Introductions

Building Hope

- Building Hope assists public charter schools with facility acquisition, renovation, construction, and financing
- Our services include:
  - Real estate financing and credit enhancements -$90 mil/$600 mil-project
  - Technical assistance (over 200 charter schools and CMO's)
  - Building Hope Services (50 accounting/information technology/e-rate)
  - Incubator Facilities (3 commercial sites-3 surplus PS buildings-->2,000 students

S. Joseph Bruno, President

- Certified public accountant with 35 years of accounting, finance, business and management experience, Sarbanes-Oxley financial expert
- Boards—Not-For-Profits----Charter schools, National Alliance of PCS (audit committee chair), Florida Consortium of PCS, Georgetown University Hospital Board Chair; other private and public company boards

Key Considerations

- Community Support
- Organizational Readiness—Human Capital
  - Leadership and board development
  - Staffing capacity and expertise
- The Real Estate Market and Your Options
  - Availability of existing facilities, land, etc
  - Buy vs lease
  - Build vs renovate
  - Bricks and mortar vs modular
  - Current needs vs future needs
  - Surplus public school facilities

Key Considerations

- Project Plan
  - Program requirements-wish list
  - Assessment of space needs and configurations
- Financing Considerations
  - Affordability-enrollment-per pupil funding levels
  - Availability of financing-banking mood-charter school risk
  - Short term vs long term debt
  - Construction-commercial bank vs bond market
  - Impact of interest rates (4% commercial vs 7.5% bond)

Key Considerations

- Team of experts
  - Most of you are educators - not facility developers
  - Need a team of experts - national or local
    - **Different markets…. different options, costs, and metrics**
    - **Real estate broker** - identify and procure property for facility
    - **Project Manager/Owner's Representative** - to provide guidance to school management and oversee development activity-hires A&E team and construction contractor
    - **Financial Advisor** - to arrange financing for the project and to prepare the school for financial institution due diligence and to advise school as to various financing options
    - **Legal Advisor** - to guide and prepare legal documents, contracts

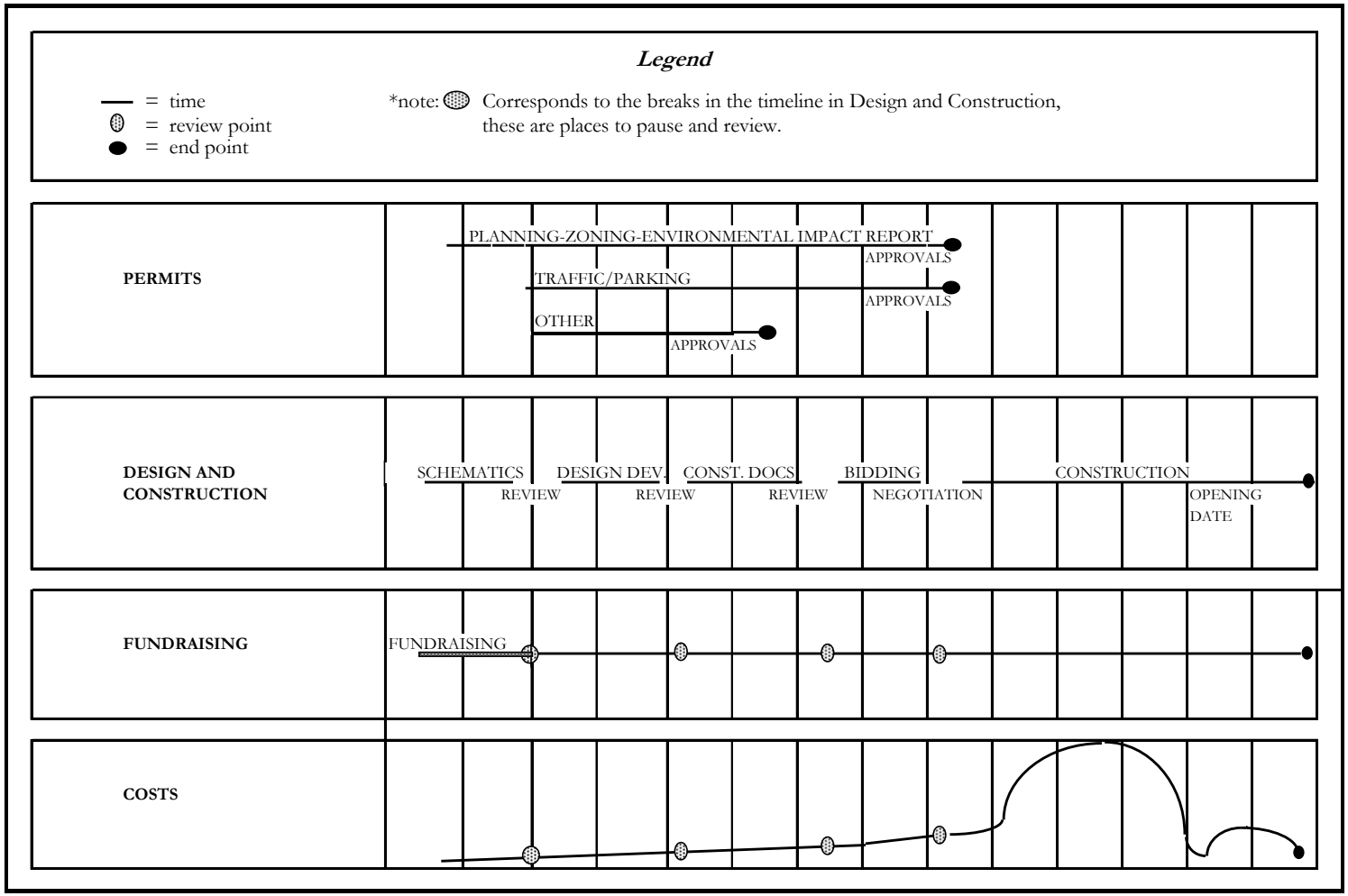
Facility Development Process/Steps

- Hire project manager/owner's representative
  - Guides management in planning the facility
  - Develops program requirements/needs-basic to wish list
  - Once determined-search for available facility or property
  - Develop preliminary cost budgets
  - Identifies and recommends hiring of Architect, Engineer and Construction firms
  - Tracks all activities - from initiation to completion - see list of typical activities and examples on the next slides

Typical Responsibilities of PM

- Facilitating control of any property
- Making educated, timely decisions
- Managing contracts
- Approving invoices
- Issuing and tracking action items
- Reviewing drawings and change orders
- Getting building permit, and other entitlement issues
- Coordinating with utility companies
- Managing FF&E that's "not in contract"
- Creating and closing punchlist

Typical Role of PM-example

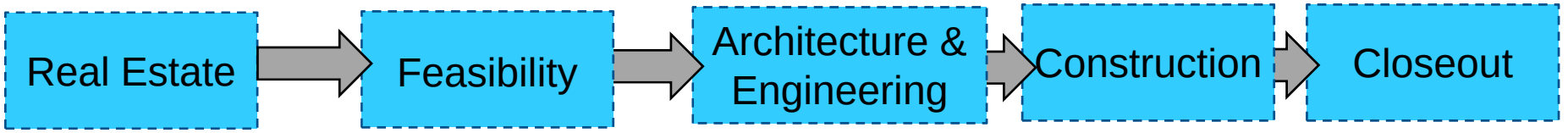


Typical Role of PM-example

Site Due Diligence

Parameter	Lot Specific Details	Calculated Impact
Zoning	C-3-A	-
Height	65 feet	-
Floor Area Ratio	Residential: 4.0 Other uses: 2.5	18,414sf * 2.5 = 46,035sf
Lot coverage	Residential: 75% Other uses: unclear	18,414sf * 75% = 13,810sf
Rear yard	To be determined	-
Side yard	Not applicable	-
Parking	2 spaces for every 3 teachers/employees	Estimate 27 to 30 spaces

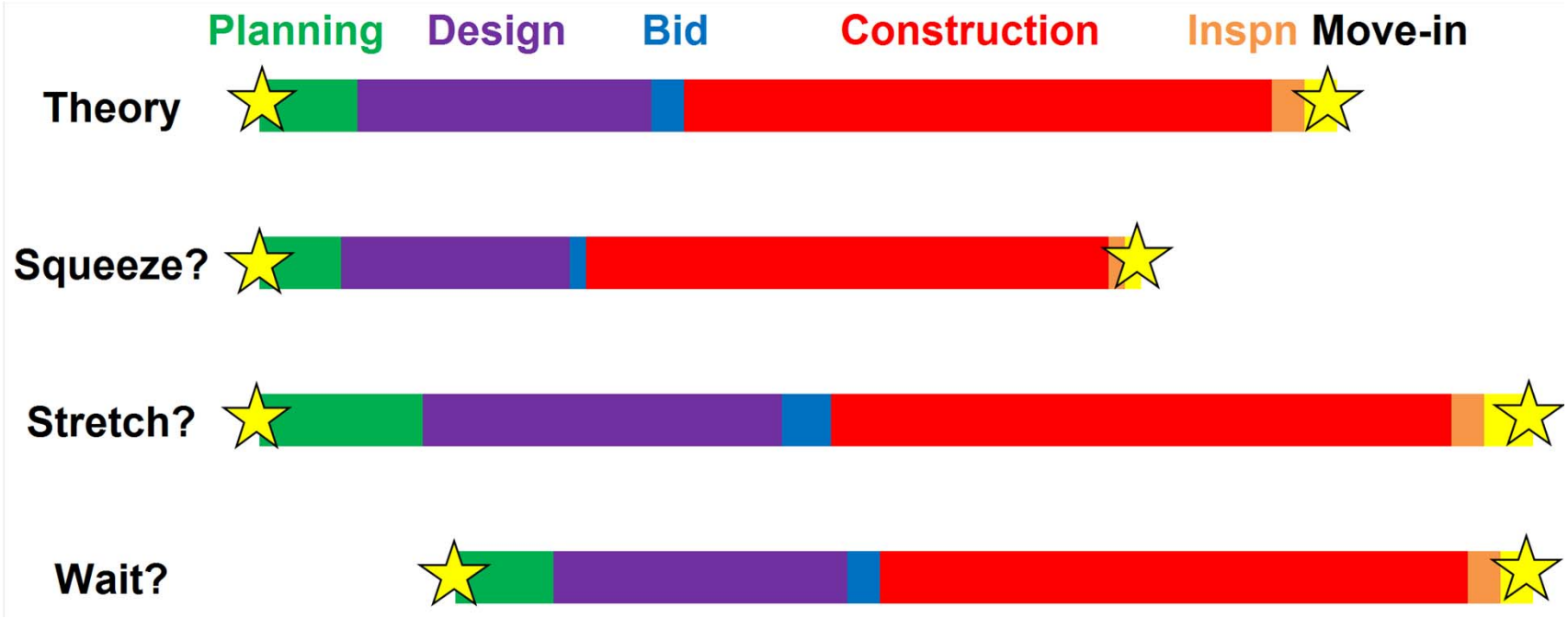
Typical Role of PM-example



Real Estate	Feasibility	Architecture & Engineering	Construction	Closeout
Educational Programming	*Estimating*	*Design Management*	*Safety*	*Startup & commissioning*
Location Priorities	*Land use / zoning / permitting*	*A/E Contracts*	*QA / QC*	*Warranty & Liens*
Charter Requirements	*Environmental*	*CM / GC contracts*	*Means & Methods*	*Final Audit & Payment*
Financing Possibilities	*MEP systems*	*Scheduling*	*C of O issues*	*Punchlist & Completion*
Demographic Analysis	*BOCA / ADA / Life Safety*	*Zoning*	*Budget Control*	
Available Properties	*Real estate practices*	*Budget Control*	*Status Reporting*	
Initial Timeline	*Educational Programming*	*Value Engineering*		
Lease vs. Purchase	*Gaining Site Control*	*Educational Programming*		

Typical Role of PM-example

Project Schedule Milestones



Typical Role of Financial Advisor

- Guide you through an affordability analysis
- Assist in preparing proforma cash flow models and assembling due diligence information
- Assist in securing financing for your project
  - Must know your market
  - Must have access and relationship with financial institutions
  - Must understand different financial instruments available to your particular transaction
  - Must have access to subordinated debt and equity sources

Affordability Analysis-due diligence

- Quality of financials and budgets
  - Proforma: balance sheet
    statement of operation
    statement of cash flows
  - Financial & operating metrics

- Realistic assumptions
  - Enrollment trends
  - Demographics
  - Competition
  - Staff capabilities/trends
  - Facilities cost
  - Fundraising goals

Affordability Analysis

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1. ASSUMPTIONS

Number of students	300
Number of square feet per student	100
Amount of square feet required	30,000
Facilities allowance	$3,000

2. CALCULATION

# of students	300
Facilities allowance	$3,000
TOTAL AVAILABLE FOR ALL FACILIITES -RELATED COSTS	$900,000
LESS: Operating expenses (estimated at $7 per square foot)	$210,000
TOTAL AVAILABLE FOR RENT AND/OR DEBT SERVICE	**$690,000**

3. COST PER SQUARE FOOT

Maximum amount that school can pay for all facilities-related costs (rent, debt service and operations costs)	$30.00	per square foot
Maximum amount that school can pay for debt service and/or rent	$23.00	per square foot

4. NOTE

one of the most significant challenges is finding affordable space in the first years of existence

as the school grows enrollment and before you reach full enrollment

Affordability Analysis

- Key Metrics - examples in BH's market areas
  - Building/Facilities
    - 100 vs 50 square feet per student
    - $250 vs $150 per square foot construction cost
    - Special facility funding $750 vs $3,000
  - Operating Costs
    - $5 vs $7 per square foot
    - Salaries and personnel costs 50-60% of revenue
    - Facilities cost not to exceed more than 20% revenue
    - If CMO manages operations, fee cannot exceed 10%

Funding Structures

AFFORDABILITY ANALYSIS

per sq ft	size	cost	equity	debt service	per sq ft
300	30,000	9,000,000	-	$772,295	$26
300	30,000	9,000,000	1,000,000	$686,484	$23
300	30,000	9,000,000	2,000,000	$600,674	$20
300	30,000	9,000,000	3,000,000	$514,863	$17
275	30,000	8,250,000	-	$707,937	$24
275	30,000	8,250,000	500,000	$665,032	$22
275	30,000	8,250,000	1,000,000	$622,126	$21
275	30,000	8,250,000	1,500,000	$579,221	$19

Funding Structures

- Capital campaign
  - Government: City, state, federal grants
  - Individuals and board
  - Foundations: Corporate and Private
- Traditional financing
  - Commercial construction (3 to 5 years)
  - Bank Qualified debt
- Bond financing
- New Market Tax Credits
- Qualified School Construction Bonds

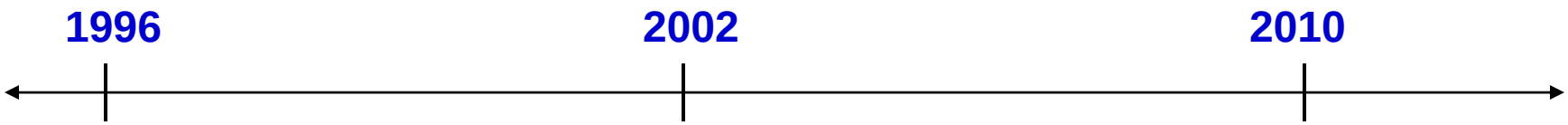
Foundations for Charter Schools

- Walton Family Foundation
- Charter School Growth Fund
- New Schools Venture Fund
- Gates Foundation

Active CS Lending Institutions

- Bank of America
- Self Help
- BB&T
- RBC
- PNC

Case Studies



Whatever schools could find

Strictly focused on commercial markets:

a) Office space

b) Churches

c) Industrial parks

d) Surplus DC School bldgs

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

Case Studies

- Assessing the factors that caused a shift
  - Constant advocacy
  - Increased sophistication
  - Strong academic performance
  - Real estate market
  - Site constraints and zoning

Incubator Initiative

For start-ups, this may be the best alternative – quality space at affordable price

Public/private partnership between Building Hope and OSSE

Goal is to provide short term, affordable space for start up charter schools

Rent is based on facilities allowance times number of students less 10% withholding for new schools to use on other facilities-related items

Incubator Initiative

Rent is full service and includes all costs except security and furniture and fixtures

Currently have 6 sites across the District

- 1600 Taylor Street NE (Ward 5)
- 2001 S Street NW (Ward 2)
- 3029 14th Street NW (Ward 1)
- 100 41st Street NE (Ward 7) – former DCPS
- 908 Wahler Place SE (Ward 8) – former DCPS
- 2501 MLK SE (Ward 8) – former DCPS

DCPS Co-Location and Leasing

- Significant surplus DCPS space had built up over years
- Significant shift of students to charter schools accelerated the surplus of space
- Political decisions encouraged setting aside surplus space for charter schools
- Charter school facility improvements to DCPS surplus space addressed deferred maintenance
- Long term lease structures

Commercial Market

Shift in private market to more experienced property and development companies

Complex multi-tenant arrangements often under consideration

Strongest charter schools became the most attractive partners

Financial parameters became increasingly difficult to pencil

Impact of zoning changes in response to public input

Case Study Exercise

A charter school is looking to determine the best facility and finance solution

Assumptions

- Rural community with population of around 20,000
- Slow growing enrollment, 200 now with 400 target
- Adding grades, K-4 now with K-8 target
- Expandability of facility is critical
- Strong financial management but little savings
- Consistent academic performance
- Weak inexperienced board

Case Study Exercise

1. The Money

with Joe Bruno

joebruno456@aol.com

Challenge you on whether you're ready

Help you focus on the funding alternatives

2. The Process

with Brad Noyes

bnoyes@facilityplanners.com

Share some tools to manage the risks

Highlight the factors that are in play during the process

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