



# Life Cycle Facilities Planning

From start-up to community institution, facilities solutions for every stage of your school's growth



# About CSDC

- Mission: To promote innovation and excellence in education by financing and developing facilities for great public charter schools nationally
- Community Development Financial Institution (CDFI) and nonprofit turnkey facility developer & charter school lender
- Largest recipient of federal Credit Enhancement for Charter School Facilities grant program

*Focused exclusively on the facility and financing needs of charter school organizations, with a priority on new and early stage schools*



# CSDC's Products & Services

## ■ Lease & Loan Guarantees

- Building Block Fund: Helps charter schools obtain leases and loans by acting as a “co-signer” for the school’s payment obligations.
- Provides the financial backing charter schools need to secure educational facilities at an affordable cost.

## ■ Direct Lending

- Offers a variety of loan products that provide charter schools – especially new schools with little or no operating or credit history and those serving very low income communities – with affordable financing options for the acquisition, construction, renovation, and expansion of educational facilities.

## ■ Real Estate Services

- Turnkey Development Program: Finances, designs, constructs, and leases custom facilities built to suit the unique needs of each school’s educational model, student population and budget.
- Consulting & Fee Developer Services: Outsourced project management - CSDC oversees the entire process on the school’s behalf – from initial site design and financial modeling through permitting and construction to final punch list and opening day of school.



# Lifecycle & Stages of Growth

	0-3 years Start-up	0-3 years Start-up	5+ years Community Institution
Facility Needs	Rent/Lease/Build-Out Start-up Space	Acquisition/ Renovation/ New Construction of Permanent Facility	Expansion & replication (multiple campuses)/ Permanent Financing
Types of Financing	<ul style="list-style-type: none"> <li>▪ Leasehold Improvement loans</li> <li>▪ FF&amp;E loans</li> <li>▪ Cash flow/working capital loans</li> </ul>	<ul style="list-style-type: none"> <li>▪ Commercial mortgage loan</li> <li>▪ Construction loan</li> <li>▪ Bond financing                             <ul style="list-style-type: none"> <li>▪ Bank backed LOC</li> <li>▪ School credit</li> <li>▪ Private placement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Refinance commercial debt to tax-exempt bond financing</li> <li>▪ Public and private bond markets</li> </ul>
Types of Credit Enhancement	<ul style="list-style-type: none"> <li>▪ Additional Collateral</li> <li>▪ Lease Security Deposits</li> <li>▪ Lease payment reserves</li> </ul>	<ul style="list-style-type: none"> <li>▪ Debt Service Reserve Fund</li> <li>▪ Additional collateral/ Equity Substitute</li> </ul>	<ul style="list-style-type: none"> <li>▪ Liquid or Debt Service Reserve Fund</li> </ul>
CSDC Program or Service	<ul style="list-style-type: none"> <li>▪ Building Block Fund</li> <li>▪ Turnkey Development Program</li> <li>▪ CSDC Direct</li> </ul>	<ul style="list-style-type: none"> <li>▪ Building Block Fund</li> <li>▪ Turnkey Development Program</li> <li>▪ CSDC Direct</li> </ul>	<ul style="list-style-type: none"> <li>▪ Building Block Fund</li> </ul>

# Step 1 – Space Needs Assessment

In general, your team should consider the following items when determining your needs:

- Gross Square Footage (90-125 sq ft per student)
- Bathrooms and common areas
- Non-academic space
- Expansion space
- Playground
- Parking
- Other program-specific needs



**Be both creative and realistic when addressing your wish list.**



# Needs Assessment Worksheet

## Physical Space Needs

To estimate the gross square footage needed (two ways to calculate are shown, use EITHER Form A or Form B)

QUICK CALCULATION, FORM A:	Minimum	to	Maximum
Number of students x square feet per student	_____	to	_____sq. ft.

If using calculation Form A, this is your gross building square foot number.

DETAILED CALCULATION, FORM B:	Minimum	to	Maximum
Classrooms, number of: _____ (750 – 1,000 sq. ft. per class, assuming class of 25)	_____	to	_____sq. ft.

Plus, additional space for (choose spaces applicable to your program; rough square footage estimates given):

Offices, number of: _____ (70 – 100 sq. ft. per office)	_____	to	_____sq. ft.
Gym, number of students: _____ (5 – 6 sq. ft. per student)	_____	to	_____sq. ft.
Cafeteria, number of students: _____ (4 – 8 sq. ft. per student)	_____	to	_____sq. ft.
Library, number of students: _____ (3 – 4 sq. ft. per student)	_____	to	_____sq. ft.
Special rooms (labs, computer, etc.), number of: _____ (750 – 1,000 sq. ft. per classroom)	_____	to	_____sq. ft.
Other (estimate area your school needs) _____	_____	to	_____sq. ft.

Subtotal (also called net square footage) is classrooms plus all additional space: \_\_\_\_\_ to \_\_\_\_\_sq. ft.

Multiply subtotal by 30% for hallways, bathrooms, utility closets, etc.: \_\_\_\_\_ to \_\_\_\_\_sq. ft.

Total sq. ft. (also called gross square footage) is subtotal plus 30% \_\_\_\_\_ to \_\_\_\_\_sq. ft.

### IN ADDITION, FOR BOTH FORM A AND FORM B, YOU SHOULD CONSIDER YOUR EXTERIOR SPACE NEEDS:

Number of parking spaces (will most likely be governed by zoning requirements): \_\_\_\_\_spaces

Outdoor play areas (may be governed by school regulations): \_\_\_\_\_sq. ft.

Playing fields for specific sports: \_\_\_\_\_sq. ft.

#### Legal Disclaimer:

Nothing in this material should be construed as investment, financial, brokerage, or legal advice. Moreover, the facts and circumstances relating to your particular project may result in material changes in the processes, outcomes, and expenses described herein. Consult with your own professional advisors, including your financial advisors, accountants, and attorneys, before attempting to consummate any transaction described in this material.



### ALSO CONSIDER THESE QUESTIONS:

What neighborhoods are to be served by the school?

Are existing bus routes or other public transportation routes important?

What about convenience for parent drop-off / pick-up?

Is it important for you to be near other institutions (i.e., public library, museums, daycare centers, parks)?

Are there specific technologies or specialty teaching opportunities that need to be accommodated?

What is the image you are trying to project (i.e., cutting-edge school, home-like atmosphere)?

Source: [http://www.lisc.org/media/filer\\_public/f1/91/f19145b4-0253-4602-a8ba-dd7b16047bc5/er1\\_needs\\_assessment\\_worksheet.pdf](http://www.lisc.org/media/filer_public/f1/91/f19145b4-0253-4602-a8ba-dd7b16047bc5/er1_needs_assessment_worksheet.pdf)

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# Start-Up & Early Stage Schools (0-3 Years)

## Typical Facility Options Available:

- Commercial lease (churches, strip malls, office buildings, etc.)
- Co-locations/Incubators
- Turnkey Lease with Option-to-Purchase (less common)



# Commercial lease

## Pros

- Practical for new schools
- Schools commence operations in space sized to initial enrollment & budget
- Interim solution, no long term commitment to location
- No equity requirement

## Cons

- Typically requires credit enhancement
- Investment in tenant improvements to a building that school will never own
- Landlords may require lease payment guarantee or sizeable security deposits to mitigate enrollment risk
- No equity buildup
- Forces relocation or additional investment as enrollment grows
- Often lacks amenities



# Credit Enhancement Solutions

## ➤ **Building Block Fund Solution**

- Partial guarantee of lease payment obligations, typically equal to 12-18 months of lease payments, reducing landlord risk.
- Cash collateral to lenders for a leasehold improvement loan.

## ➤ **Result**

- Schools secure leases or improve space to begin operations.

# CSDC Case Study:

## New Legacy Charter School, Aurora, CO

- Start-up school with 90 students in grades 9-12, growing to 300 at max enrollment.
- 10-year lease term with option to purchase.
- Landlord required 12 month lease payment guaranty as a condition of financing the leasehold improvements.
- CSDC's BBF pledged \$280,500 as a lease payment reserve to landlord for a 5 year term.
- The school was able to commence operations in a new facility.



# CSDC Case Study:

## Two Rivers Community School, CO

- Start-up school with 160 students, growing to 250 at max enrollment in grades K-8.
- 10-year lease term with option to purchase a former USPS mail handling center.
- Landlord unwilling to finance the improvements.
- CSDC's BBF pledged \$230,000 as a loan guaranty to Alpine Bank to induce the bank to make the otherwise unsecured loan.
- The school was able to commence operations in a new facility.



# Co-locations/Incubators

## Pros

- Viable option when available – quality space to fit small enrollments at affordable price
- Allows schools to organically grow enrollment
- School leaders focus on academics, not real estate
- No or minimal investment in leasehold improvements

## Cons

- Typically short-term leases and revolving tenants
- Potential competition with other schools if serving same grades
- Opportunities for conflicts (turf wars) between student populations
- Limited availability nationally

# CSDC Case Study

- Two start-up high schools in St. Paul, MN
- Very different educational models
- 23,062 sq. ft. total



## Great River School

(Master tenant)

- Montessori program
- 5 year initial lease term with purchase option
- 75% of rentable square footage

## Augsburg Academy for Health Careers

(Short-term tenant)

- 2 year lease term
- 25% of rentable square footage
- Established a track record in start-up space & relocated after year 2



# Turnkey Lease with Option-to-Purchase

## Pros

- Long-term solution to facility needs
- Open book, fixed cost, affordable rents & purchase options
- Eliminates multiple moves as enrollment grows
- Establishes presence in one community
- No equity investment

## Cons

- Limited nonprofit developers like CSDC working nationally
- For profit developers typically focus on established schools or offer discounted rent in the early years in exchange for expensive purchase options

# Operating Schools (3-5 Years) | Facility Options

- Acquisition, renovation or construction
- Lease with option to purchase program (both nonprofit and for profit developer options)
- Access to commercial and tax-exempt markets



# Acquisition or Construction

## Pros

- Long-term solution to facility needs
- Typically less expensive than leasing (no rent or purchase option premiums)
- Long term, tax-exempt financing options available at low rates

## Cons

- Real estate and financing expertise required – in-house or outsourced
- Significant equity requirements - LTV no more than 65-75% for senior debt.
- Most schools need to borrow 100% resulting in financing gap



# CSDC Case Study:

## Academie Lafayette | Kansas City, MO

- Operating 7 years when leased facility was available for purchase.
- Audited financials, strong governance & a track record of student success, but no cash reserves to cover equity.
- Purchase price = \$2.5 million
- Bank of America's equity requirement = \$500,000 (20% of loan)
- BBF pledged \$500,000 as “substitute equity” to lender enabling the school to borrow the full amount and purchase the facility.



# Lease with option-to-purchase program

## Pros

- Both nonprofit and for profit developer models
- Long-term solution to facility needs
- Viable option with demonstrated track record & operational results.
- Turnkey facility with no equity requirements
- Limited staff time devoted to facilities and financing

## Cons

- Limited nonprofit developers like CSDC working nationally
- For profit developers have less geographic restrictions and discounted rent in the early years; however, rent escalations and purchase option prices can become burdensome in later years



Types facility and financing options, and uses of credit enhancement

# Getting Your School Ready to Borrow



# Build the school before building the facility

- **Clearly defined school mission** - What is it you are doing or plan to do that differentiates you from other schools?
- **Competition:** What makes your school unique in the market? Be prepared with performance results of surrounding schools. Why would a parent choose your school over other schools?"
- **Enrollment:** Be prepared with realistic growth projections based on community demographics; no "build it and they will come" approaches
- **Wait List:** If you don't have one, start one!



# Build the school before building the facility, cont.

- **Academic/Programmatic Niche:** Defined but not narrow, backed by data (STEM School vs Performing Arts vs Language Immersion)
- **Governance**
  - Board-level
  - School-level
  - Back Office Support



It's not like the movies, you can't assume that if you build it, they will come...



# Qualifying for Financing Programs & Leases

## Board Level Governance

- Broad expertise of board members (not entirely comprised of teachers and/or parents).
- Board members with previous experience serving on other charter school boards & performance results of those schools.
- Regular/ongoing board governance training.
- Clear delineation of roles & responsibilities between board and management.
- Strong procedures for financial & operational oversight - annual approved budget, appropriate sub-committees, etc.



# Board Level Governance, cont.

- Regularly scheduled, properly-noticed, and documented board meetings
  - Posting board meeting minutes on your website.
- Succession planning at both board and school leadership level
  - What happens when the founding board transitions to a governing board?
  - What are the different skill sets needed by the founding vs governing board?
- Documented Conflicts of Interest policy
- EMO/CMO (as applicable) – How does the board ensure independent decision-making at the board level?
- Financial contingency planning – know what your plan is if enrollment falls short of expectations in the fall, or funding is cut at the last minute.





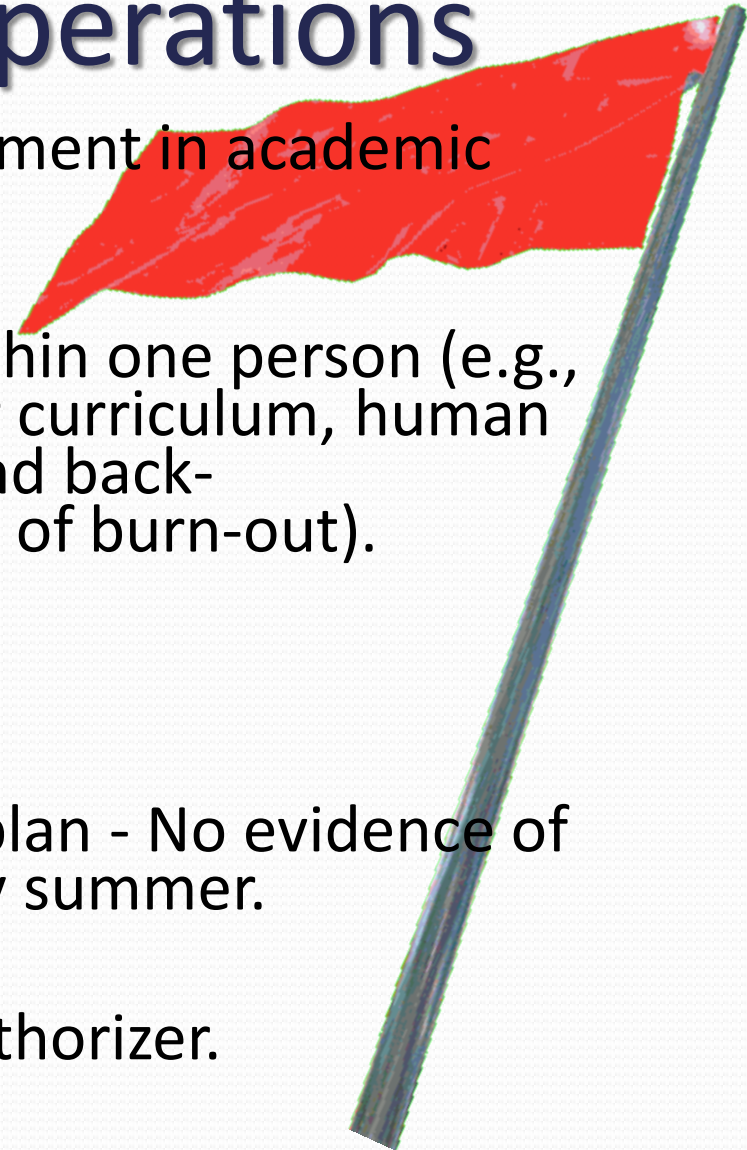
# Qualifying for Financing Programs & Services

## Governance at the School Level

- School leader - Strong leaders have previous exposure to the day to day expectations of running a school (academic modeling, budgeting/finance, building maintenance, discipline, etc.) before actually launching their own school.
- Succession planning – if dynamic school leader leaves, what happens next?
- Division of responsibility – academic vs financial vs operational
  - Is the person responsible for running the school suddenly tasked with becoming a real estate or finance expert?

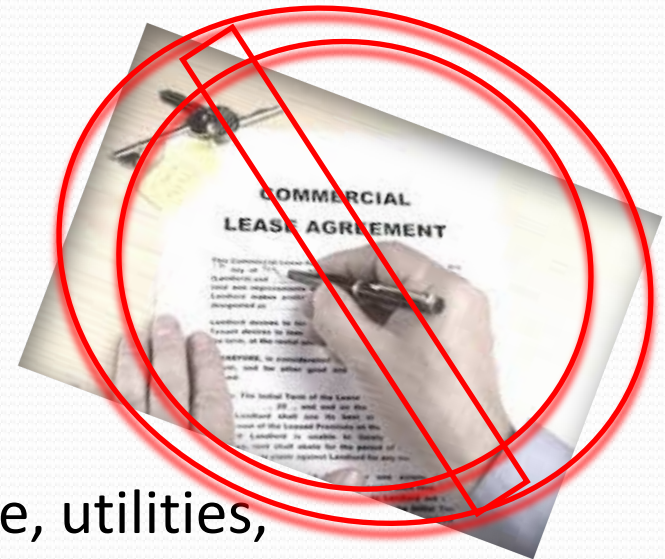
# Red Flags - School Operations

- Little or no year over year improvement in academic results, as applicable.
- Concentration of multiple roles within one person (e.g., the school leader is responsible for curriculum, human resources, facilities, recruitment and back-office/business management – risk of burn-out).
- High staff turnover.
- Marketing & student recruitment plan - No evidence of pre-enrollment by late spring/early summer.
- Unresponsive or hostile charter authorizer.



# Red Flags - lease or loan terms

- Long-term exclusive agreements w/real estate brokers.
- Expensive pre-payment penalties.
- Low Loan-to-Value (>65%).
- Total facility costs (includes debt service, utilities, maintenance, etc.) exceeding 20% of revenue.



# You're Qualified!

## Now what?

### Managing the Financing & Development Process



# Outsourced Capacity Building

- 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



# Timing & Responsibilities

## 1-2 year development cycle

- Team selection
- Property identification and feasibility analysis
- Acquisition (lease or purchase) negotiations
- Financing
- Design
- Predevelopment – how are you going to pay upfront costs?
- Permit and regulatory improvements
- Implementation
- Certificate of Occupancy



# Designing and Building Your Own Facility



## Phase 1 – Design and Development:



- Program Needs
- Cost Estimates
- Timing
- Financing
- Legal Rights
- Community Support
- Political Opposition
- Scenario Analysis

- Land Acquisition
- Conceptual Design
- Constructability
- Program Implications
- Timing
- Financing/Budget
- Entitlements
- Community Relations
- Political Support
- Contingency Planning
- Risk Assessment

- Negotiation/LOI
- Draft Purchase and Sale Agreements
- Manage Due Diligence
- Coordinate Timing
- Contingency Planning
- Risk Assessment
- Manage Entitlements and Variances

- Identify and Explore Financing Options
- Recommend Financing Source and Structure
- Ensure Team is Assembled
- Create and Assemble Required Information
- Negotiate Price
- Manage Application Process
- Manage Timing of Process
- Ensure Timely Closing
- Contingency Planning

- Act as Owner's Rep
- Review and Assess Plans
- Program Needs Reviews
- Cost/Budget Reviews
- Timing Community Support
- Ensure Owner's Requirements are Met
- Obtain Timely Owner Approvals
- Security
- Telecommunications
- Technology
- FFE



## Phase 2 – Construction

Demolition  
and Site  
Prep

Construction

Occupancy

Punch List  
and  
Warranty

New Home  
for Charter  
School

- Environmental remediation & Coordination with local jurisdiction to obtain applicable governmental approvals

### Act as Owner's Rep

- Cost/Budget Management
- Timing/Schedule
- Review Draw Requests
- Identify and Pursue Rebates
- Review Change Orders
- Owner Updates
- Deal with Any Unforeseen Problems
- Manage the Draw Process
- E Rate

### Act as Owner's Rep

- Cost/Budget Management
- Timing/Schedule
- Ensure C of O is in Place
- Deal with Any Unforeseen Problems

### Act as Owner's Rep

- Help Owner Develop Punch List
- Ensure Owner's manual is Created and Transferred
- Train Owner in Building Operations
- Ensure all warranties are in Place
- Deal with Any Unforeseen Problems

# Developer's Roles and Responsibilities

- Take project lead on behalf of school (if outsourced)
- 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
- Secure take out financing



# School's Roles and Responsibilities

- Designate key decision making individuals to participate in design and steering committee meetings.
- Generate design guidelines and program needs.
- Enter into lease / sublease.
- Provide community outreach.
- Maintain and advance program quality.
- Recruit and enroll students to meet projections.



# Don't Want It Too Badly

- Be honest with yourself about what your school wants vs what your school needs.
- Be prepared to walk away – you'll have incurred substantial cost (financial and human), but it may be the better option than taking on debt you can't afford.

*Don't fall in **love** with a building that's never going to love you back!*



# Resources

- Lending

Molly Melloh | Senior Director, K-12 Education | Healthy Communities

**Reinvestment Fund** | [Reinvestment.com](http://Reinvestment.com)

p: 215.574.5892

[molly.melloh@reinvestment.com](mailto:molly.melloh@reinvestment.com)

- Real estate consulting/facilities development

Karl Jentoft | TenSquare | Washington D.C. Office

<http://www.thetensquaregroup.com/>

p: 202.328.0760

- School Build: <http://www.lisc.org/charter-schools/>

- Capital Impact: <https://www.capitalimpact.org/the-answer-key/>

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Any  
Questions