

Facility Affordability: A Look at What Operators are Spending and How to Bring National Best Practices to Georgia

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Today's Session

- In today's session, we will debrief the recent landscape analysis of the charter school facility and financing environment conducted by Level Field Partners (LFP) and the State Charter School Foundation of Georgia (SCSF)
- Our objectives for today include:
 - Discuss Key Takeaways from the Landscape Analysis
 - Define and Understand Charter School Affordability
 - Discuss Various Delivery & Financing Alternatives
 - Highlight Best Practices from Recent Projects
 - Discuss How SCSF is Working to Improve the Facilities Landscape in Georgia
 - Have Time for Q&A

Introduction to Level Field Partners



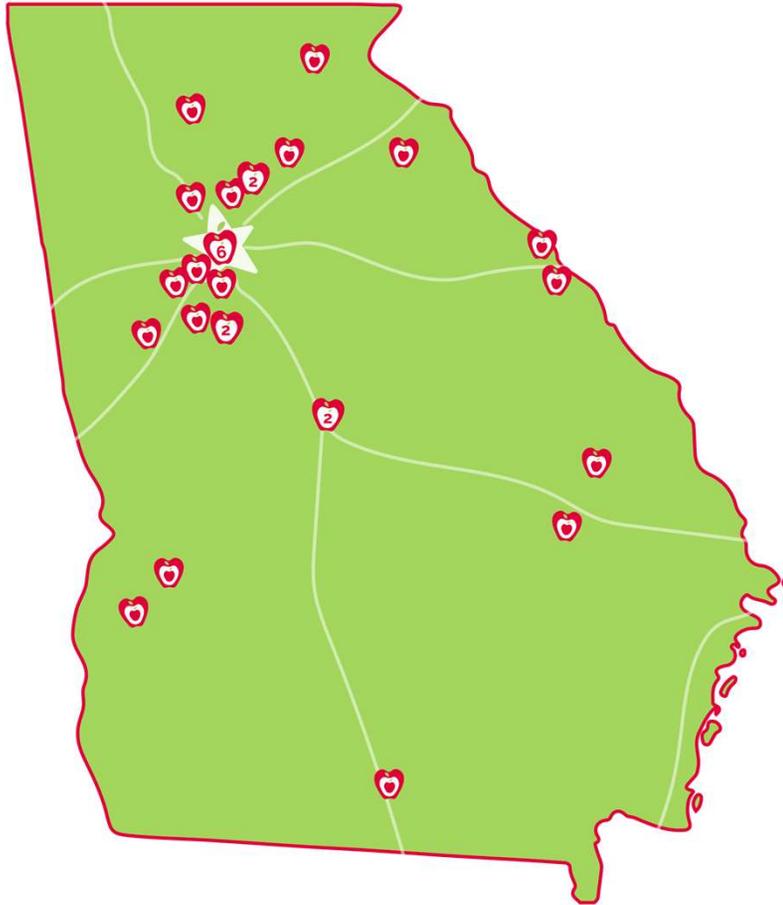
- Level Field Partners provides technical assistance for all stages of the charter school real estate development and financing processes to enable cost-effective access to first-class facilities for high-quality charter school operators, including:
 - Facility feasibility and road mapping
 - Real estate project team assemblage
 - Financing sourcing and structuring
- Level Field's team has nearly 40 years of collective experience supporting high-performing charter schools as in-house real estate developers, financial managers, development directors, operations directors, and general counsels.
- Collectively, the Level Field team has directly financed and developed more than **1.4 million square feet** of educational space, totaling more than **\$415 million** in project costs.

LFP Engagements & Projects



SCSF's mission is to support high quality sustainable state charter schools serving children throughout Georgia by leveraging resources to help schools **launch, build capacity, and grow.**

SCSF is Serving Our State



- 33,000 student enrollment
- 29 schools in operation; 6 state charters opening 2019
- 15 statewide attendance zones, 14 with defined districts including Atlanta, Fulton, DeKalb, Cobb, Marietta, Clayton and Gwinnett
- Academic models include STEAM/STEM, project-based learning, dual-language immersion, arts integration, single gender, and personalized learning

Organizations Filling Gaps for Charters Today



Advocacy

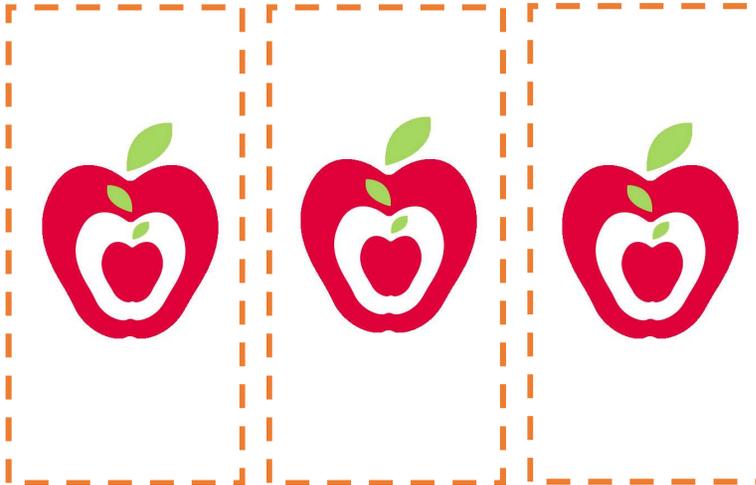
Fundraising
& Grants

Affordable
Facilities

Fair
Financing

Leadership &
Talent
Development

Board
Governance

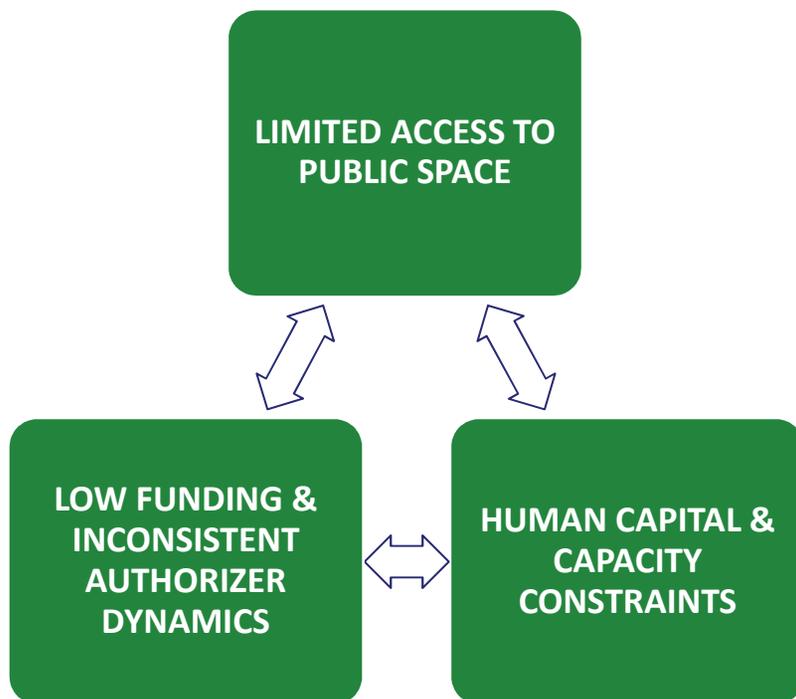




Key Takeaways from the Landscape Analysis

Market Dynamics Impacting State Charters

State charter schools struggle to grow enrollment and establish stability due to three interrelated market conditions that impact operations and relegate state charter schools to suboptimal facilities:



Resulting Outcomes

- State charter schools are often **required to find private facility spaces before even opening their doors** due to the lack of district-provided spaces.
- Educators having to work through the challenges of identifying and potentially improving private spaces face a **facilities-related knowledge gap**, which is particularly exacerbated in the competitive real estate market in greater Metro Atlanta.
- The lack of district facilities indicates a **need for incubation and co-location options**, particularly important in the first years of operation and in more expensive urban centers.
- Most of the state charter schools receiving third party support from for-profit groups are forced to settle for **costly facilities that do not meet their academic / programmatic needs**.
- The market **lacks a well-formed network of professional service providers** to support the state charter schools through their growth and to financial and facility stability, further heightening the knowledge gap and related impacts.



Key Takeaways: *In Numbers*

Facility Spend

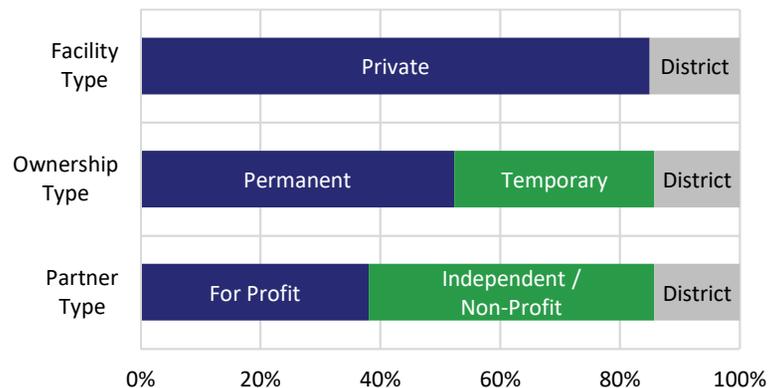
National facility-related spend benchmarks range between 8-14% of public funding. Georgia's state charter schools are spending...

12.5%
public funding¹

However, spending significantly ranges by facility type...

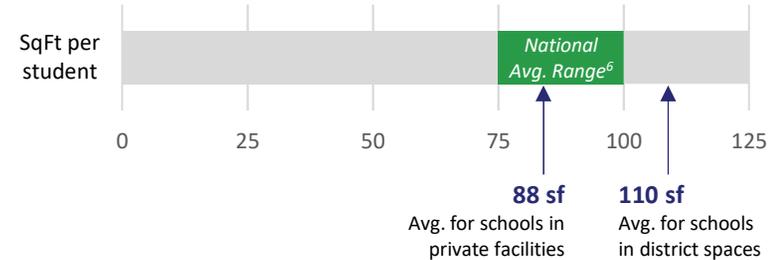
4.7% in district facilities² **12.6%** if private facility³ **16.8%** if developed by for-profit⁴

... and most state charter schools are pursuing private facilities due to the lack of availability and access to below-market district-owned alternatives.



Facility Quality

State charter schools are spending more for less...



... and are still missing programmatic spaces vital to successful academic operations.

85% of survey respondents reported missing **athletic spaces, outdoor spaces, multi-purpose space or sufficient classroom spaces**; **65%** reported missing 1+ of these spaces

Facility Financing

Given the prevalence of private facilities, state charter schools are already accessing a wide variety of debt capital...

7 schools with existing debt that face known financing events **50%+** developing with for-profits⁵ **~2x** cost premium when working with for-profit

... however, there is little consistency among the diverse loan products.

Source: SCSF-LFP Survey

Notes: ¹ Based on average funding of \$8,500 (n=18); ² Representative of 3 respondents; ³ Representative of 10 respondents; ⁴ While 8 properties associated with state charter schools have been developed by for-profit, responses reflected average expense for those still in leases with for-profits (i.e., excludes refinancing) (n=5); ⁵ Includes turnkey developers and "facility solutions" capital partners; ⁶ Common range for K-8 sq.ft. benchmark since majority of SCSF state charter schools in private facilities are K-8; high schools tend to be larger (up to 110-125 sf per student), with variation within that range based on geography



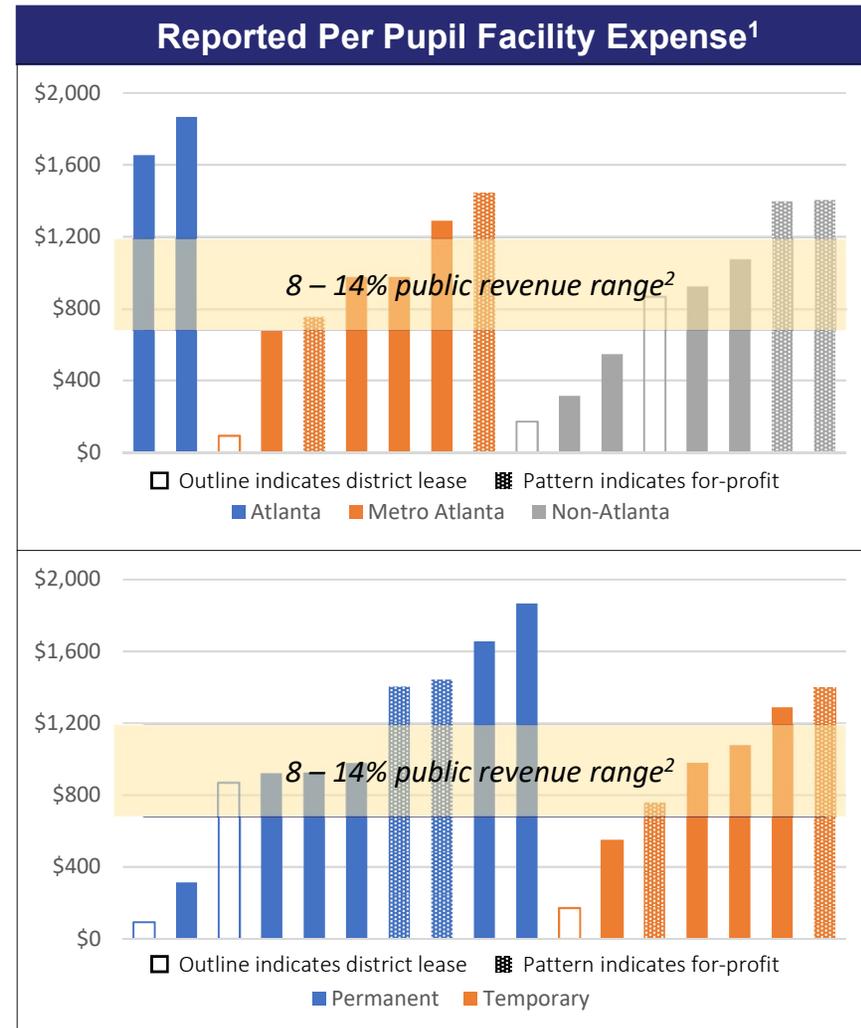
Understanding Charter School Affordability

What is a charter school's "affordability" for privately-developed facilities?

- Nationally, prescribed affordability for privately-developed facilities ranges between **8%** and **14%** of recurring state and local per pupil funding.

What does that mean for Georgia operators?

- In Georgia, state charter schools receive on average **\$8,500** per pupil from state sources, with no local funding; this translates into a targeted facility affordability range of between **\$680** and **\$1,190** per student per year.
- Charter schools will also need to plan for Maintenance & Operations costs that are in addition to this rent / debt service estimate.



Source: SCSF-LFP Survey Results

Notes: ¹ Rent or debt service payments associated with facility occupation; does not include facility-related maintenance and operations expenses; ² Based on average per pupil state funding of \$8,500



Selecting a Delivery & Financing Method

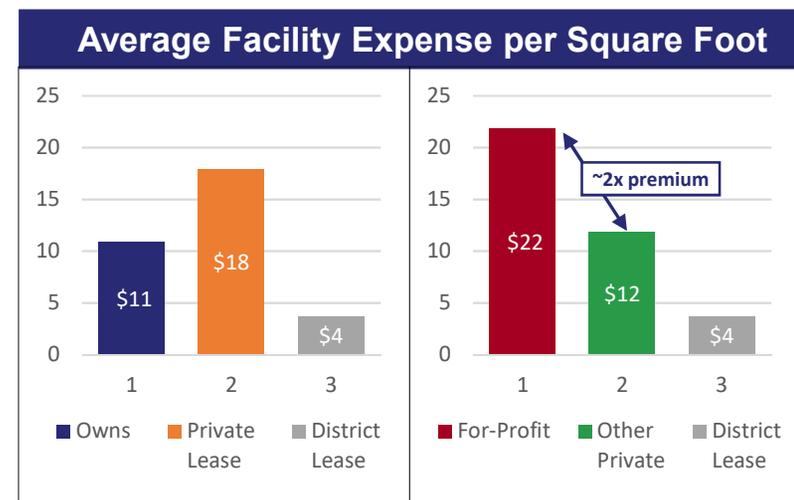
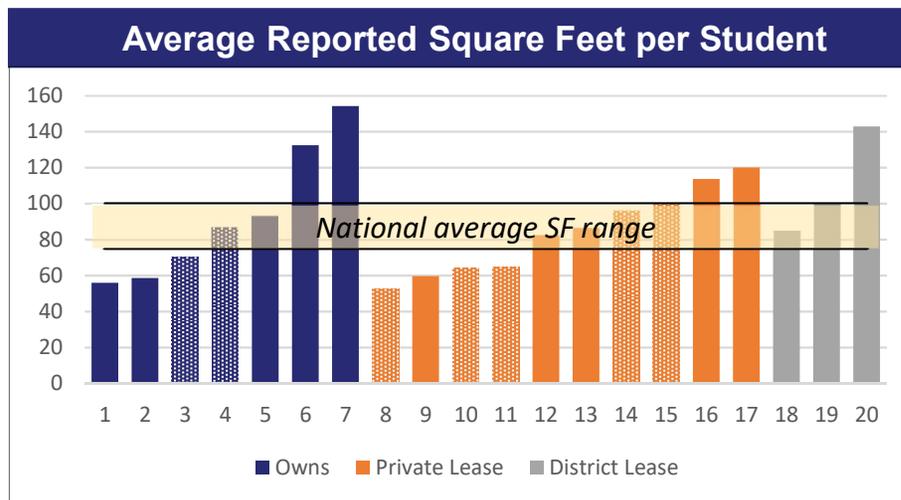
Charter schools have options when it comes to facility development process, and operators need to evaluate the pros and cons of each to find the best fit for their needs.

Turnkey Developers	Fee Developers	Self-Managed / Owner's Rep
<ul style="list-style-type: none">• Manage entire process from acquisition through closeout• May lead/help on site search• Financing with own capital source• Engage all consultants and team members; least strain on operator capacity• Less control over team, design, financing, etc.• Possible purchase window• Possible rent deferral tied to scaling enrollment / funding• Operator cost exposure if project ends up higher than originally planned for• Typically most expensive option	<ul style="list-style-type: none">• Sophisticated partners capable of engaging at all stages of process, including of entitlements and financing process / closing• Partner can be for-profit or non-profit, each with different cost profiles• Operator is free to source financing of its own design, often with fee developer assistance• Typically not leading site search and acquisition process• Generally higher fees relative to design and construction-focused owner's rep	<ul style="list-style-type: none">• Highest degree of project controls around team members, design and budget• Appropriate for operators with internal capacity; greatest strain on staff• Typically lowest cost option, particularly initial project-related fees• Construction-focused owner's reps can yield great project execution benefits; generally these individuals do not focus on entitlement / public engagement assistance• No financing assistance; operator must source financing on its own



Notable Presence of For-Profit Facility Players

- Due to the low funding and inconsistent authorizer dynamics, human capital and capacity constraints, and limited access to district / alternate facilities, many state charter schools have gravitated towards for-profit turnkey developer or capital providers, despite the delivered facility not necessarily optimizing the school's spend.
 - Facilities developed with for-profit partners averaged **76 sf per student**, compared to facilities built with non-profits / independently at **96 sf per student** (district spaces at 110 sf)
 - State charters were maximizing affordability if owning (**\$11 per sf**) compared to privately leasing (**\$18 per sf**)
 - Facilities were nearly twice as expensive (**\$22 spend per sf**) compared to facilities built with other partners or self-managed (**\$12 spend per sf**)

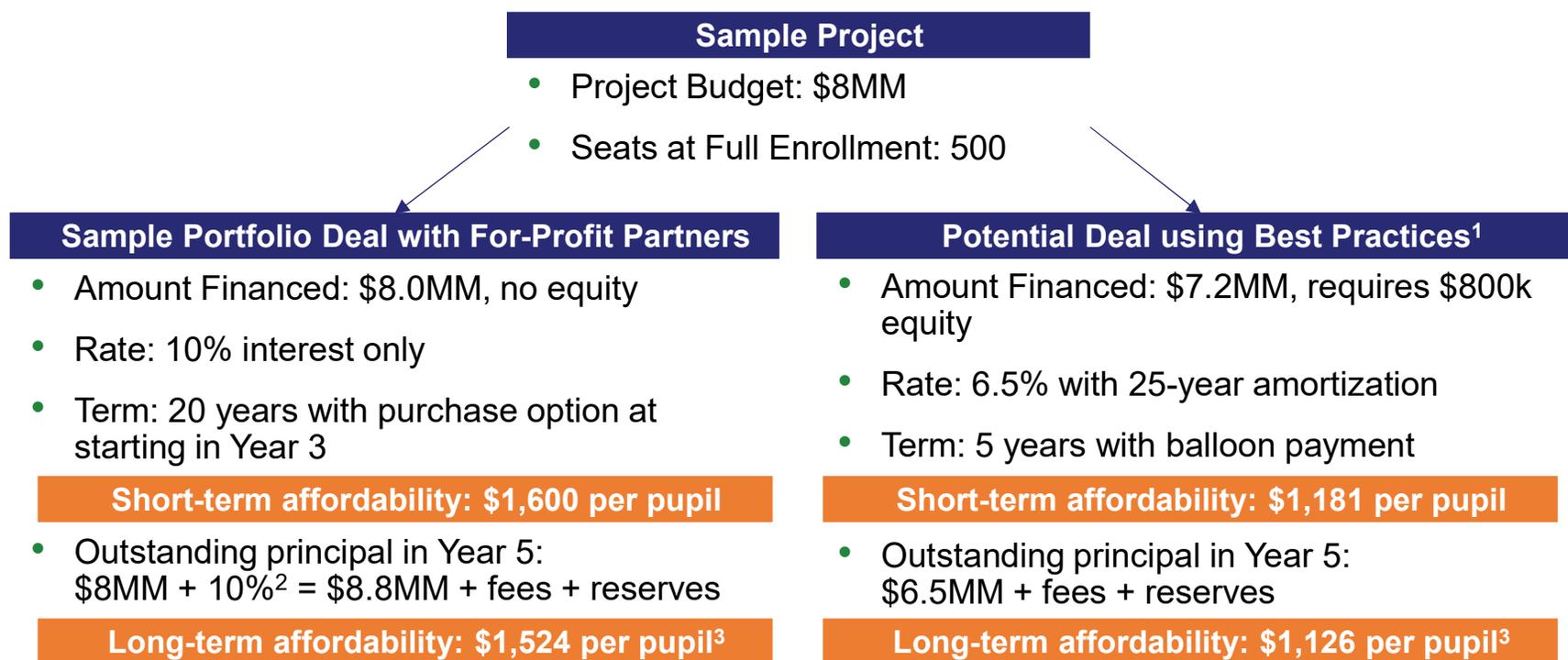


Source: SCSF-LFP Interviews



Identifying the Right Partners

Using industry best practices by engaging non-profit partners or self-managing the project, a similarly-sized facility can stay within the 8-14% affordability target over the long-term.



The importance of picking the 'right partners' has both short- and long-term impact on ensuring affordability facilities

Notes: ¹ Pricing and deal structure are representative in nature; several factors including credit profile of borrower/project and loan term typically determine each loan's pricing; ² Every developer has a different model to recoup a return on their equity and any deferred rent; ³ Long-term affordability assumes tax-exempt bond financing at 6.5% over 30 years with a 12-month debt service reserve and 5% fees; does not include additional equity contributions



Case Study: Identifying the Right Partners

State charter school leveraging qualified partners to successfully execute on delivery of cost-effective permanent private facility

- **Operator Profile:** First-year K-5 school in Metro Atlanta with projected 300-student enrollment at scale
- **Operator Partners:** Charter-focused brokerage firm and related capital sourcing group worked to identify target site while soliciting interest from 21 separate banks for \$4.75M acquisition financing, generating interest from 7 lenders
 - Terms from Selected Commercial Bank: \$2.75M locked at 5% for 35 years; \$2M floating, interest only for first 2 years (extremely favorable terms for first-year charter school)
- **Facility / Project Profile:** 2 buildings totaling about 46,000 sf (1/3 of one of the buildings is not finished and will require approximately \$100k of future capital)
 - Creation of outdoor space with installation of small turf field on part of parking lot
 - Operator intends to pursue State Expansion Grant to fund future work
- **Creative Negotiations Led by Broker on Behalf of Operator:** Seller agreed to provide \$20k per month credit for 20 months in order to facilitate affordable sale consistent with charter school's scaling enrollment
- **Takeaways:**
 - Even with relatively small transaction, commercial partners did excellent job representing new charter school, setting it up for long-term stability
 - Greater Atlanta Market makes it possible for both (1) affordable commercial acquisitions and (2) decent appraisal outcomes that help attract commercial debt financing



Improving Conditions for Charter Schools

There is a broad range of solutions and initiatives to improve the current market conditions for charter schools.

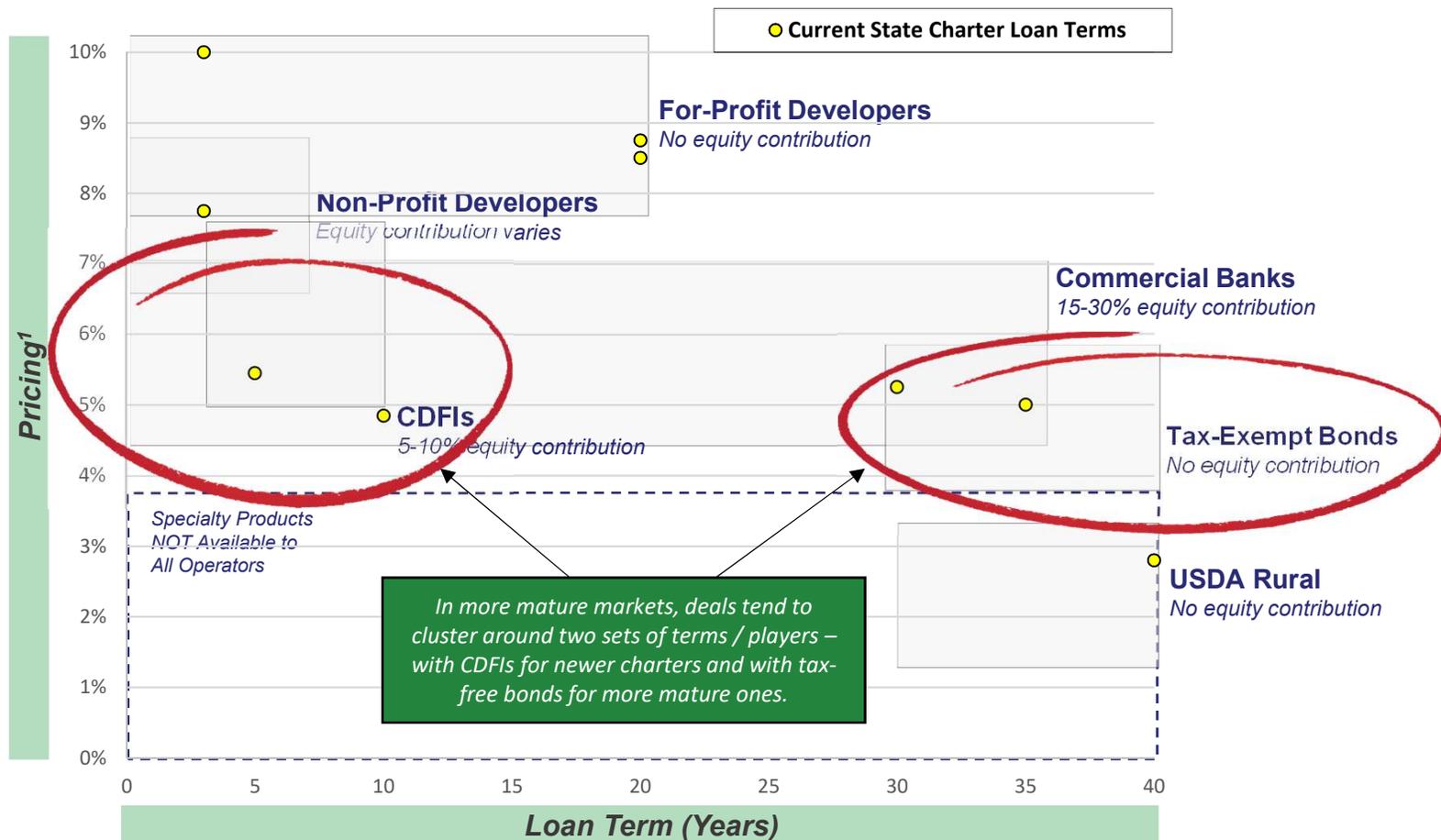
Today, we will focus on three areas that may help charter schools in near-term facility-related decisions.





3 Identifying Preferred Sources of Capital

Given the prevalence of private facilities, state charter schools are already accessing a wide variety of debt capital; however, there is little consistency among the diverse loan products. To date, state charter schools have typically pursued financing with for-profit developers and commercial banks.



Notes: ¹ Pricing bands are representative in nature; several factors including credit profile of borrower/project and loan term typically determine each loan's pricing



6 Promoting Incubation and Co-location Opportunities

- Due to the lack of access to cost-effective district spaces, charters would benefit from having access to affordable temporary spaces such as dedicated incubation sites or via co-locating with other charter schools, where possible.
- LFP generally views short-term incubation or co-location arrangements as optimal, as it allows time for the charter school to address operational and financial risks faced by new charter schools when trying to access the capital markets:
 - Giving the school time to learn the market better, understand where their families live, and ultimately select a neighborhood best suited for their permanent home.
 - Reducing the vacancy costs associated with opening in a building designed to accommodate a much larger enrollment at full scale.
 - Reducing a significant underwriting risk as lenders typically struggle to underwrite new schools given the significant enrollment risk and lack of academic results.
 - Allowing time for charter schools to evaluate potential partners for private development.
- While access to district spaces are general not available, LFP strongly recommended evaluating any other opportunities for incubation or co-location within existing schools, as long as space permits and programmatic needs are met. For example, if one state (or locally-authorized) charter school pursues a full project buildout for next year with only 50% of its enrollment, SCSF could help broker a newly launched school to occupy one or two grade levels' worth of classroom space in that same facility.



8 Forming a Facilities Strategy

With the majority of state charter schools pursuing private facilities, it is imperative that charter schools receive training and support to enable clearly-defined and well-informed facilities strategies, the components of which are highly interdependent, non-linear, and unique to each organization.

Sample points of consideration are set out below:



Q&A



Laura M. Bollman
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