

FEBRUARY 2016

A BETTER WAY?

FUNDING OPTIONS FOR COLORADO'S CHARTER SCHOOLS

BY ALAN GOTTLIEB



SCHOOL
ZONE

WITH SUPPORT FROM:



COLORADO LEAGUE of
CHARTER SCHOOLS
Charter Schools are Public Schools



URBAN LAND CONSERVANCY INTERVENES IN THE REAL ESTATE MARKETPLACE ON BEHALF OF THE COMMUNITY TO:

- **RESPOND TO OPPORTUNITIES THAT WOULD OTHERWISE BE LOST TO THE MARKET OR THAT THE MARKET MAY BE UNABLE TO ADDRESS; AND,**
- **ACQUIRE, DEVELOP, AND PRESERVE COMMUNITY ASSETS IN URBAN AREAS TO ADDRESS A VARIETY OF COMMUNITY NEEDS, SUCH AS SCHOOLS, AFFORDABLE HOUSING, AND OFFICE SPACE FOR NONPROFITS.**



TABLE OF CONTENTS

Introduction	4
Technical Assistance	5
Incubation space	7
Charter schools facilities fund	10
Moving forward	13



“If we want all Colorado children to have access to a high-quality education, then we must bear down and get serious about helping promising schools get the quality buildings they need.”

-Aaron Miripol, President & CEO of Urban Land Conservancy

INTRODUCTION

As readers of the first two parts of this report can clearly see, the current method of funding facilities for charter schools in Colorado is spotty at best. But it needn't be this way. In fact, funders and charter school advocates have been working for some time on creation of a more cohesive system that, while it wouldn't completely solve the problem, would certainly lift some of the financial and logistical burden off charter school operators.

Across the country, a patchwork of local, state, and federal programs help charter schools and charter management organizations secure financing to buy, lease, and renovate properties. Describing all of these programs is beyond the scope of this report. But the Local Initiatives Support Corporation's annual "[Charter School Facility Finance Landscape](#)" report provides detailed information about what is happening nationally and state by state.

Advocates in Colorado have been working for many years to find solutions to the charter school facilities problem. In 2007 the Colorado League of Charter Schools pioneered the Charter School Facilities Survey, a tool that informs policy and practice by collecting and disseminating comprehensive data regarding the state of charter school facilities. Data include the cost and adequacy of charter school buildings, charter school access to school district facilities, and availability of local and state funding for charter school facilities.

The results of this data collection effort in Colorado allowed the League and others to advocate for and obtain:

- Enhanced funding for the Moral Obligation Bonds program,
- Additional charter-specific capital construction grant funding,
- Increased participation of charter schools in the local tax revenue process.

These gains, however, have not resolved the facilities struggles faced by many charter schools, and there is more to do in Colorado to provide charter school students with access to quality school facilities.

Urban Land Conservancy (ULC) believes that a combination of public and private funding in the form of grants, program related investments (PRI) and low-interest bank loans, robust technical assistance for new and established charter school operators, and ample incubation space for nascent charters comprise the essential pieces of a healthy charter school facilities program.

As discussed in our companion report, "A Partnership to Uplift Aurora's Teen Parents," ULC was able to build a facility for New Legacy Charter School by getting below market rate financing from a local bank, and subordinate debt from a quasi-governmental agency, with a blended interest rate at 3.5 percent over five years.

"Rates matter. A lower interest rate and a longer term gives the community school a better chance of success, as their rent is driven by our debt payments. A lower interest rate means a more affordable rent for the school, said Aaron Miripol, President and CEO of ULC.

This final section of ULC's report series touches briefly on all of these pieces of the puzzle, and how Colorado might actually put those pieces in their proper places over the next few years.

TECHNICAL ASSISTANCE

The first section of this report documents many instances of Denver-area charter school leaders and boards struggling with facilities issues about which they lack expertise. Some charters have found help from national organizations that exist in part to provide such services.

Technical assistance in all areas of the facilities arena, from development to construction/design to management of completed facilities, is part of the services that the Colorado League of Charter Schools (the League) provides to its members in a variety of forms. The League does extensive outreach to professionals and experts in the field to ensure that schools have access to high quality resources and best practices.

The League hosts a Policy and Facility Summit every fall that focuses on facilities. The League also hosts webinars and seminars at various events tailored to charter facility needs, and has a dedicated facilities strand at its annual conference. Additionally, the league surveys its members on facilities needs and solicits education material from the field to inform schools.

The League also provides school-specific guidance. While the League puts a considerable amount of effort into educating and providing best practices technical assistance to its members, it is not able to have a staff person dedicated full time to facilities issues.

A number of school communities also turned to ULC for technical assistance as well as logistical and at times financial help. By technical assistance we mean help identifying properties, creating pro formas to get a handle on acquisition, leasing and renovation costs, and an analysis of whether any given property suits the school, from both a financial and operational standpoint.

The first step in this process will be to hire a “charter facilities entrepreneur” to oversee development of a technical assistance program for charter school boards and operators.



“New school leaders are asked to do far too many tasks when opening a school,” Miripol said. “Obviously they have to build a quality academic team, but they shouldn’t have to be real estate experts as well.”

“Technical assistance is really the ABCs of what you need to do to get yourself into a facility,” said Matt Samelson, the Donnell-Kay Foundation's director of special projects. He has been involved in funder conversations about facilities financing from the outset.

“It starts with things as basic as the need for a school to develop a credit history” so it can gain access to financial markets, Samelson said.

The League believes that schools should start work on the facilities process early in the life cycle of the school and tie it to the school’s strategic plan. The process is evolving and a school needs education and guidance to understand that how to plan short- and long-term for the school’s success. That includes facilities planning.

Organizations that provide this type of technical assistance already exist elsewhere around the country. The best known among them are the Washington D.C.-based Building Hope, founded in 2003, and the Pacific Charter School

Development, which also started in Southern California in 2003 and has spread north into the San Francisco Bay area.

Mark Medema, a director with Building Hope, echoed ULC’s experience. “Newly approved charter schools don’t know where to turn for help with facilities, so they often hire a broker to whom they pay a fee and that person then calls us for free help,” Medema said, adding that if a credible technical assistance program is in place, charters can gain access to it for little or no cost.

A group of Denver funders is creating a home-grown technical assistance and financial consortium.

The first step in this process will be to hire a “charter facilities entrepreneur” to oversee development of a technical assistance program for charter school boards and operators. Samelson and others involved in the planning said the idea is to hire a top-notch person into this position, and then allow her or him to “figure out the best way of moving forward.”

The charter facilities entrepreneur would assess the situation and determine whether it makes most sense to create a new organization to provide technical assistance, contract with a local organization that has this expertise, or contract with an out-of-state entity.

A consortium of local and national funders have been working on this plan since mid-2015 (The Walton Family Foundation, the Gates Family Foundation, the Donnell-Kay Foundation, the Daniels Fund, and the Anschutz Foundation) and put out a job description in late 2015.

Several people involved in conceiving the local technical assistance and finance program say the right candidate will have the knowledge and experience to put together school facilities deals. In all likelihood, someone with a real estate and finance background will be better suited to the job than someone who comes at it from more of an educational perspective, and the “qualifications and experience” section of the job description makes that preference clear.



INCUBATION SPACE

Miripol believes that of all the efforts being contemplated, providing incubation space for new charters might ultimately provide the biggest bang for the buck. Much of the high-stakes-on-short-notice work ULC performed for a variety of schools desperate for facilities could have been avoided, or taken place under much less pressure, if Denver and other metro area school districts had school incubation space available for fledgling schools. In the recent past, DPS has done an excellent job of incubating charters in its buildings, but as district enrollment grows by the thousands and vacant facilities fill, that is no longer an option.

The idea of providing a new school space in which to establish itself academically and financially for two to three years is not unique to Denver. In Washington, D.C., Building Hope has been incubating charters for almost 10 years, in vacant schools the local school system has released for use by charters. Building Hope and The D.C. Office of the State Superintendent of Education partnered to form the Charter School Incubator Initiative in 2006.

“The purpose of the incubator is to help start-up schools grow to scale by charging rents based on actual enrollment levels, rather than fair market value,” according to the Building Hope website. “Incubator space gives new charter schools a home during their initial one to three years of operation, allowing schools to focus on their academic programs. Schools in this program are

provided with a full service turn-key facility.”

Medema said the initiative leases buildings from the school district, and renovates them as needed. Building Hope manages all the financing needs and manages the renovations. The D.C. education superintendent’s office provides credit enhancement, which allows private sector lenders to make what otherwise might be considered risky loans.

Because most start-up charters open small, with just one or two grade levels, they typically do not need a full school building. So the incubator initiative typically places two or three schools at a time in one building.

Over time, one school usually emerges as the strongest. The incubator initiative then helps the other schools that shared its building find other facilities, and enters into a lease agreement for that former incubator space with the remaining school.

Until recently the incubator initiative has been able to provide permanent homes for charters in this manner, while replenishing its stock of incubator facilities as the school district released more vacant schools. Lately, however, the district’s enrollment has been growing, which means the release of school buildings has slowed. Medema said this might force the initiative to seek commercial spaces to buy or lease to keep the incubator program going strong.

“The purpose of the incubator is to help start-up schools grow to scale by charging rents based on actual enrollment levels, rather than fair market value.” -Building Hope website



Laura Fiemann is a vice president with the Charter Schools Development Corporation, which has worked with Building Hope on D.C. incubation space. She said in many cases the biggest obstacle to getting a good incubator program in place is getting decision-makers to agree on where to locate the facilities. She said her organization has also been involved in the Denver-area incubator discussion with the consortium of foundations. The idea of having incubator facilities located in different areas of the city could help alleviate any location controversy.

Tom Gougeon, president of the Gates Family Foundation (and until recently a ULC board member), would like to see permanent incubator facilities established in every quadrant of the city. The Building Hope model has worked in D.C., he said, because there has been a constant stream of new school buildings made available by the district. That's not the case in Denver, where every available DPS school building is now occupied.

"Rather than constantly looking for the next facility, and possibly losing incubation capacity, we should establish incubators that house programs for three years," Gougeon said. "That way the leader is not panicking from the beginning."

After three years, a school should be established and the leader, presumably working with a new technical assistance organization, can undertake a less pressured search for a permanent home.

Gougeon said he would like to see districts like Denver and Aurora become active partners in the incubator initiative here. "If we as funders bring a lot of capital to the table, what is their responsibility? We don't want them to say 'Oh that's great, thanks,' and then do nothing. Could a district buy four buildings in its four quadrants for charter incubation? Why not?"

Samelson of the Donnell-Kay Foundation said a possible long-term problem with Gougeon's idea is that once charters leave the incubator, they are likely to seek a permanent location in the same part of town, to keep serving the same student population. "Eventually you can saturate an area with charter schools," Samelson said. "At that point the incubation facility could become a permanent facility for a school, and then you go find a new facility for incubation in a different neighborhood."



WHAT IF DENVER AND AURORA BECOME ACTIVE PARTNERS IN THE INCUBATOR INITIATIVE?

Former Colorado Ballet building owned by the State Land Board via Denver Stuff Blog



Another potential drawback of incubation space is its short-term nature. Schools inhabiting an incubator must understand this clearly from the outset. They need guidance to undertake long-term planning, including what to do about transportation if they find permanent space that isn't within walking distance of the incubator. Ideally, a charter will find permanent space near the incubator, but parents and students must be kept in the loop throughout this process to avoid any unwelcome shocks if a more distant move becomes necessary.

The funder consortium has had some preliminary conversations with the State Land Board about what role that organization might play in helping acquire incubator facilities. The State Board of Land Commissioners was established in 1876 to

manage more than 3 million acres of land and 4 million acres of mineral rights that the federal government gave to Colorado to generate revenue for public education and some of the state's institutions.

Bill Ryan, the Land Board's director, serves on ULC's board of directors and is familiar with the challenges charter schools face in finding facilities. His organization recently entered into a 10-year lease agreement with Southwest Early College (SWEC) for the school to move in the summer of 2016 into a State Land Board-owned building just south of downtown at 1278 Lincoln St., formerly occupied by the Colorado Ballet. Because the Land Board's charter in the state constitution requires the organization to benefit all schools equally, it must lease its land and buildings at market rate, rather than offering a school like SWEC a special deal.

Ryan said conversations with funders about incubation space for charter schools have taken place "only in a general sense." However, he said, because the State Land Board exists to benefit public schools, it would be mission-aligned to buy real estate and lease it to an organization that would use it to incubate charter schools. But he stressed that any transactions would have to take place at market rates, and the return to the Land Board would have to be "fair and reasonable."

He also said the Land Board does not "have the bandwidth" to research properties, so a school or support organization (including ULC) would have to come to the board with a proposal. "Then we'd be happy to look at it," he said.

It's important that whatever property might be considered have potential for uses other than as a school, Ryan said. "It has to be decent real estate, so if the school goes away for some reason, something else could be done with the property."

Julie Majors, the State Land Board's commercial project manager, said the only kind of deal that would make sense would be an existing building that needed renovations, rather than a bare parcel of land.



CHARTER SCHOOLS FACILITIES FUND

Gougeon of the Gates Family Foundation states in a straightforward manner the case for a loan fund seeded with private capital. “As foundations we provide capital grants, but we should also loan capital for facilities at a low cost. We can leverage private lending at a 10-1 ratio by reducing the risk to others, through New Market Tax Credits” and other instruments, Gougeon said. If funders can pool \$30 million in a loan fund, “we could get \$300 million in facilities.”

The consortium of local and national funders and charter advocates have been working on this concept for several months, and are “closing in on committing capital” to create a fund, Gougeon said in August 2015.

“What the fund could provide is capital to buy, lease, renovate, construct, depending on circumstances,” Gougeon said.

Van Schoales, chief executive officer of A+

Denver, an education advocacy organization, has been involved in the funder conversations. He expressed optimism that a loan fund would become reality. But he said it’s an open question how large the fund will be. “It might start small and grow from there,” he speculated.

It is foundations’ interest to create the fund and seed it amply, Schoales said. “Charters will have to find buildings, whether there’s a fund or not,” he said. “If I’m a funder I’d much rather see my PRI money leveraged 10 times than just give out grant after grant with no leverage.”

Here’s how the fund might be put together. Foundations would make “program related investments” (PRIs) to the fund, rather than grants. The National Foundation Center defines PRIs as “investments made by foundations to support charitable activities that involve the potential return of capital within an established

time frame. PRIs include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and even equity investments in charitable organizations or in commercial ventures for charitable purposes.”

While grants typically don’t leverage much if any capital, a loan fund seeded by foundation PRIs would attract loan funds from Community Development Financial Institutions (CDFIs) like the Charter School Development Corporation and Building Hope, as well as banks. CDFIs were created by Congress in 1994, and operate under the regulatory framework of the the U.S. Treasury Department.

A deal much like Gougeon and other funders envision for Denver came to fruition in San Antonio, Texas recently. Carpe Diem, a 10-year-old charter school network that started in Yuma, Arizona, is opening a school serving students in grades 6-12 this fall. It will occupy a new \$7.25 million facility built just for the school.

Funding for the building comes from a senior loan from a local bank, comprising about 75 percent of the total cost, roughly 12.5 percent equity from Building Hope, credit enhancement from the Charter School Development

Corporation, and the final 12.5 percent from program related investments from local funders -- the Ewing Halsell Foundation and the George W. Brackenridge Foundation -- and one national funder, the Walton Family Foundation.

Banks mitigate their risk by being the primary lender and getting paid off first.

The foundation role is key, Gougeon said. “We reduce risk to other people by lending and then being willing to be subordinate,” he said. This reduced risk allows traditional lenders to come in at a higher loan-to-value ratio.

Another bonus is that the foundation loans/ Program Related Investments (PRIs) would come with interest rates of between 1 and 2 percent. PRIs, unlike grants, involve the potential return of capital within an established time frame. According to the Foundation Center’s Grant Space website, PRIs “include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and even equity investments in charitable organizations or in commercial ventures for charitable purposes.”

A facilities fund could also gain access to federal funding streams for the Treasury and Education departments, including New Market Tax Credits.

URBAN LAND CONSERVANCY BELIEVES THAT A COMBINATION OF PUBLIC AND PRIVATE FUNDING IN THE FORM OF GRANTS, PROGRAM RELATED INVESTMENTS (PRI) AND LOW-INTEREST BANK LOANS, ROBUST TECHNICAL ASSISTANCE FOR NEW AND ESTABLISHED CHARTER SCHOOL OPERATORS, AND AMPLE INCUBATION SPACE FOR NASCENT CHARTERS COMPRISE THE ESSENTIAL PIECES OF A HEALTHY CHARTER SCHOOL FACILITIES PROGRAM.



Carpe Diem Learning Systems via Carpe Diem Website

STATE REVOLVING LOAN PROGRAM

As efforts to establish a charter school facilities fund ramp up, a parallel effort is underway to create a state revolving loan program.

People working on this proposal envision a small fund -- perhaps \$5 million. The amount to be loaned out annually would be capped at somewhere in the \$200,000 to \$250,000 range, and the loan terms would be a maximum of five years. Loans would be targeted to charter schools in the year before they open or in their first year of operation.

Here's some detail on the current thinking about possible avenues to creating such a state loan program:

Based on what other states, notably Utah, have done, a Revolving Loan Program could:

- Allow charter schools in existence four or less years to apply for a loan;
- Prioritize schools in Year 0 (the year before opening) or Year 1;
- Provide financing up to \$250,000 for individual schools with a loan term that cannot exceed 5 years;
- Provide a low interest rate. For example, Utah's program has a maximum rate of 1.75 percent; and
- Include an underwriting process to minimize risk (similar to the process more mature schools undergo when gaining access to capital on the private market).

As in Utah, loan repayments, including interest, could be automatically deducted from the charter school's monthly fund transfers.

While PRIs and a state revolving loan fund would provide a big boost, they're not sufficient in and of themselves, Miripol said. "We still need equity/grants to make this work," he said.

MOVING FORWARD

To the three-pronged approach detailed earlier, Van Schoales would add a fourth: providing incentives to school districts to share funding equitably with charter schools to ease the facility costs burden. "If incentives don't work," Schoales said, "the state should change its school finance law to require equitable sharing of funds. Districts should also be required to share proceeds from bond issues with charter schools."

"Currently districts don't have to share bond funds, but they should," Schoales said. "After all, charters are public schools. And districts like Aurora, which don't share, are in real need of new, exemplary schools."

The League, meanwhile, continues to push for charter access to local tax revenue, as well as district managed facilities and land. Charter school students are public school students and they deserve access to the same public school facilities as students who attend traditional, district managed schools.

How likely is any or all of the above to come to pass? It's clear that the creation of a technical assistance organization, incubation space, and a facilities fund have moved beyond conversation and into detailed planning. Winning approval from the board of several philanthropic foundations poses a challenge, as do varying perceptions of the situation's urgency. While groups like the League have been working effectively to find facilities solutions for charters for many years, and have made many gains, the stars seemed aligned now to take efforts to a higher level.

Some people advocate moving slowly and trying a pilot program first. Others feel the time to act is now, before another round of charter school

approvals leaves a new group of fledgling school leaders foundering as they seek space in which to open their schools.

"The cycle is two years from getting a school authorized to getting it opened," Gougeon said. "Do we really want to wait that long to test this on one school through the whole cycle?"

It has become increasingly clear to funders and charter school advocates that the unacceptable status quo has remained in place for too long.

"Charters have always assumed that it was their burden to find a facility, but why does that have to be the case?" Gougeon asked. "Then they end up in a church basement and the leader is stressed out in the planning year, looking for a facility. Real estate probably isn't their area of expertise and the school leader gets distracted from putting together the school program and hiring a staff, which should be his/her essential duties. Is this really the way we want it to be?"

Clearly, the answer is no. In the coming months, we may finally see the first steps taken toward changing that, once and for all.

But there is no time to waste. In today's booming real estate market, new charter schools will find it increasingly difficult to find affordable facilities. ULC believes that the three components of a sensible facilities plan currently under discussion need to be implemented now.

"If we want all Colorado children to have access to a high-quality education, then we must bear down and get serious about helping promising schools get the quality buildings they need." Miripol said. "And we need to make this happen without distracting school leaders from their main mission, which is creating and replicating excellent educational programs."

THERE IS NO TIME TO WASTE.



Rendering via Roots Elementary School

Urban Land Conservancy

305 Park Avenue West, Unit B

Denver, CO 80205

admin@urbanlandc.org

(303) 377-4477

