

Underwriting Charter Schools An Overview

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Low Income Investment Fund
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How LIIF Approaches Charter School Loans

Key Underwriting Areas

1. Financial
2. Repayment
3. Management
4. School Design and Charter
5. Political
6. Collateral/Construction

Key Underwriting Areas

Financial Analysis

- Systems, policies & procedures
 - Quality & knowledge of financial reports
- Management experience or assistance
- Historical track record (limited)
 - Enrollment, Average Daily Attendance (“ADA”), and demographics (e.g., age, income)
 - Salary and facility costs
 - Payment experience from District

Key Underwriting Areas

Financial Analysis (cont'd)

- Financial Performance and Cash Flow
 - Revenue
 - State funding – timing, reliability, availability
 - Revenue Limit ranges from \$4,500 - \$5,400
 - Categorical Block Grant ranges from \$129 - \$177
 - Lottery funding: \$120
 - Other public funding – tied to demographics of student body (Title I, English Language Learners)
 - Fundraising – track record, conditions, timing

Key Underwriting Areas

Financial Analysis (cont'd)

- Financial Performance & Cash Flow, cont'd
 - Expenses
 - Personnel: 50-70% of budget
 - Program related needs
 - Local comps
 - Classroom ratio
 - Facilities: < 20% of budget (12% nat'l average)
 - Sufficiency
 - Maintenance

Key Underwriting Areas

Financial Analysis (cont'd)

- Financial Performance & Cash Flow, cont'd
 - Expenses (cont'd)
 - Equipment, books & supplies (per student)
 - Start-up and expansion
 - Replacement
 - Program related needs
 - Other operating expenses
 - Reserves: (1) operating (District requirements) and (2) replacement (\$0.50 - \$1.50 psf)

Key Underwriting Areas

Repayment

- Pro Forma projections
 - Enrollment AND ADA
 - Retention/turnover/waiting list
 - Marketing plan and timing
 - Growth pattern
 - Local schools' performance & demographics
 - Reliance on fundraising
 - Salary, facility, and expansion costs

Key Underwriting Areas

Repayment cont'd

- Sensitivity and break-even analysis
 - Baseline and “bells and whistles”
- Debt Service Coverage capacity
 - Debt service reserves
- Accumulated reserves
- Loan structure
- Refinancing

Key Underwriting Areas

Management

- Depth and breadth of experience
- Track record
- Business management critical
- Recruitment plan
- Hiring and evaluation criteria
- Retention/turnover experience

Key Underwriting Areas

Management, cont'd

- School level
 - Facilities
 - Financial/business management
 - Education
 - HR
- Board experience
 - Community representation, parental involvement
 - Professional qualifications
- Community and external partners

Key Underwriting Areas

School Design and Charter

- Programmatic focus / mission
 - Competitive advantage
 - Response to community needs
- Curriculum and accountability measures
 - Resources to meet needs of students
- Timeline of charter submission, approval, monitoring (as applicable)

Key Underwriting Areas

Political

- Relationship with District/Authorizer
 - Monitoring process and criteria
- Track record of District/Authorizer; experience with charters
 - Demographics of District and District schools
- Community support

Key Underwriting Areas

Collateral/Construction

- Fee simple or leasehold interest
 - Terms of lease, approval of owner for improvements
 - Equity contribution, additional side collateral
- Prior use, age, and sq ft of facility
 - Sufficiency of space (per enrollment)
- Degree of renovations required
 - Timeline and need for temporary space

Key Underwriting Areas

Collateral/Construction, cont'd

- Basis for project budget estimates
 - Appropriate contingencies and reserves
- Location analysis
- Experience of development team
 - Experience with schools, tight timeframes
 - Previous experience working together
- Site reports – appraisal, environmental, soil, etc.

Key Underwriting Areas

Collateral/Construction, cont'd

Project Development Budget

- Hard Costs
 - Acquisition
 - Construction
 - Site Work
 - Furniture & Equipment
 - 10-15% contingency
- Soft Costs
 - Appraisals
 - Architect, engineering, environmental fees
 - Bonding
 - Insurance during construction
 - Permit fees
 - Reserves
 - 5% contingency

Application Package Financial

- Three years audited financial statements
- Interim statement with comparison to budget for the period
- Current year budget
- 5 to 7-year operating budget pro forma
- Monthly cash flow projections

Application Package

School Information

- Copy of charter petition and MOU with District
- Description of curriculum/ educational program
- Current and projected enrollment levels, grades served, and demographics of targeted population and neighborhood
- Student performance data
- Resumes of key staff, including principal and school founders
- Names and occupations of Board members

Application Package Project Information

- Project cost budget, scope of work, and development timeline
- Sources and uses of funds
- Copy of purchase agreement, deed of trust, or lease, if applicable
- Pictures and site drawings
- Preliminary appraisals and environmental reports, if available
- Permission from landlord, if applicable

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