momentus capital. | capital impact partners.

Capital Impact Partners is part of Momentus Capital. Find out more information at momentuscap.org

The Answer Key

How to Plan, Develop, and Finance Your Charter School Facility

Renovating or building a new charter school can be a daunting process. The Answer Key helps school operators like you succeed by providing step-by-step directions for each phase of the facility development process, including: **concept, predevelopment, design and pre-construction, construction, and financing.**

Printed in the United States of America.

ISBN: 978-0-9994493-0-1

Acknowledgements

Capital Impact Partners would like to express its appreciation to the following organizations for their contributions to The Answer Key:

The Annie E. Casey Foundation is devoted to developing a brighter future for millions of children at risk of poor educational, economic, social, and health outcomes. The foundation makes grants that help federal agencies, states, counties, cities, and neighborhoods create more innovative, cost-effective responses to the issues that negatively affect children: poverty, unnecessary disconnection from family, and communities with limited access to opportunity.

Bill & Melinda Gates Foundation is committed to helping more students graduate from high school with the skills they need to enroll, succeed in, and complete college. To do this, the foundation works alongside educators, policymakers, parents, and communities to strengthen school systems and schools to ensure all students in the United States have access to a high-quality public education.

The Walton Family Foundation works to improve K–12 outcomes for all students, especially those of limited means, by ensuring access to high-quality educational options that prepare them for a lifetime of opportunity. Since 1992, the foundation has invested more than $1.3 billion in K–12 education and supported a quarter of the 6,700 charter schools created in the United States.

U.S. Green Building Council (USGBC) is a nonprofit organization committed to a prosperous and sustainable future for our nation and the world through cost-efficient and energy-saving green buildings. USGBC works toward its mission of market transformation through the LEED green building certification program, educational offerings, a nationwide network of chapters and affiliates, the Annual Greenbuild International Conference & Expo, and advocacy in support of public policy to encourage and enable green buildings and communities.

Capital Impact Partners would also like to thank the following individuals for their contributions to The Answer Key: Joyce L. Montgomery; Kate Hirsh; Thomas E. Porter; Erin Mote; Dr. Eric Tucker; Sarah Kirby Tepera; Bryan Hassel; Linda Sorden; Amy Anderson; David Nolan; Donna Creedon; Hunter Moss; Marsha Krassner; Krista Kleczewski; and Lara Jakubowski.

About Capital Impact Partners

Capital Impact Partners, part of the Momentus Capital branded family of organizations, is transforming how capital and investments flow into communities to provide people with access to the capital and opportunities they deserve. As one of the nation's leading mission-driven Community Development Financial Institutions (CDFIs), we help build strong communities and create generational wealth by deploying mission-driven financing, capacity-building programs, and impact investing opportunities.

Capital Impact Partners offers flexible financing for catalytic mission-aligned projects in four primary sectors: increasing access to health care, education, affordable housing, and healthy food.

In addition, we manage several multi-year initiatives in key regions to support emerging developers, small business owners, cooperatives, and community health enterprises through training, professional networks, access to experts and mentors, and pathways to grants and loan capital.

Capital Impact Partners has disbursed more than $3 billion since 1982 to create access to critical social services, grow entrepreneurs, and create quality jobs. Capital Impact Partners' leadership in delivering financial and social impact has resulted in the organization being rated by S&P Global and Fitch Ratings and recognized by Aeris for its performance.

Our Role in Financing and Supporting Charter Schools

Education has been central to our mission-driven work. That is why we focus on engaging with partners who deliver solid education opportunities for students in communities where those opportunities do not exist within the local public school framework.

We see financing high-performing charter schools in low- and moderate-income communities as critical to promoting access to education for all students.

Capital Impact is highly selective in the charter schools it finances. We want positive, long-term impact for students. Thus, we don't

finance just any charter school; we look for schools operated by reputable and dedicated charter management companies — most of them mission-oriented — as well as nonprofit organizations, and emerging school networks and standalone schools that are making strides in delivering student pathways to success.

To help guide our lending decisions, we evaluate schools' quality using the following six attributes, many of which are derived from a collaboration between the University of Chicago and the Urban Education Institute, known as "UChicago Impact." Their evidence-based system, which drives improvement in schools nationwide, is based on more than 20 years of research.

- Innovative and rigorous instruction
- Supportive environment and culture
- Engaged and connected leaders and staff
- Professional development opportunities
- Career and/or college pathways
- Serve as community hubs

Your Lender and Partner to Support Your Education Vision

Our long history of working with charter schools and our understanding of the sector allow us to be flexible and provide financing to projects that are often overlooked by traditional financial institutions. Since providing our first loan we have grown to become one of the largest CDFI lenders to charter schools in the country.

As a result of this track record, we've seen — and helped schools overcome — a variety of challenges. As both your lender and your partner, we can offer a financing package that makes sense for your specific project, such as providing a wide range of products that include acquisition loans, construction loans, tenant improvement loans, and permanent and mini-permanent loans. We also have experience bringing in other investors or government programs as necessary. And to help ensure your long-term success, we can provide capacity building support and technical assistance to help your school and students grow and thrive.

We believe all students should have access to a high-quality education, and it is through highly targeted charter school funding that we help make that vision a reality.

Table of Contents

Introduction

Overview: The Charter School Facility Development Process 1

Concept Phase | Chapter 1 3
Does Your School Fulfill an Unmet Need in the Community?
Conduct Feasibility Study to Determine Facility Options
Assess Revenue Stream and Financial Stability
Complete Needs Assessment to Estimate Space
Identify Constraints
Project Affordability
Preliminary Capital Budget
Need for Professional Assistance
Case Study: Lee Montessori Public Charter School and Washington Leadership Academy

Predevelopment Phase | Chapter 2 14
Assemble the Development Team
Determine Criteria for Site Selection
Case Study: Montessori For All

Design and Pre-Construction | Chapter 3 30
Design Activities
Pre-Construction Activities
Case Study: Brooklyn LAB

Construction | Chapter 4 39
Project Delivery Options
How to Manage the Construction Process
How to Maintain Your Project Budget
Payment During Construction Process
Project Closeout and Final Occupancy
Case Study: Equitas Academy

Financing Your Project | Chapter 5 53
What Do Lenders Look For?
What Are My Financing Options?
How to Apply for a Loan
The Loan Process
Finding Other Sources of Funding
Launching a Capital Campaign

Planning and Scheduling 72

Appendices 74
Appendix A: Needs Assessment Worksheet
Appendix B: Project Sources and Uses Template
Appendix C: Financing Evaluation Worksheet
Appendix D: Initial Documents Requested by Lenders
Appendix E: Construction Consultant Document Checklist
Appendix F: Financial Projections Template

Glossary 80

Introduction

For over 25 years, charter schools have been instrumental in fostering innovation in the education space. They are critical contributors to providing a high-quality education for communities, helping students succeed not only in school, but in their paths to college, careers, and adult life.

Even with this demonstrated success, for many children there remains a sizeable gap in access to high-performing schools. Closing that gap requires expanding existing facilities or building new ones across the country. We understand that is no easy task. Developing and launching a new school while navigating the obstacles to building or purchasing an education facility can be daunting for a lot of charter school operators.

As part of our mission-driven approach to promoting access to education for all students, Capital Impact Partners created The Answer Key for charter school leaders looking to renovate or build a new facility. We have drawn on our more than two decades of in depth experience in this sector, as well as engaged with practitioners who have demonstrated extraordinary commitment and creativity, to bring you the most practical guidance.

Our goal is to help school operators like you succeed by providing directions every step of the way.

The Answer Key provides easy-to-follow chapters by each phase of development from early-project concept and feasibility to final construction closeout and occupancy. The final chapter provides an in-depth look at financing options. Along the way, you will learn a variety of important tips from completing a needs assessment and creating a budget, to putting together the right team and successfully managing the inspection and closing process.

As you embark on your facility development project, keep in mind that we are more than just your lender, we are your partner. Please do not hesitate to reach out if you have questions.

We hope this guide provides a foundation of knowledge you can use to build another charter school success story. Though you may encounter bumps along the road, others have made it, and you can, too!

Ellis Carr
President & CEO, Capital Impact Partners

Overview

The Answer Key discusses the facility development process in four phases:

Chapter 1	Chapter 2	Chapter 3	Chapter 4
Concept	**Predevelopment**	**Design and Pre-Construction**	**Construction**
Project Concept Feasibility & Needs Assessment Preliminary Capital Budget Financing Options	Build Team Evaluate & Secure Site Refine Budget Get Informal Financing Finalize Project Concept	Final Design Final Construction Documents Secure Financing Obtain Permits	Construction Certificate of Occupancy Select Furniture, Fixtures, and Equipment Move In!
Pages 3-13	Pages 14-29	Pages 30-38	Pages 39-52

$ Financing: Important Timing Considerations | Chapter 5

Financing influences your entire project and must be addressed throughout all phases. The task of acquiring financing begins with the crucial step of determining what you can afford to spend on the facility, which is a distinct expense from your overall operating budget. Determine this before starting your site search. You will create a preliminary capital budget and evaluate funding options for acquisition, construction, and long-term financing that may involve fundraising and debt capital. Talk with financial consultants, local banks, or board members with finance experience.

Charter schools especially need access to flexible capital (i.e., affordable rates, longer terms, non-traditional repayment arrangements) to match revenue and cash flow streams. While there are some national sources of capital, many financing programs are state-based. This guide discusses financing in detail in Chapter 5.

Ongoing Factors Affecting All Phases of Your Project

The following decision factors are explained in relevant chapters. Keep these in mind as you proceed:

- **Cost:** The single greatest factor influencing design and development.
- **Schedule:** Affects project design. For example, you may need to eliminate a design alternative if it requires a long public hearing.
- **Codes and Regulations/Entitlements:** Third parties provide building permits, special zoning variances, and regulatory approvals — all of which influence your project timeline.
- **Site Consideration:** Size, configuration, accessibility, and topography, outdoor space availability, and operational sustainability raise numerous considerations.
- **Building Technology:** The building's size and major systems (electrical, heating, plumbing, mechanical) involve compromises.
- **Sustainability:** Building green schools may save construction, energy, and operational costs.
- **Context and Climate:** Rural vs. urban settings, weather, seismic and hurricane considerations, etc., all need to be factored into building design and materials.

Now, get ready for your first big step, and let's get started!

Concept

Chapter 1

Advice From The Field

> "A facility will be the single largest investment you'll make, so figure out what you can afford because this will drive all your decisions. A bad real estate transaction can hinder a school forever; a good transaction can launch it."

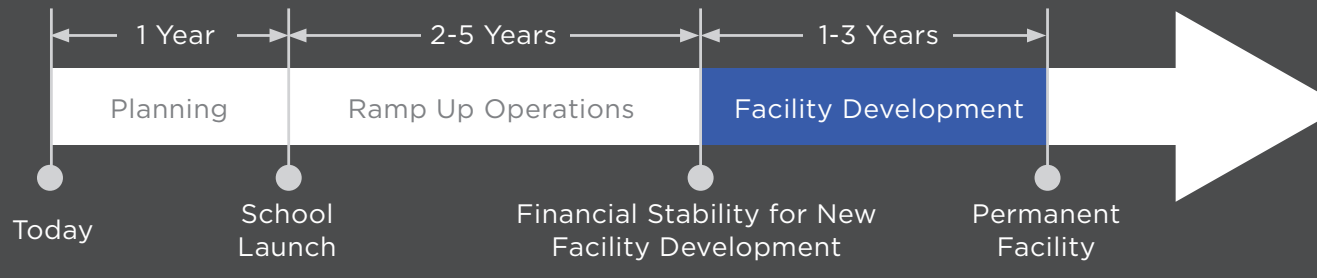
—Thomas E. Porter, Building Hope

Congratulations on taking the first steps in launching your new facility! The accompanying checklist here, and in all chapters, will help you navigate the process. Important questions and considerations are further noted in callout boxes. We encourage you to engage with a facility development specialist or consultant to provide additional expertise along the way.

Checklist of Key Activities

- ☐ Analyze whether your school fulfills an **unmet community need** through the **demand study** and **business plan** (page 4)
- ☐ Conduct **feasibility study** to determine facility options (e.g., renovating existing structure, acquiring new site, building a new facility, refurbishing leased space) and decide on a desired route for your project (page 4)
- ☐ Complete **needs assessment** to estimate space needs for facility and identify constraints such as time, local rules and regulations, building permits, and money (page 5)
- ☐ Create **preliminary capital budget** (page 8)

Facilities Development Timeline



How Long Will It Take?
This timeline will help you estimate the length of time it takes to go from concept to permanent facility with key milestones along the way. The Answer Key focuses on the "facility development" portion of the timeline.

What You Need

- Operational Sustainability
- Stabilized Enrollment
- Audit History
- Healthy Cash Reserve

General Timeline

- Design: 6-8 mos.
- Entitlements: 6-12 mos.
- Renovation: 6-12 mos.
- New Construction: 8-15 mos.

Source: Pacific Charter School Development

Why Do Facility Planning?

Short- and long-term facility planning clarify your priorities. You don't have to open your school in a state-of-the-art facility. Many schools find that cheaper facilities, such as portables, for the first year or more let the school's operations stabilize and financial assets grow. By taking your time, you can save money and avoid financial burdens.

A Short-Term Facility Plan addresses your school's needs for the first weeks, months, or several years. It provides a contingency plan if a permanent space is delayed or you can't yet commit to a permanent space.

A Long-Term Facility Plan will address projected expansions in enrollment or programs, and the facilities you'll need for this growth. It will also include the financial impact of a facility, a plan for disposing of the facility if it becomes obsolete or if the school loses its charter, and ongoing maintenance or property management issues.

Does Your School Fulfill an Unmet Need in the Community?

What sets your school apart from other charter schools and traditional public schools, and why will this make students come to your school over another? Do you have an educational program that is unique in some way? For example, does it serve a student population not otherwise served? This market analysis is necessary as part of your facility planning as these questions will be asked by lenders (see "Why Do Facility Planning?" in the box above for more information).

A demand study yields a forecast of your projected student population size by looking at the number of students you want to serve, available seats, and waitlist. When demand meets or exceeds the number of seats available in your school, this provides assurance to lenders that the school will not face a shortage in student enrollment.

You also may want a business plan to use as an overall project road map to clearly communicate your vision, strategy, and how your school fulfills an unmet need. A business plan can be used internally or circulated to potential funders and other key constituents. A consultant may prepare the business plan with your input.

Conduct Feasibility Study to Determine Facility Options

This study will let you decide if it is feasible to move forward with a facility change and whether to lease, purchase, construct, or renovate. Consider hiring a consultant to lead the feasibility study as he or she does not hold strong convictions about the result of the feasibility process. Such impartiality keeps all parties focused on practical issues and less focused on the emotionally charged aspects of a potential site. The charter school board, however, should be involved in all the process details. Begin your feasibility studies with a series of informal discussions with the school's constituents (teachers, parents, students, board) to solicit their ideas and expectations about a potential project.

Feasibility Questions to Answer

- Does your charter school need more space? Is the current space configured properly for your school's operations?
- Where do you want to locate your school? What is your ideal vision for a long-term facility? What can work for you in the short term?
- What types of services might be offered in a new or expanded facility?

- What is the projected growth rate (in staffing and students) over the next three to five years?
- Does it make sense to consider renovating the current facility? If so, could the school operate within the facility while it is under construction, or would it need to find a temporary home until construction is complete?
- What local regulations and building/planning codes would the school need to be aware of and meet in order to build or renovate a facility?
- How would the school pay for the project, and how stable are your school finances?

Assess Revenue Stream and Financial Stability

It is important for your school to assess its financial stability before embarking on a major facility expansion. This will help keep your school from getting in over its head so you don't risk losing its charter due to financial instability. The following is adapted from worksheets developed by the Illinois Facilities Fund (IFF). For more information, visit www.iff.org/our-services/real-estate/.

- What types of long-term revenues has your school secured that can help it cover long-term debt payments?
- Is your school running large deficits or surpluses at the end of each year?
- Does your school find itself dipping into savings or reserves regularly?
- Can your school meet most operational expenses on a regular basis?
- Do you have a source of cash, line of credit, or cash reserves to meet timing and cash-flow issues?
- How much do your operations rely on fundraising?

Importance of Community Engagement

Consider the school's location not simply as a practical matter but as an essential part of successful integration into the community. Your school should be easily accessible to your target student population, and the location of your school may allow you to create partnerships with community-based organizations. Access to parks, libraries, transportation, universities, museums, etc., may also complement your school's program. By collaborating with such entities you'll benefit both the school and the community. Include community input early on about the school and its location by reaching out to stakeholders (teachers, parents, students, community members) and holding discussions about their expectations and ideas.

Complete Needs Assessment to Estimate Space

A feasibility study determines whether or not you should proceed with a facility change, whereas a needs assessment analyzes the scope of your school's facility needs, including a good estimate of how much space you'll require, calculated in usable net square feet. You also can use a needs assessment to guide the site selection. Often, a charter school's stakeholders agree on the need for a facility, but not on how much space is needed or how the space should be used. We strongly recommend hiring an experienced project manager to assist with the analysis of the school's needs and to later help with the site selection. Some school architect companies might provide a needs analysis as part of their service.

During the needs assessment process, it is advantageous to visit other charter schools. How are their programs integrated from the perspective of the facility's space and design?

What are some of the best design features? How did they find and fund their facility? By conducting site visits, your team can elicit creative ideas about what you like and don't like, and begin formulating a "wish list" of design features for your project.

It's common for charter schools to utilize existing facilities or shared spaces. Setting your charter school within an existing community can encourage development of the surrounding area and provide a stronger sense of community and a collaborative learning environment. Your school can serve as a community hub. As you go through your facility needs assessment, be both creative and realistic when addressing your wish list.

How to Determine Space Needs

You can use multiple approaches to calculate square footage for your facility. Your school will want to figure out a minimum and maximum range of space needed to allow for flexibility when selecting a site. The Needs Assessment Worksheet provided in Appendix A can help you analyze your school's requirements. In general, your team should consider the following items when determining your needs:

❶ Gross Square Footage

A ballpark estimate of gross square footage will guide your site selection by providing a general idea of the minimum and maximum square footage of potential sites. Estimate gross square footage by multiplying the number of students by 60 to 120 square feet, or by adding up the number of classrooms needed and multiplying by 750 to 1,000 square feet per classroom (assuming a class size of 25 students). Then add an estimate of office storage and other non-academic space (most schools use 40 to 55% of the square footage for non-academic uses). Note that these are rough guidelines. Your jurisdiction may require a certain square footage per student. Requirements also may vary depending on the grade level.

Most important to your ultimate plans is assessing your total internal and external square footage. Internal space includes classrooms, special purpose rooms, gym, cafeteria, library, etc. External needs include parking, traffic flow, and outside play areas. Be sure to look at local requirements regarding parking, environmental impact, and other areas when assessing your facility needs.

❷ Bathrooms and Common Areas

The Needs Assessment Worksheet estimates you should dedicate about 30% of your facilities space to bathrooms for students and staff, and other areas, like hallways. Consult Americans with Disabilities Act (ADA) regulations as well as local codes, but at a minimum plan on at least one bathroom fixture for every 30 students, and one bathroom for every eight to 10 staff members.

❸ Non-Academic Space

Large spaces like gyms and cafeterias can be very expensive. Some schools save on this cost by incorporating multipurpose rooms into their plans — areas that can be used as gyms, cafeterias, for assemblies, or other general purposes.

❹ Expansion Plans

Incorporate planned growth in enrollment into space needs.

❺ Playground

Estimate what type of outdoor play areas you'll need. Leave open the option of using nearby parks, recreation centers, etc.

❻ Parking

Parking space for staff, students, and visitors will vary depending on access to public transportation. A rough guideline for an elementary school would be one space per staff member, plus one for every 50 students (for visitors). Also check ADA guidelines for the required number of handicap spaces.

❼ Other Needs

It is important to consider other less tangible issues when identifying your charter school's facility needs. This list is not exhaustive or applicable in every situation.

- **Geographic Focus**: Identify preferred areas to locate. Your school should be readily accessible to the charter school's target student demographics.

- **Accessibility**: Determine accessibility for school buses, public transportation, parking, and parental drop-off, as well as for people with disabilities.
- **Proximity to Related Entities**: Seek locations near affiliated entities (e.g., cultural or educational institutions).
- **Curriculum-Specific Needs**: Consider special needs related to the school's theme or mission (e.g., drafting areas for an architectural school, labs for a science school).
- **Technology Needs**: Weigh the need for a computer lab and for wiring the school properly for technology use.
- **Sustainability**: Design standards emphasize building strategies that promote healthy and productive learning environments. These sustainability measures at the outset may result in long-term cost savings all while reducing environmental impact.

Identify Constraints

Identifying potential constraints during the needs assessment stage will reduce last-minute surprises (e.g., inability to open the school or get financing). Additionally, when you approach a lender they will ask you to provide the following information:

Time

Estimate the amount of time it will take to complete your facility project. Figure out deadlines for opening the school, as well as milestones you must reach (such as obtaining a certificate of occupancy) in the interim. Working backward, estimate how long it will take to open the school: orienting teachers, decorating classrooms, receiving furniture and equipment, finishing cosmetic repairs, completing major construction projects, obtaining building permits, obtaining zoning variances, preparing architectural drawings, getting site control, securing financing, and locating an appropriate site. Leave ample time for each step. A project manager can help you estimate how long design and construction work will take.

Rules and Regulations

Find out the compliance issues for your local jurisdiction (e.g., building codes, zoning restrictions, ADA requirements). Sources of information on local rules and regulations include your project manager, other charter operators, charter school associations/ resource centers, architects, and nonprofit developers. Local officials may interpret zoning rules and building codes differently, resulting in different answers to the same question. The final answer may not be available until you go through an inspection or zoning hearing. However, it is important to be aware of the types of concerns that may arise. For instance, if building codes require outside air in every classroom, this may impact the selection of a facility with classrooms that have no windows. You would need to understand the costs involved in remedying this situation, such as installing air vents. Learn the local regulations ahead of time to plan for or avoid costly installations, such as traffic lights.

Building Permit Process

Cities require that you obtain a building permit before starting construction. Begin the building permit process early, and stay alert to the timing of permits so you have them approved when you receive your construction loan. Your project manager and/or architect can assist with the process. Check with your city's planning department, as permit requirements and timelines vary by city, and will depend on the scope of your project. You'll need information about your zoning use district to know what is allowed for a project in your zone. Prepare and submit all necessary permit application materials, and pay required fees. For some permits, you'll need your project design under way and documented to submit your permit application for review. For your permit to be approved, assume you will need neighborhood notification and public hearings. The public hearing can take 60 to 90 days to be scheduled on the public calendar and for the hearing to take place. Once construction has started, inspections are required to ensure your project is in accordance with the permits issued.

Money

Meet with your accountant, business manager, or financial advisor to determine how much is available for facility expenses. As you go through these questions, be sure to include your findings in your preliminary capital budget.

- What is your school currently spending on facilities and operating expenses?
- How much money do you have for facility expenses without impairing school operation cash flow?
- How much will you need to raise or borrow (for upfront and ongoing costs)?
- If you're eligible for start-up funds, are there restrictions on their use?

Talk to foundations, politicians, and lenders. It is critical to know what funding sources are available before starting the site selection phase. There may be more or fewer resources available than you expect.

Project Affordability

To estimate what facilities your school can afford, experts advise that 10 to 15% of your operating budget is the upper limit of what you should spend on facilities; this includes rent and/or mortgage, plus utilities and maintenance, and will vary by region. You'll also want to evaluate your school's per-pupil funding.

Preliminary Capital Budget

A preliminary capital budget is for the one-time costs of acquiring, renovating, or constructing the facility and is separate from the operating budget. Completing this task at the onset of planning will help you determine potential sites to visit and keep you from scouting sites beyond your reach. It will also guide your project designs and will help determine what kind of funding you'll need. For the preliminary capital budget, you'll estimate the total project costs and how much money your school can commit to the project. Then you can make educated decisions about financing options. For example, depending on your project's scope and success at fundraising, you may be able to delay debt financing and save on interest expenses.

You'll assemble the preliminary capital budget after the initial space assessment is completed because at this point you and your development team will have a reasonably good idea of how much square footage the project will require (e.g., classrooms, common areas, office spaces, etc.). You also may have addressed major site questions such as whether to purchase a new building or renovate an existing facility.

Two Sections of a Preliminary Capital Budget

Appendix B on page 75 outlines a project sources and uses template.

The "sources" section lists all the sources of capital the charter school will use to pay for its project. Typical sources include cash on hand, funds raised from individual donors or corporations, foundation or government grants, and loans.

The "uses" section lists total cost for project, such as architect and engineering fees, needs assessments, permits, environmental studies, construction costs, land/building acquisition costs, and furniture, fixtures, and equipment. The uses section is further divided into "hard" and "soft" costs. Initially, your preliminary capital budget may only have these two cost categories. Hard costs cover construction and/or improvements to the property, including equipment and fixtures. Soft costs relate to items such as architectural fees, permits, feasibility studies, and other professional and consulting fees, and financing costs — much of which is expended during the design phase. As you put together the preliminary capital budget, these hard and soft costs will be further broken down into multiple cost categories.

Seat-of-the-Pants Approaches to Preliminary Capital Budgeting

Consider one of two approaches to developing your preliminary capital budget. The first is to pick an amount you can afford (from cash reserves, borrowing money, fundraising, or some combination of all three) and consider this as your budget. A second approach is to use your total square footage estimate, multiply that by another estimate of construction costs per square foot, add roughly 30% to cover "soft" costs and contingencies, and arrive at a preliminary capital budget figure. Both approaches may suffice to establish a "working number" for internal discussions with board members and staff. Prospective lenders and investors, however, will require more accurate estimates. A project sources and uses template is included in Appendix B.

$ Components of a Capital Budget

The following 10 categories are usually a part of most capital budgets. While each item may not apply to your specific project, they are included so you can see the entire scope of possible project costs.

❶ Land or Building Acquisition

- Surveys and Site Assessments
- Appraisals
- Engineering and Topographical Studies
- Environmental Testing
- Purchase Price (of land)
- Legal Fees
- Demolition Costs of Existing Structures (if appropriate)
- Recordation Fees

❷ Professional Fees

- Architects and Engineers
- Legal Counsel (attorneys)
- Project Management
- Space Programming
- Cost Estimator
- Interior Designer
- Technology Consultants (information technology, security)
- Equipment Planner
- Other Professional Consultants

❸ Construction

- General (Fixed-Sum) Contract
- Separate Contracts for Various Specialties (only if deemed necessary)

❹ Site Preparation (most should be in the GC contract)

- Utilities (water, sewage, gas, phone, Internet, etc.)
- Site Drainage
- Landscaping
- Parking Lot
- Surfacing and Fencing
- Outside Lighting

❺ Furniture, Fixtures, and Equipment (FFE)

- All Movable Furnishings
- Computers, Telephones, Data Lines
- Security Systems
- Signage/Artwork
- Installation Fees

❻ Inspections

- Inspector to supervise work on owner's behalf (only if deemed necessary)

❼ Administrative and Permitting Costs

- Postage and Shipping
- Permits, Filing, and License Fees
- Moving/Storage Costs

❽ Financing Costs

- Commitment Fees
- Mortgage Recordation Costs
- Interest During Construction
- Lender's Inspection During Construction
- Letter of Credit Fees (if required)
- Mortgage Insurance Fees
- Interest Reserves
- Title Costs
- Other Closing Costs

❾ Insurance

- Builder's Risk
- Property and Liability
- Worker's Compensation
- Fire and Theft

❿ Contingencies

- Emergencies and Unforeseen Events
- Change Orders During Construction
- Soft Costs — 5 to 10%
- Hard Costs — 10 to 20%

* Adapted from The Little Institute for School Facilities Research

Detailed and Multiple Cost Categories

Detailed and multiple cost categories are important for your lender and team. They allow you to keep close tabs on what you will actually spend, and your lender expects to see individual budget items so they know what they are paying for. It is important to conservatively budget every line item (i.e., err on the side of overestimating costs), since many lenders will not allow line items to vary, or will only allow a small (e.g., 2 to 5%) variance. Any variance will have to come out of budgeted contingencies or reductions in other line items. For example, if you have budgeted $30,000 for legal fees and the final bill comes to $38,000, you have three options: (1) Take the difference from another line item; (2) take the difference from contingencies; or (3) pay for the difference out of pocket. By accurately estimating every possible cost, you greatly improve the likelihood that the project will be completed on time and within budget. If you have any questions about how to proceed with the preliminary capital budget, please seek advice from a financial advisor or accountant.

Conduct Cost Analyses Early and Often

Many professionals recommend that costs analyses be conducted six or seven separate times throughout the development process. Early analyses tend to be rough estimates, with each subsequent analysis gaining additional refinement.

- Upon completion of the site evaluation and needs assessment
- Upon completion of schematic design
- Upon completion of design development
- Upon completion of any schematic redesign as required, for example, by funding agencies
- Upon feedback from lenders requiring budget adjustments
- Upon completion of the construction contract documents
- After the bidding process, to compare bids

Contingency Planning

Contingency planning is a must as situations will arise during the development process that you may not anticipate. Consider the following possibilities:

- A proposed site becomes unavailable.
- All three construction bids come in between 3 and 5% higher than budgeted.
- There is a shortage of materials, and your materials costs are higher than anticipated.
- Your contractor discovers asbestos on-site and it needs remediation.
- A major grant you anticipated falls through and you are $500,000 short.
- The site is vandalized and a portion of the work has to be redone. While the replacement of materials and the cost of redoing the work are covered by the builder's risk insurance, take into consideration the damage to the project in terms of time delays.

Most lenders require a 5% contingency on soft costs, a 10% contingency for new construction hard costs, and as high as a 15% contingency for renovation projects. A higher contingency for renovation projects is advisable because these projects often involve older buildings that can present unforeseen or hidden construction problems not discovered until work is well under way. While a contingency line item is always recommended, don't make it a substitute for proper planning and budgeting. Going over budget may force you to choose between putting the project on hold while you go out and locate additional funding sources, or scale back on your project design. Careful planning and budgeting will help you avoid these scenarios.

It is rare for charter school operators to find a traditional school facility ready for use. Many schools have adapted facilities such as office space, warehouses, stores, or retail space, and even residential properties. Leasing portions of another organization's space or using modular units (trailers) is also a common solution. Charter school operators who think about their needs flexibly and plan strategically are better prepared for site selection and subsequent phases of the facility acquisition and development process.

Need for Professional Assistance

The facility development process involves a great deal of technical expertise. Unless your charter school staff or board has that expertise, contract with knowledgeable professionals and consultants to guide you through different aspects of the process.

An architect and project manager can prove especially helpful during the needs assessment stage. The project manager can help the school through various stages of the process and should provide an understanding of the real estate market and construction trades, and charter school experience. The architect can review the feasibility study and needs assessment, and help your school develop the preliminary space needs assessment. An in-depth discussion about key members of the facility development team follows in Chapter 2.

Case Study

Focus: Concept

Lee Montessori Public Charter School and Washington Leadership Academy

Built in 1914, St. Paul is a beautiful gothic structure, a former monastery, in the Brookland neighborhood of northeast Washington, D.C., that has been repurposed to house two nonprofit charter schools, Lee Montessori Public Charter School and Washington Leadership Academy. Originally built as St. Paul's College for Paulist seminarians, the structure is close to the metro station and easily accessible to students who use public transportation.

School Missions

Lee Montessori Public Charter School opened in 2014, and Washington Leadership Academy opened in 2015, the former receiving incubation under the Charter School Incubator Initiative. Building Hope and the Office of the State Superintendent of Education (OSSE) partnered to identify permanent space for both charter school start-ups in Washington, D.C.

Lee Montessori Public Charter School is a nonprofit, Montessori-style charter elementary school that originally operated out of Building Hope's Shared Incubator space, which is several blocks away from St. Paul. Its mission has been to create a peaceful, multi-age learning environment for preschool- and elementary-aged children that fosters the physical, social, emotional, and academic development of students to produce lifelong learners using Montessori materials and philosophy. It features multi-age classrooms (PreK-3 through K, 1 through 3, 4 through 6) where students receive individualized or small-group academic lessons and are encouraged to work independently with hands-on manipulative materials to help them make discoveries in math, language, science, geography, geometry, art, and music. The school is open to children from all eight wards of D.C.

Washington Leadership Academy is a public charter high school serving students from the Anacostia neighborhood of Washington, D.C., with a technology- and leadership-based curriculum. The D.C. Public Charter School Board (DCPCSB) granted the academy a conditional charter in 2015, and spent the next year working with Building Hope to identify a site and plan for the school to open for the 2016–2017 school year.

The school's mission is to educate responsible citizen-scholars for success in the college of their choice and to promote a life of public leadership. Washington Leadership Academy provides a personalized learning program for each student, including a strong remediation component to help students reach grade-level achievement. Each student's program includes a robust computer science and technology curriculum, including coding. The school uses real-time student data to tailor the curriculum and personalize instruction so no student falls behind.

The academy also focuses its curriculum on Common Core standards and will feature a suite of Advanced Placement courses, while also including experiential learning opportunities to culminate in an 11th-grade service-learning internship. The

school's technology-rich curriculum has already received significant recognition, including a White House press release that cited the academy as "an example of a redesigned high school that seeks to close the achievement divide by providing students with the opportunity to graduate with the skills and abilities necessary for success in the global economy."

Planning Challenges and Successes

The two schools' developer, Building Hope, provided an incubator space only a quarter-mile from St. Paul to start Lee Montessori charter school in 2014. Due to the school's success, it was ready for a new space, and the former monastery provided an ideal location and amenable classroom space.

The nonprofit that purchased part of the building, St. Paul on Fourth Street, Inc., and which leases 75,000 square feet of the facility to the two charter schools, is managed by the Charter School Incubator Initiative — a partnership between developer Building Hope and the D.C. OSSE.

St. Paul includes leased space for five nonprofits and plans to provide much-needed subsidized teacher apartments through further retrofits. The historic building boasts a library, courtyards, and classrooms, making it a simple conversion for school use.

However, the building had been largely vacant for more than a decade, and residents living in luxury townhomes adjacent to St. Paul were concerned about the structure's conversion into a charter school. In a neighborhood without sidewalks, residents expressed concern about students walking across their properties and were worried as well about traffic increases as a result of the school's plan to expand driveways to accommodate two-way traffic. Some neighbors even considered taking legal action to delay or halt the project.

These challenges made community engagement a critical first step in the conversion process. Building Hope, the D.C. charter school developer, incubator, and lender who manages the St. Paul project, proactively addressed neighborhood concerns by initiating community meetings and tackling concerns one by one to build community buy-in. The school was also able to secure support from D.C. council members and the D.C. Public Charter School Board.

St. Paul also faced the need for flexible financing, and it took the cooperation of five organizations to make it happen, demonstrating that if financing from one bank fails, one can often seek multiple funding sources.

Building Hope searched for a flexible partner for the project and reached out to Capital Impact Partners, which contributed $4.375 million of a nearly $16 million loan — some of which also came from other Community Development Funding Institutions — for acquiring the property and funding renovation for the schools. Building Hope also received New Markets Tax Credits financing. Thanks to these collaborations, both schools are expanding to serve a total of 700 students in this high-need area.

Renovations began in July 2016, and continued during summers through 2018, allowing the schools to operate during the upgrades. The building's original character remains, featuring stained-glass windows in a chapel that is now a high school classroom.

Tom Porter, Building Hope's vice president of Mid-Atlantic region, says employing adaptive reuse allowed the schools to maintain St. Paul's historic character while still providing workable classroom space.

"To move into an impressive building like this — it's a game-changer," Chris Pencikowski, head of Lee Montessori, says. "We get to avoid those initial years of either living in a church basement or hopping from home to home."

Project Takeaways:

- St. Paul acknowledges that conducting a transportation project at the project's start might have mitigated pushback from neighbors concerned about increased pedestrian and auto traffic.
- Early engagement with the community is critical, and, in this case, the school might have benefited from initiating the engagement sooner.
- To address financing challenges, the schools sought out multiple funding partners instead of attempting to rely on a single lender.

Predevelopment

Chapter 2

Advice From The Field

> "In making decisions, don't feel you must recreate the wheel. There are a lot of experts out there with experience. Reach out to those people and organizations."

—Thomas E. Porter, Building Hope

With your concept defined, you're now ready to assemble a development team and identify your site. We begin with a discussion on key players on the development team, including contracting and compensation. Second, we discuss selection criteria for identifying a site and reviewing critical decisions: (1) owning or leasing and (2) renovating an existing facility or undertaking ground-up construction.

Assemble the Development Team

This team's role is to render a concrete reality from a creative vision. It achieves this by coordinating the skills and expertise from many disciplines. Assembling a strong, experienced team will go a long way toward enabling the project's success. By involving key players from the beginning, you guarantee that all team members "buy into" the entire project from start to finish, understand their respective roles and responsibilities, and are readily available to make their unique contributions. Your team will meet several times during the one to three-plus years of your development process. Some team members, such as the architect or project manager, will be a constant presence, and other specialized team members — legal counsel, real estate agent, engineers — will be brought in as needed to provide expertise.

Checklist of Key Activities

- Assemble a **development team** and clearly define roles (page 14)
- Determine criteria for **site selection** with input from teachers, parents, students, and other stakeholders (page 21)
- Assess **types of sites** and confirm **zoning codes** (page 23)

Meet Regularly with Key Stakeholders

Establish set times for team meetings and include the following people:

- Charter School Representatives (Staff and Board)
- Project Manager
- Architect
- General Contractor
- Legal Counsel
- Consultants (Optional)

Team meetings are a regular and necessary form of communication critical to moving your project along. You will review progress, address issues, and ensure everyone is on the same page. During the early development stages, the team might meet once or twice a month, and then more frequently as the project advances into the construction phase.

Charter School Representatives

The school administrator, staff, and board of directors should each have unique roles. The school's board of directors must decide whether it wants hands-on involvement in the day-to-day responsibilities of project development, or if it wants to delegate the daily implementation of the project to the school administrator (e.g., principal, director). The scenario below assumes the latter.

- **Board of Directors**: As fiduciary agent, the board's role is to set the charter school's long-term course and ensure it stays true to its mission. In the context of a development project, the board's role is to provide unified support and ask the right questions (e.g., Will this capital project advance our mission? Is the project financially sound? Is the project being managed appropriately?). The board should be kept apprised of significant decision points (e.g., project scope, project budget, selection of major team players, final design, site selection, etc.). The school's board should include members with financial backgrounds and years of experience handling the development process. In addition, you'll need individuals who know how to navigate the political environment and work with contractors. Not all board members need to have this experience, but they must be able to find advisors and experts who do.
- **School Administrator**: The school administrator and board of directors are both accountable for the project's outcome. The board may authorize the school administrator to delegate authority to a project manager. This is the recommended approach given the magnitude of a school administrator's existing responsibilities. The school administrator must work closely with the project manager to define and lead the process. In turn, the school administrator communicates regularly with the board about significant issues that arise and "manages the manager" who oversees the project on a daily basis.
- **Stakeholders**: Both in the concept phase and predevelopment phase, bring in your key stakeholders since they will be directly affected by the building's final design. These stakeholders include parents, staff, and students. Update them on budget constraints when soliciting input on layout and space considerations so they have realistic expectations. If construction is to be performed on an existing facility, stakeholders should be kept well-informed about its progress to reduce frustration and anxiety levels.

Project Manager

The role of the project manager (PM) is to coordinate every aspect of the project and manage each development team member. While the charter school board is ultimately responsible for the project's success or failure, the PM has daily project responsibility for the myriad of details that requires attention. The PM should be identified at the project's earliest stages. One of the PM's first major tasks might be to coordinate the selection and hiring process of the architect. An ideal candidate for the PM role is an individual with a technical background (e.g., engineer, contractor, real estate developer), who has successfully managed similar charter school facility projects. The PM will juggle multiple tasks, coordinate schedules, and mediate on behalf of various team members. You'll want someone who pays meticulous attention to detail and has strong organizational and communication skills.

The PM can be a charter school employee, but is usually an individual hired for this purpose. Overall project costs will be reduced if an existing employee is charged with this role, but consider whether the cost savings are worth it. Most people vastly underestimate the time it takes to manage a facilities development project, and it is unlikely that the school administrator or a school manager can dedicate 100% of their time to project management. If you choose to make a charter school employee the PM, the lender may still require the charter school to hire an independent, qualified third party, sometimes called an owner's representative, to oversee the process.

Project Manager's Role

Your project manager can help with the following:

- Identify members of the development team
- Oversee planning and design of facility
- Develop project budgets and update budgets as needed
- Forecast long-term financial needs to maintain and operate facility
- Solicit construction bids and ensure receipt of building permits
- Manage contractors and construction operations
- Provide information to lender and funders, and maintain ongoing contact to ensure receipt of funding
- Prepare monthly progress reports for board, funders, and/or school community
- Furnish advice to the school about various aspects of the facility development process

Adapted from Illinois Facilities Fund, Technical Assistance Worksheets. For more information, visit www.iff.org/our-services/real-estate/.

Architect

During the early concept and site development phases, your architect can help sort through the charter school's facility needs, consider functional uses of space, provide alternative design ideas, flag potential zoning or regulatory issues, and make design recommendations.

For facility design, your school has the option to: (1) Select a contractor whose team includes an architect or (2) hire an independent architecture firm. (See Chapter 4 for more information on the "design-build" approach.) If your school chooses an architect, you'll need someone with charter school experience; an added bonus is an architect with sustainable building experience. Hire someone who is licensed in the state where your school will be located and who is committed to working within your project's financial constraints. You'll want the architect to fully understand your school's vision and culture to ensure his or her approach is consistent. Every school has a different vision, so concepts of design will also vary. For instance, design needs and aesthetics for a performing arts school will be different from a school with a technology focus. Check with your local charter school association and your peers for recommendations.

The architect's primary responsibilities are to translate the project's space needs into a workable concept, develop alternative schematic designs, and convert these preliminary designs into final drawings from which the facility will be built. Your architect will also hire and supervise engineers (e.g., structural, mechanical, plumbing, civil) and will offer design advice, as needed, throughout the construction process.

Criteria for Selecting an Architect

❶ Experience with Similar Projects

- Does the architect have charter school experience?
- Does the architect have experience designing "green" or sustainable facilities?
- How many projects has the architect designed of similar type, size, and complexity in the past five years? If possible, visit these projects. If not, review pictures and contact the owners to ask about their experience.
- Were the comparable projects completed on time and on budget?
- Does the design quality demonstrate that the facilities meet user needs and are built to last?
- Does the architect have a keen appreciation for the unique demands of a charter school setting?

❷ Experience in the Real Estate and Regulatory Environments

- Is your architect "local"? How well does he or she know the local real estate community? (This might prove useful for site selection.)
- Will the architect be able to help you navigate any zoning and/or permit issues?

❸ Technical Expertise in Construction

- What is the architect's level of expertise around construction issues?
- Does the architect have experience with any local contractors or tradespeople? Ask for references from general contractors with whom the architect has worked.
- How well has the architect been able to interpret his or her clients' needs while paying attention to their budgets? Will the architect be able to control costs but still produce a high-quality project?
- What is the architect's experience in bidding construction contracts? Can you rely on the architect's expertise, and does he or she add value to the bidding process?
- Does the architect have construction management experience? (This is not necessary but may be useful, depending on the project.)
- What is the architect's experience with construction contract administration?
- How well have the architect's previous projects withstood the test of time? Contact previous owners of similar/dissimilar projects to test this criterion.

❹ Understanding of Funding Issues

- What is the architect's level of understanding about the funding requirements of your project?
- Does the architect have a keen appreciation of the budget constraints of your project?
- Can the architect develop cost-effective solutions to your unique design requirements?

❺ Personal Issues and Characteristics

- Is the architect registered or licensed in your state?
- Is the architect enthusiastic about your project and committed to working with the charter school?
- Will the prospective architect be available during the entire development process, or will your project be handed off to other team members?
- Are you comfortable working with the architect during the lengthy development process? Is his or her personality well suited to working on the development team?
- Is the architect a clear, effective communicator?

General Contractor

The general contractor (GC) coordinates all aspects of construction, for both new construction and renovation projects. Most often, the GC is selected through a bidding process after the construction documents are completed. He or she works from the architect's final drawings and specifications and, thus, should have a productive working relationship with the architect. In the case of a design-build situation (when the GC's team designs and builds the facility), the responsibilities of the architect should be integrated into those discussed here for the GC.

The GC's responsibility includes hiring electricians, plumbers, carpenters, and other subcontractors and making sure the work is completed in a timely fashion in accordance with the design documents. During regular team meetings, the GC should provide detailed reports of construction progress and actual costs incurred against the established budget. Also at these meetings during construction, the GC, the architect, and the PM will review any necessary "change orders" to the construction contract.

Chapter 4 provides a complete discussion on selecting and negotiating with a GC.

Legal Counsel

The legal counsel's major role is to protect the charter school's interests during the development's earliest concept stage through the facility's ribbon-cutting ceremony. He or she negotiates legal issues, drafts legal agreements the charter school enters into (or reviews other legal counsel's drafts), and advises the charter school at critical points (i.e., negotiating a lease with a prospective landlord, purchasing a building, finalizing a construction contract, reviewing loan documents). It is important that you use a legal counsel with experience in local real estate, because real estate practices often vary significantly by location. Depending on the nature of the project and type of financing, you may need to solicit specialized legal advice.

Consultants and Optional Team Members

Depending on your project's complexity, there may be other members of your development team who you'll want to engage at various points. A real estate agent is not an essential member of the development team, but it is useful to have a relationship with one since they are knowledgeable about market conditions and may be aware of available properties outside the team's field of reference. Examples of other team members include cost estimator, environmental audit firm, interior designer, information technology consultant, financial advisor, and a member of the back office provider organization (an outside provider who conducts some internal administrative and support activities).

Paying Your Development Team

The GC is not usually paid before the loan closes. Once the project has closed, the GC is paid on a monthly basis as defined in the contract. Your architect will be paid according to his or her contract, whether that contract is with the school or with the GC. Regardless, the architect will need to be paid for pre-construction phase services which include bid set, plans, and specifications. Legal counsel is usually paid hourly, and it is advisable to get an overall estimate. Regardless of which payment method is used, you and your development team must articulate the desired scope of services and negotiate the fee arrangement at the project's outset.

Paying your Architect

- **Fixed (Stipulated Sum) Fees**: In a fixed-fee structure, an architect quotes a fixed price for the entire project. Fixed-fee payment methods are advantageous because they help control costs, but the charter school board should carry a contingency in the event unforeseen expenses arise. Make sure you understand what services are included in the fee.

Paying your General Contractor

General contractors are usually paid via stipulated sum or cost plus guaranteed maximum price. Banks typically prefer that the fee be capped when the construction contract has been finalized and prior to closing of the construction loan.

- **Stipulated Sum Contract**: This is a fixed-price approach. The contractor specifies an amount he or she will charge for the entire project based on design and materials specifications in the final construction documents. Value engineering must occur before the contract is executed. Changes to the contract are made using a "change order," which increases or decreases the final contract amount (see Chapter 4 for more on this topic).
- **Cost Plus with a Guaranteed Maximum Price (GMP)**: This is the preferred method to pay your GC. It provides more flexibility since the contract has built-in allowances for value engineering design. For example, the contract may quote a GMP that has a 10% contractual allowance built into the total price. If the contractor can identify cost savings during the construction process, those savings are split (on a predetermined basis) between the charter school and the GC. Conversely, if the GC errs and incurs additional costs, those costs are borne by the contractor.

Pro Bono Options

Some charter schools may seek pro bono arrangement with a current or former board member, or other friend of the charter school for certain consultations (e.g., legal counsel, architects). This approach can work and will save you money. However, it also presents downsides. Legal counsel that provides services on a volunteer basis may prioritize a paying client at a crucial point in your negotiations. With formally hired professionals, you can better control the quality and pace of their work.

Contracting with Your Development Team

You must enter into a legally binding contract with each development team member prior to the commencement of services. The contract must clearly spell out the scope of, the timeframe for which services will be provided, the respective parties' rights and responsibilities, and the fee schedule. Form contracts developed by the American Institute of Architects (AIA) are the industry standard in the development process used by architects, general building contractors, construction management firms, and lenders. Building contractors may also use standardized forms provided by the Associated General Contractors of America (AGC), and you'll need contract modification forms used for "change orders." In addition, there are contract forms for bonding, insurance, and other legal representations and warranties. Rights, responsibilities, and duties that should also be addressed in the contracts. Your development team must read all contracts closely to understand their key terms and conditions, even if they appear to be a standardized form. Your legal counsel should also review all documents before you sign any contract.

What Every Contract Should Include

- The parties to the contract
- The purpose of the contract (e.g., to retain the services of a project manager)
- The scope of the agreement (e.g., to assist with site selection, selection of contractors, monitor construction, and oversee move-in)
- Roles, duties, and responsibilities (examples: attend all project meetings, inspect all construction work, etc.)
- The time of performance (examples: deadlines, start and end dates)
- Compensation
- Termination clauses
- Cost-savings clause (in case GC finishes the project ahead of schedule and under budget)

Different Bidding Processes and Contract Types

Bidding	Explanation	Pros	Cons
Competitive Bid	Provide specifications of the work to several GCs. Each responds with a bid indicating how much they will charge if selected.	▶ Encourages lower prices ▶ Allows price comparison ▶ Gives more GCs an opportunity to win your business	▶ GCs may underestimate costs to win the bid ▶ Oversight of the bidding process can be a lengthy process
Negotiated Bid	Select a GC you want to work with and negotiate the price of the work (no bidding).	▶ Faster than competitive bidding ▶ More likely to receive realistic final cost	▶ Doesn't allow price comparison ▶ May not receive lowest cost
Contracting	Explanation	Pros	Cons
Stipulated Sum Contract	GC submits a fixed price for the contracted items. Any changes are billed separately.	▶ You can plan for a basic price for the majority of the work, then approve unanticipated changes	▶ If your original contract was not complete or specific enough, you could incur significant additional costs
Cost Plus Fee or Guaranteed Maximum Price Contract	GC submits a maximum price for which they will complete the whole job, and may include built-in allowances.	▶ Allows more negotiation over what work will be completed ▶ Gives you greater control	▶ May be more expensive

Determine Criteria for Site Selection

Site selection is the process of examining multiple options and assessing their relative advantages and disadvantages. Site selection comes after the needs assessment is completed. If you select a site before the needs assessment, you may compromise on key design aspects due to site limitations. The site selection process involves the following interrelated tasks:

- Assemble an experienced site selection team. It should be a sub-team with representation from the project development team.
- Review site selection criteria, identify a site, and devise a plan for your project.
- Initiate the loan process with a lender.

Importance of Site Location

Learn about the neighborhoods of your potential sites. Walk through the area and chat with residents to better understand whether the site is a viable option and if your school is welcome. For site selection in urban areas such as Los Angeles, Boston, and Washington, D.C., use a benchmark of one acre and search within a one- to two-mile radius of your target area. If this is not possible, search for sites in fringe zones (e.g., commercial).

Avoid developing a site plan too quickly. Professionals recommend developing one to three alternative site plan concepts for potential sites. With multiple site options, you can rank project priorities — e.g., cost, location, and size. Exploring more than one site option also makes clear to lenders and other funders that you are committed to building the best project possible. And, analyzing alternative site plans allows you to compare costs and design features in a practical rather than abstract way. The site selection team may find a site that is not ideal, but with a creative design plan can meet your requirements. By contrast, you may conclude that no redesign can overcome a site's inherent deficiencies.

Before purchasing a piece of property or a building, confirm that the zoning allows your school to occupy that site. This should be investigated during the due diligence period prior to closing on the purchase. Other due diligence items include verifying that adequate public utilities are available, determining that there are no environmental hazards on the site, and conducting a geotechnical (soils) investigation if new construction is planned. When reviewing your site options, use the Site Selection Criteria provided in this section to assess the fit of the site, compare and contrast sites, and prioritize needs. Also, there are rating systems that offer "green" site selection criteria. See Leadership in Energy and Environmental Design (LEED) for Schools and the Collaborative for High Performance Schools (CHPS) Best Practices Manual.

For more information, visit www.usgbc.org/leed and www.chps.net/dev/Drupal/node/288.

Site Selection Criteria

❶ Location

- Is the site located in the community which the charter school serves?
- Is the site accessible to target student demographics? Can the site serve as a community hub?
- Is the site accessible by public transportation and convenient for students and staff?
- Are nearby traffic levels acceptable?
- Is the site visible to passersby on foot or in vehicles?
- Are adjacent businesses appropriate (e.g., no adult video stores)?
- Is there a history of crime or vandalism in the area?
- Is the area suitable for evening events?

❷ Site/Land

- Is there access to utilities (e.g., electricity, sewer, water, gas, and phone)?
- Will the site require heavy maintenance (e.g., topography, drainage, retaining walls, or geotechnical issues)?
- Is the proposed use for the project permitted by zoning? (For example, can you build the type of project you want on the site?)
- Is there adequate space for parking?
- Are the soil conditions conducive to the project's structural needs?

❸ Building

- Is the size adequate, and can it accommodate future growth?
- Is it structurally sound?
- What is the condition of the roof, exterior walls, and windows?
- What is the condition of all major systems (e.g., plumbing, electrical, and heating/ventilation)?
- Is there proper drainage in the basement?
- Can the seller or broker provide recent utility bills from all seasons?
- Will projected energy costs be reasonable?
- Has the building been checked for asbestos, lead paint, or other hazardous materials?
- Are there appropriate fire exits?
- Is the building American with Disabilities Act (ADA) compliant?
- Is it a sustainably designed/green building or LEED-certified?
- Can the space be easily reconfigured for educational and administrative space?
- What is the condition of adjacent and nearby properties?

❹ Costs and Renovations

- Is a recent appraisal available?
- Is the purchase price (or lease rate) reasonable and comparable to similar sites of similar age and quality?
- Are the preliminary costs for improvements reasonable? Has your architect or project manager confirmed the costs?
- What are the estimated maintenance costs?

❺ Legal and Timing Issues

- Is the property or site vacant and available immediately?
- Is the seller motivated to sell within your timeframe?
- Is sufficient financing available to complete the transaction within the required timeframe?
- Are there zoning restrictions? Will there be a need for zoning variances or lengthy hearings? Required setbacks? Legal easements or rights-of-way across the property? Prior title issues?
- Are you permitted to display signage on the site?
- Will building permits be available within the required timeframe?
- Are there any political issues that would block approval of the site? Are the neighbors likely to be supportive?

Calculations to Assist Site Decision-Making

As you consider your site options, use common calculations. An appraiser or broker can assist you in comparing these measures against comparable charter school costs.

- **Cost Per Square Foot** (cost psf) is the total cost divided by the total square feet of space.
- **Cost of Improvements** is based on your preliminary budget for a potential site. Your cost of improvements should include both hard costs and soft costs.
- **Rent Per Square Foot** (rent psf) is your annual rent divided by total square feet. The square footage used is the net leasable area. If you are planning to lease space, be sure to understand what expenses you will pay versus expenses the landlord will pay. Also, factor in one-time costs to improve the property so it is ready for occupancy. Some landlords provide a "tenant improvement allowance," which is factored into the rent psf calculation.
- The **Site Acquisition** price for a land purchase may be quoted on a per-acre or per-square-foot basis. It is typically quoted on a per-square-foot basis in urbanized locations.

Types of Sites

Creativity and flexibility are important when seeking an appropriate home for your charter school. The following chart summarizes advantages and disadvantages of various types of space.

Site Options

Type	Pros	Cons
School Buildings	▸ Ideal academic setting as located in neighborhoods and very accessible ▸ Already arranged with classrooms, gym, cafeteria, library, administrative offices ▸ Good parking, playground space	▸ Sharing space with charter schools difficult in some districts ▸ School buildings sometimes deed-restricted to educational use (decreasing the resale value for charter schools purchasing these facilities) ▸ Lack of available school buildings in some jurisdictions ▸ Rarely available in good condition
Commercial Space (includes office space and warehouse/flex space)	▸ Frequently available in strip malls ▸ Large, open spaces easily converted to classrooms ▸ May have easy bus and car access ▸ Less likely to involve political battle over building compared to former school buildings	▸ Hard to create "school culture" ▸ Extensive renovations required ▸ Few windows, poor light and ventilation ▸ Setting often inappropriate for school ▸ Limited playground space ▸ Often have limited parking space ▸ May have limited access to public transportation ▸ Busy traffic may be safety issue ▸ May not be zoned for education use ▸ Potentially hazardous material issues

Site Options (continued)

Type	Pros	Cons
Residential Space	▶ Location accessible to student homes	▶ Extensive renovations required ▶ Limited non-academic space ▶ May not be zoned for education use ▶ Limited parking ▶ Potential difficulties accommodating growth ▶ Possible resistance from neighbors
Modular Units (trailers)	▶ Might be obtained more quickly than other space but can still require lengthy permitting process ▶ Appropriately sized space provided ▶ Configured in flexible ways ▶ Short-term commitment ▶ May offer flexibility of location ▶ Growth easily accommodated	▶ Must identify suitable piece of land for modular units and pay for necessary site work ▶ Suboptimal in bad weather conditions (not all under one roof) ▶ Limited office and non-academic space ▶ May require ground lease with school district ▶ Less attractive to some parents ▶ More difficult to find financing
Houses of Worship	▶ Usually very affordable ▶ Frequently available during school days ▶ Often configured with classrooms ▶ Often include gym, cafeteria, playground ▶ Good access, parking	▶ May need to set up every Monday, pack up every Friday
New Construction	▶ Tailored to the school's needs ▶ Low maintenance costs ▶ Attractive to prospective parents	▶ Very expensive (though sometimes cheaper than renovating) ▶ Code requirements for new buildings may be more extensive ▶ Disposition of building if charter is not renewed

Own vs. Lease

Many charter schools face the dilemma of whether to purchase or lease a facility. There is no right answer. Both options have advantages and disadvantages and must be evaluated in the context of your unique circumstances. Market trends, especially in urban environments, will determine your ability to purchase or lease.

If you choose to lease a site, pay close attention to these points:

- Who is responsible for utilities, taxes, and insurance?
- Who is responsible for interior and exterior building maintenance, site maintenance (e.g., snow removal), and custodial duties (e.g., trash removal)? Who is responsible for big-ticket repair items, such as roofs, heating, ventilation, and air conditioning (HVAC), as well as ADA requirements, life safety (sprinklers, fresh air and air-quality requirements), and code upgrades?
- What type of building security is available, and who is the responsible party?
- Is there access to shared amenities (e.g., parking, common space, etc.)?
- Does the owner provide access to the site after regular business hours for evening meetings and activities?
- Can you sublet parts of the site to other parties (e.g., after-school and tutoring programs)?
- Will the owner provide a rent abatement clause? (This is typically a reduction in rent for a specified number of months, usually while the premises is being improved and the tenant is financing her/his own improvements.)
- Are there any restrictions on the type and amount of leasehold improvements that you can make to the property? Does the owner give you a leasehold improvement allowance?
- What type of notification will you receive prior to lease termination? Are there options to renew the lease?
- Is there a purchase option at the end of the lease term?
- Is there a subordination clause in the lease? For example, will the landlord provide subordination to your lender for the purposes of financing leasehold improvements?

A Simple Guide to Leasing

If your school does decide to lease, keep in mind:

- Lease negotiation — common area costs, annual rent escalators, and purchase options — should be discussed between landlord and tenant.
- Your landlord may prefer a lease term shorter than your charter. Consider negotiating a longer lease, as this gives you time to pay for the improvements and for your school to stabilize.
- A rule of thumb is to use no more than 10 to 15% of per-student revenues on your facility costs, although this varies by region. Schools spending more than this have less to spend on students.
- Your legal counsel should review all real estate leases and related documents.
- Leasehold improvements stay with the building — you cannot take them with you. Be careful in the amount you spend, unless your lease is long-term.
- Personal guarantees should be provided as a matter of last resort since the U.S. Department of Education offers a Credit Enhancement for Charter School Facilities Program (discussed in Chapter 5).
- Relocating to a new facility may seem like a good way to control rent costs. The process, however, may be disruptive to personnel and student enrollment.

See chart on the next page for a detailed comparison of purchase versus lease.

Purchase vs. Lease

Type	Pros	Cons
Purchase	▶ Appropriate for charter schools that are knowledgeable about financial and legal issues surrounding property ownership ▶ Allows the charter school ultimate control over the physical site ▶ Protects from uncertainty of short-term leases or "difficult" landlords ▶ Provides charter school with a sense of permanence and investment in the community ▶ Effective approach to build equity	▶ Requires an up-front cash investment ▶ Requires a substantial investment of time ▶ May require significant fundraising and/or long-term debt burden ▶ Requires ongoing maintenance and other responsibilities of property management
Lease	▶ Provides greater flexibility in case the charter school decides to move at a later date ▶ Depending on the lease agreement, the charter school might be able to apply a portion of the lease payments toward purchase at a later date ▶ Usually requires less up-front investment ▶ May not carry the responsibilities of property management ▶ The charter school is not affected in the event of a real estate downturn and may benefit from a soft rental market	▶ Creates uncertainty at the end of the lease term; the charter school may have to locate alternative space if the landlord chooses not to renew the lease ▶ May be harder to obtain financing for leasehold improvements and other capital purchases since some lenders will not accept a lease as collateral ▶ Can be costlier over the long run since the cost of property improvements cannot be recouped ▶ The charter school does not have direct control over property management issues ▶ Often difficult to estimate and/or control CAM (common area maintenance costs — the costs of space shared with other tenants)

New Construction vs. Renovation

Another crucial variable is whether to renovate an existing building or to construct a new facility, also referred to as "ground-up construction." The relative advantages and disadvantages of each must be reviewed in the context of your charter school's unique circumstances.

New Construction

In a ground-up construction project, you have control over more variables, and therefore you are more likely to achieve your goals within your budgetary constraints. Your architect can design a building with your specific requirements in mind, rather than being forced to work within an existing space. Additionally, there is less disruption to current operations when you do new construction since it will take place offsite.

Renovation

There may be compelling reasons to renovate the charter school's current site or purchase another building and retrofit it to suit the charter school's needs. The school's current location may be a huge advantage for staff and students. There may be no available land on which to construct a new building. Your site selection team may locate a building that, with relatively minor renovations, addresses your space and design requirements. An engineer's building evaluation or assessment may also reveal that the building's structure, roof, and mechanical systems have sufficient life before replacement is needed. Remember, there are more "surprises" connected with renovating an older building due to hidden or unforeseen conditions. Most budgets add a contingency factor of 15 to 20% for a renovation project versus only 10% for new construction. As you consider renovation, be mindful of the following questions:

- What level of rehabilitation will be needed to implement the program in this building?
- Will hazardous materials become an issue during the renovation?
- What code compliance issues are involved?
- If the charter school's site will be renovated, how will you manage current operations, and where will everyone be situated during the construction project?
- Will the building accommodate the types of mechanical systems, energy improvements, and safety features needed? Will it accommodate "green" or sustainable building upgrades?
- Is the building appropriate for the charter school's programs and activities? Is it a "good fit"?
- Will the building be accessible to people with disabilities?

In sum, it is important to pull together an experienced site selection team that understands charter schools. Evaluate alternative site options, carefully estimate the costs of each, and initiate a relationship with your lender before making a final decision about your site. At the end of this predevelopment phase, you've accomplished significant steps, and your team is up and running. Once a final site decision has been made, you are in a better position to begin the process of designing it (Chapter 3 and Chapter 4) and determining how you will pay for your facility (Chapter 5).

Case Study

Focus: Predevelopment

Montessori For All

Montessori For All is a nonprofit charter management organization in Austin, Texas, that provides a public education to students not traditionally enrolled in Montessori programs. Its flagship campus, Magnolia Montessori For All, opened in the fall of 2014, with the aim of closing the achievement and opportunity gap.

Montessori For All's theory of change is that it's not just academic performance that determines future success. As Montessori schools have been doing for hundreds of years, Montessori For All seeks to foster a much broader skills set that includes creativity, motivation, perseverance, tolerance, and goal establishment and achievement. They want to bring this into the world of public schools, where it has traditionally not been available.

Buying Instead of Leasing

Taking an uncommon route for a charter school by not leasing or using district school facilities, Montessori For All decided the sooner it could purchase land, the better it would be for the long-term success of the school. In doing so, the school proved its credit-worthiness and saved money by avoiding leased space and potentially having to relocate later. The permanent site purchase also exemplified the school's commitment to enrolling students from a wide range of neighborhoods. In finding and purchasing a permanent site, Montessori For All also offered stability to the families it proposed serving.

However, the purchase of nine undervalued acres created challenges of its own since, at the time of purchase, Montessori For All did not yet have its charter. The school overcame this obstacle both through fundraising, demonstrating a long student wait list, and some start-up funding from the state of Texas. Ultimately, it partnered with a small, local bank more attuned to the area's needs and confident in the school's fiscal health.

Montessori For All operated its first year on student revenue alone, demonstrating financial stability and sustainability. Then, in 2016, with a solid operating history under its belt, the school approached Capital Impact Partners in hopes of obtaining financing for large-scale construction and expansion plans.

Building for the Future

Capital Impact ultimately provided Montessori For All with $5 million in New Markets Tax Credits allocations along with an $8.4 million leverage loan to construct eight permanent buildings on-site to replace its leased portable structures.

Sarah Kirby Tepera, Montessori For All's COO, served as the heart of the project development team and decided early on to hire a project manager for the initial development of the land. While she served as construction project manager, she also recognized her expertise was needed in many other places, so she has worked to hire a larger team to assist with school development as well as fundraising.

Tepera's vision and commitment have been crucial to Montessori For All's success so far, as has been the hiring of a top-notch financial consultant to perform financial modeling, inclusion of school board members — one with commercial real estate expertise — and the help of numerous advisors.

At the time of this publication going to print, the school had installed wooden patios connecting multiple portable structures to help foster collaboration and school spirit, while also providing a more completed feel to the campus during construction.

When construction is final, the campus will include 15 permanent buildings and 20 classrooms to serve 600 students from preschool through eighth grade. The final campus will also house a teacher training center, multipurpose room, infant and toddler classrooms, student support facilities, and food service operations.

Capital Impact Partners remains a key long-term lending partner and advisor. “Finding those people that want it to work for you and partnering with them makes a difference,” says Tepera.

“Don’t let conventional wisdom stop you. The way to achieve big things is by setting your goal and pursuing it.

“It’s so much work getting it financed, getting it designed,” she adds. “For a start-up to do this, it was incredible.”

Project Takeaways:

- A visionary and committed school leader who surrounded herself with experts, in finance and real estate, was critical to the success of this ambitious project.
- Purchasing land at the outset on which to build a school sent a clear message to the local community that Montessori For All would be a permanent community partner.
- Situating the school to draw from families residing in a variety of communities.
- Obtaining a long-term financial partner and advisor like Capital Impact Partners helped fuel the school’s long-term construction goals.
- Hiring a project manager and turning to advisors to help with the development and construction helped relieve the responsibilities.

Design and Pre-Construction

Chapter 3

Advice From The Field

> "Many things go into schools that are not just aesthetics. Pick carefully and be thoughtful about design; measure twice, cut once."

—Joyce L. Montgomery, Charter Schools Development Center

You are now at the design and pre-construction phase — an exciting step! Note that design and pre-construction activities happen concurrently. Though it is not always a linear process, facility design usually involves: (1) finalizing space assessment, (2) designing the facility, and (3) completing the construction documents. In addition, this section covers critical tasks to complete before your team selects a general contractor and builds your facility.

Design Activities

Finalize Space Assessment

Before the design stage is fully under way, finalize your space assessment by updating your preliminary space needs assessment from the concept and site selection phases. The process involves a final count of every room and space you want to include in your building project, along with the ideal dimensions. The sum total of these dimensions provides a net square footage.

Checklist of Key Activities

- Finalize **space assessment** using information gathered during the concept and site-selection phases (page 30)
- Develop **preliminary building plans** in pre-schematic design and schematic design; then approve architectural drawings during **final design** development (page 31)
- Address **design considerations** such as **ADA** requirements, **universal design** principles, and **sustainability** (page 31)
- Prepare and finalize **construction documents** to solicit bids and/or estimates from potential subcontractors (page 32)
- Gain **site control** (i.e., by executing a lease or purchasing property) (page 33)
- Obtain **project financing** (page 34)
- Get **entitlements** (zoning letter or conditional use permit) (page 34)
- Develop **furniture, fixtures, and equipment (FF&E) budget**, and revise **project budget** (page 35)

How to Calculate Final Space Assessment

Your architect will use the net square footage and apply a multiplier to account for additional requirements that are not part of the space assessment, such as corridors, mechanical rooms, shafts for ductwork, and telephone closets. These totaled calculations give the gross square footage.

Depending on the building's configuration, the gross square footage may be up to 30% higher than the net square footage. Numerous factors may increase the gross square footage. For example, a double-loaded corridor has rooms on the right and left sides. A single-loaded corridor may be less efficient because the rooms feed off from one side only, forcing the hallway to serve half as many rooms as double-loaded corridors. Once you have the gross square footage for your space assessment, your architect can begin the pre-schematic design by organizing the spaces so they make sense.

Pre-Schematic Design

The pre-schematic design phase combines basic concepts about the building's space with its functional needs and translates them into a visual design. Using data gathered during the concept phase and site selection process, your architect prepares rough drawings of the building's interior and exterior. During subsequent stages, these sketches will be reworked into a final design that guides the building's actual construction. Do not underestimate the importance of the preliminary drawings; they are useful down the road, serving as points of reference for progress made. Frequently, an idea that seems great in theory turns out to be quite different on paper.

Deliverables at this stage include large block ("bubble") drawings that show the basic outlines of a floor plan, major service and/or activity areas, and space flow. These drawings are compared to the final space assessment to make sure all functional space requirements are included. At this early design stage, it is easy and inexpensive for your architect to make changes to the drawings, so confirm now that the project's major components and requirements are addressed for later design refinement and preliminary cost estimates.

Schematic Design

The schematic design stage establishes the project's scope and conceptual design. Rough pre-schematic sketches are refined into detailed drawings. These will show total space assessment and related dimensions, floor by floor and room by room, including common areas, hallways, entrances, and exits.

Your architect will begin detailed specifications about major project components such as quantity and quality of materials; proposed systems (e.g., electrical, plumbing, heating, ventilation, and air-conditioning systems [HVAC]); and other building features such as stairways, roofs, foundation, walls, and doors.

Deliverables might include preliminary building plans with elevations (what the exterior of the building looks like from all sides) and sections (views through the interior of the building as if it were sliced apart); perspective sketches or study models; electronic visualizations; and a statistical summary of the building area and other characteristics.

You may want to commission an artist to render the finished building, including exterior landscaping. These schematic design documents will be used to make presentations to key constituencies, solicit support from funding sources, and respond to third-party regulatory agencies. See section on page 34 titled "How to Obtain Entitlements."

With schematic design deliverables, your development team can establish more accurate cost estimates based on the project's specifications. Now is the time to evaluate design alternatives and options. As your project is further refined, design changes become costly.

Design Considerations

Americans with Disabilities Act (ADA) and Universal Design Principles

Ensuring accessibility is part of all the design stages. Accessibility, as defined by ADA laws and universal design, addresses mobility, vision, and hearing, learning and sensory needs, and more. Good design and architectural features make a facility more accessible for all — from

a staff person temporarily on crutches to a student with a permanent disability.

Make sure the architect and GC you select are knowledgeable about accessibility as it relates to building design. In particular, seek an architect with knowledge of universal design — the process of creating environments usable by people with the widest possible range of abilities and operating within the widest possible range of situations.

Seven Principles of Universal Design

1. Equitable Use
2. Flexibility in Use
3. Simple and Intuitive Use
4. Perceptible Information
5. Tolerance for Error
6. Low Physical Effort
7. Size and Space for Approach and Use

Beyond ADA requirements, be sure your design team is following local jurisdiction requirements, such as gender-neutral requirements. For more information, visit www.universaldesign.ie and www.ada.gov.

Sustainability

Green schools positively impact health, save energy, and conserve resources over time, creating high-performing charter school facilities. Commonly used sustainability design strategies include maximizing daylighting, indoor air quality, environmentally safe materials, energy efficiency, alternate energy sources, water efficiency, and waste management. Most of these strategies can be considered for both large- and small-scale projects.

For example, in Washington, D.C., schools participating in a solar incentive program receive solar installations at no cost, get free electricity, and earn extra revenue by joining the program. Other cities mandate that public building structures meet certain sustainable criteria or achieve specific certification, such as Leadership in Energy and Environmental Design (LEED) certification. Many states offer incentive programs for LEED-certified projects or projects that incorporate sustainable design strategies. For more information, visit www.usgbc.org/leed. Consult with a sustainable design professional to help your school go "green."

Prepare Construction Documents

Your architect, along with engineer(s) and other consultants, will prepare detailed construction documents before you put your shovel in the ground. In short, construction documents are written and graphic documentation for bidding and building the project. These documents are used to make many decisions, and they affect the outcome of the final project and the budget. In addition, construction documents:

- Provide a detailed look at the entire scope of the project
- Give the GC the exact quantities, qualities, and configurations required for project construction. The GC also uses these documents to solicit bids or estimates from subcontractors and suppliers he or she will engage.
- Help obtain approvals necessary to move the project forward with third parties (e.g., licensing and permitting authorities, financial institutions, etc.)

Producing the construction documents takes a collective effort by many design professionals. The preparation will likely include architects, civil, structural, mechanical and electrical engineers, landscape architects, fire protection specialists, interior designers, security consultants, and other professionals. As the working drawings take shape, formulate more detailed budget estimates with your development team. It is vital that you are very involved in this stage. It is far cheaper to make changes on paper than to rip out a section of wall later.

Typical Construction Documents

- Construction specifications (or the project manual) outline the materials and methods to be used. These specs provide the contractor with everything from manufacturer and model numbers for equipment, to color numbers and paint finishes. The contract documents consist of the drawings and specifications to which the contractor references when he or she bids.
- Working drawings are the large floor plans, elevations, sections, and details that cover each aspect of the building. They provide dimensions, materials, layouts, and in some cases, construction phasing. The working drawings include architectural, structural, mechanical, electrical, plumbing, civil, landscape, interior design, and other specialty areas.
- Bidding requirements include advertisement information, informational instructions for bidders, bid forms, and specific invitations to general building contractors to bid on the project.
- Addenda (or additions) include added material to any of these documents issued by the architect during or after the bidding and/or negotiation process.

Pre-Construction Activities

While you are finalizing the design of your new facility, start working on pre-construction activities that will lead you to the launch of construction.

How to Gain Site Control

A key benchmark is site acquisition, defined as acquiring the site and obtaining site control. Why? Most financing sources cannot release funds until you have site control. Delays in obtaining site control may delay the project's financing and construction.

Site control requires a legally binding agreement. This can be an executed sales contract, a letter of intent (often accompanied by a small deposit toward a future lease or purchase), a signed lease, or any other legally binding agreement. For a site purchase (not a lease), site control requires three steps: (1) obtaining a title report (and title insurance) from a title company, (2) surveying the property, and (3) conducting a Phase I Environmental Site Assessment on the property (a report that identifies potential environmental contamination liabilities). These activities are required before a loan can be finalized, so your lender may need to be involved. Your architect or civil engineer can also assist in securing a survey.

A title company runs the title report and provides title insurance to you, the property owner. The title report details who currently owns the site and what type of encumbrances, if any, are placed on the property. Encumbrances may include mortgages, mechanic's liens, easements, rights of way, unpaid taxes, and other property use restrictions.

This report is created by an independent third party to verify and supplement information that the seller provides about the property. Title insurance gives you "clear title" to (or ownership of) the property and protects you against ownership claims by other parties.

The property survey shows exact legal boundaries, the location of all utilities, easements, and rights of way. A topographic survey will illustrate the slopes and other physical features of the site. Your architect and engineers will rely on this information to prepare the final building design. Your lender will require the title report, title insurance, and a copy of the property survey prior to loan closing. The title company will need a copy of the survey, as well, for preparation of the title report.

How to Obtain Project Financing

Before starting construction, all project financing must be in place. But what exactly is meant by "in place"? While every dollar may not be immediately available (or even necessary) at this stage, all sources of financing should be identified and supported by formal funding commitments.

Many banks offer both construction and permanent financing for a single project. This will ease your process and avoid a chicken-and-egg scenario. In this case, the construction loan converts to a permanent mortgage at construction completion. Without using the same entity for both construction and permanent financing, you may face a construction lender who wants to see a permanent mortgage finance commitment or, conversely, a permanent lender who wants assurance you can complete the construction project.

As noted earlier, the events leading up to actual construction are not necessarily sequential. The permanent financing commitment may be "soft" (e.g., contain contingencies such as getting a construction loan), but it is often needed to get other critical players on board. Your team will be working on multiple fronts simultaneously, including identifying sources of funding for predevelopment and/or acquisition costs, identifying potential construction lenders, and exploring permanent financing options such as a conventional mortgage or tax-exempt bonds.

Obtaining a commitment from a construction lender and closing the loan is usually the "trigger" enabling you to commence construction. Your construction lender will require numerous assurances, representations, and reviews of documents to reduce risk during construction. Your permanent lender will also need many of these same documents and require that those documents be assigned to them. This process normally runs parallel to the design and pre-construction phase. In order to avoid lien-related issues, do not begin any construction prior to closing your loans.

How to Obtain Entitlements

Obtaining third-party approvals is crucial, as you cannot start construction without them. Approvals for your project will be needed from numerous third parties, and they are usually obtained by the GC and/or architect. The approvals may deter your project progress or require alternative designs. Educate yourself early in the process about what types of approvals you need and the time it takes to obtain them so as not to delay your project scheduling. Normally there are at least three major entities that will review your project.

Planning and Zoning

The zoning authority (or board) regulates property use and is usually operated at a municipal or county level. The three most common zoning designations are residential, commercial, and industrial. Local planning and zoning codes typically regulate lot size, site layout, building height restrictions, land use, setbacks (from the street and adjacent properties), parking, historical landmarks, landscaping, open spaces, and the ratio of building size to lot/site size.

Planning and zoning boards will care how a project affects public space or the "look and feel" of the neighborhood. Larger cities may require a review of the design, in addition to planning and zoning, to consider the project's aesthetic appeal. There are usually questions about a building's impact on traffic patterns, noise and air pollution levels, and site drainage systems. These may require environmental impact studies, which will increase your project costs and must be properly budgeted for ahead of time.

Neighborhood opposition to or concerns about your project are usually channeled through a local planning or zoning board. In these instances, the charter school's board may need to develop a plan to counter local community and/or political concerns. At minimum, you will need a building permit to construct your project and/or a demolition permit if you are knocking down a building to replace it. You may also need a zoning variance or other special-use permit (or conditional-use permit), usually obtained at formal public hearings.

Building and Life Safety Codes

Building and life safety codes regulate structural and foundation matters, construction materials, fireproofing, fire exits, HVAC systems, plumbing fixtures and installation, and electrical installation. Typically, there are minimum standards for methods of construction, life safety, accessibility, emergency lighting, services and emergency vehicle access, parking, and requirements for special needs populations (e.g., ADA). Your project must comply with local building codes in order to receive a certificate of occupancy (CO, or C of O, also referred to as a use and occupancy permit, or U & O) so you can legally occupy and operate the facility.

Health

This commission (or authority) regulates health and safety issues, and may be established by local, state, and/or federal regulatory authorities. Depending on the size and nature of your project, it may require varying levels of approvals if, for example, you intend to provide food services on-site or if your school plans to partner with any health and human services organizations to offer health-related services on-site.

It may be desirable to retain specialized consultants, such as a zoning attorney or a permit expeditor, to streamline or fast-track the approval process.

Strategies for Obtaining Entitlements

- Educate yourself about local charter school facilities in your area and learn from their experiences.
- Start early and allow for sufficient time during the development process.
- Identify regulators at all levels who will approve the proposed project and plans.
- Know what is important to regulators and how to address their concerns.
- Pick your battles. Give in on items that are not critical to the project and use "muscle" on issues that are.
- Build a broad coalition of support for your project.
- Use consultants wisely. Your architect, GC, or project manager should be intimately involved in the process. Consider hiring a permit expeditor to fast-track certain key third-party approvals, such as building permits or zoning variances.

Furniture, Fixtures, and Equipment Planning

Even though the project's major focus at this point is on starting construction, you must also consider what goes into the building once it is completed. These furniture, fixtures, and equipment (FF&E) items often must be ordered months in advance of the desired delivery date. Therefore, make arrangements now for these FF&E needs.

Any movable or attachable item — such as furniture, office equipment, computers, and telephone and security systems — falls under this category. Signage (both interior and exterior) may or may not be included in the architect's and GC's scopes of work, and if not, must be designed and procured. Think about accessibility options when you order furniture and equipment, such as standing desks and desks with variable heights, and furniture with wheels. Also consider including stakeholders with diverse abilities in your planning.

Rigorous planning, attention to details, and coordination with your GC will go a long way to ensuring that you will be ready to commence operations once construction is completed. The role of the project manager is especially important, since many tasks related to FF&E planning fall outside the purview of the development team's major players.

For example, your architect will not be involved in furniture selection under a standard architectural services contract, unless this task is contracted separately. An electrical engineer

will design the locations of telephone and cable connections, but he or she is not typically involved in the selection of a particular telephone system or computer network, or its specifications.

Your project manager will identify professionals who can help make decisions and manage the planning process. For example, you may draw on the expertise of vendors who are often very willing to visit your site, demonstrate a particular system's features, and make recommendations about type, size, and specifications for current and anticipated growth. You may want other consultants such as an interior designer who can advise you on furniture selection and finishes.

Upon completion of this design and pre-construction phase, your project is well under way. You will have drawings to share with your school community, allowing them to visualize their new school. In addition, your funding should be finalized, and you will have accomplished many of the major tasks needed to build your school.

Let the construction begin!

Case Study

Focus: Facility Design and Renovation

Brooklyn LAB

When Brooklyn LAB opened in 2014, it immediately established itself as a high-performing charter school. Currently serving 450-plus low-income, sixth through eighth grade students in downtown Brooklyn, New York, the school has evolved into a community hub by selecting a downtown site and fostering partnerships with local organizations and institutions of higher learning.

For example, during school breaks, students participate in extracurricular activities with New York City College of Technology. New York University is also in the neighborhood, enabling students to visualize attending college while staying in their communities. Brooklyn LAB cofounders Erin Mote and Dr. Eric Tucker very much want their students to see the opportunities available to them right in downtown Brooklyn.

Brooklyn LAB started with one middle school campus leasing space in a church building, and later opened a second middle school at a nearby site with plans of adding a grade per year to eventually include high school.

Planning for Expansion

Even before the first school opened, Brooklyn LAB's founders recognized the school would need a second campus due to high demand, so they launched a budgeting and project plan for expansion from the outset.

In planning a new campus, Mote and Tucker mapped out a number of viable site options, prioritizing locations based on availability of public transportation since many of the students would be walking or using public transport.

Given their desired site location in downtown Brooklyn with access to potential community partners and target neighborhoods, Mote and Tucker had limited options. Thus, they needed to renovate an existing building rather than build a new one.

In selecting their second campus site, the founders chose a building just one block from the existing school facility in an effort to maintain proximity to their target demographic. They decided to renovate the eighth floor of a historic building under a 15-year private lease. LAB founders believed the new site would accommodate ongoing growth.

However, Mote and Tucker faced significant design obstacles in renovating the space for the second school.

Overcoming Design Challenges

Having chosen a historic building to house their new school, Mote and Tucker faced the obstacle of working within a multi-tenant building that had undergone numerous renovations since its original 1915 construction. While Brooklyn LAB will occupy the structure's eighth floor, other building tenants include City University of New York, the New York City Police Department, and various offices and social services organizations.

The team's design challenges included the following:

- Acoustics issues in the multipurpose room
- Need for a dual-use cafeteria and instructional space
- Desire to accommodate large and small groups through division of large classrooms into smaller spaces with movable whiteboards and furniture
- Retrofitting open spaces for classrooms using models of tech companies and start-ups

Ultimately, the LAB achieved — both through its curriculum and unique school renovations — an environment that will prepare students for today's workforce via its nontraditional classroom setups. Brooklyn LAB's renovations will convert 25,000 square feet of former office space into 13 classrooms, a 4,000-square foot multi-purpose room, and a 1,500-square foot administrative space.

To help Brooklyn LAB meet its design and construction goals, Capital Impact Partners provided the school a $3.5-million construction loan for the project, essentially a tenant improvement loan enabling the school to renovate.

Mote says of the project, "It has been great to have mission-driven partners who ensure borrowed money is used for public good."

Project Takeaways:

- A strong development team and innovative contractors enabled a unique renovation of an older space to accommodate modern pedagogy and career preparation.
- Support from locally elected politicians helped foster a sense of purpose, support, and community.
- Having a board highly experienced in navigating loans allowed Brooklyn LAB strong resources and counsel throughout the planning and renovation process.

Construction

Advice From The Field

> "Construction is like a million birthday surprises. You will always encounter a problem, so you have to come up with innovative solutions."
>
> —Erin Mote, Brooklyn LAB

Checklist of Key Activities

- Understand **project delivery options** (page 39)
- Select your **general contractor** and sign the contract for construction (page 44)
- Maintain the **project budget** through dialogue with contractors to ensure tasks are on schedule and to minimize change orders (page 46)
- Distribute **payments** during construction process (page 46)
- Complete **project closeout** with multiple inspections, certificate of substantial completion, and certificate of occupancy (page 47)

You've reached the final phase — construction. It starts when you select your general contractor and ends when you move in!

Project Delivery Options

Before you select your general contractor (GC), examine your project delivery options. Three approaches to project delivery are traditional (or design-bid-build), design-build, and construction management. All three involve the charter school (owner), architect, and contractor (or builder), but are distinguished by cost, scheduling, level of control over the project, and owner capabilities and preferences.

Traditional (Design-Bid-Build)

The most common approach is the traditional method, also known as design-bid-build. In this traditional method, the owner (the charter school) engages an architect to develop the building design and prepare construction documents that lay out building requirements. The owner uses these to bid out the construction contract and to select a general contractor. Usually, the qualified GC with the best and lowest bid in response to the construction documents is hired.

The primary distinguishing characteristic of the traditional design-bid-build method is the clear separation between design and construction. This "separation of powers" is evidenced by individual contracts that you, the owner, negotiate and manage between two principal team players: architect and GC. Since there is no direct contractual relationship between the architect and GC, both parties report to you, and you are responsible for resolving any issues between them that may arise during construction.

Many charter schools rely on the traditional approach because they directly and actively participate in the entire design and construction process. Also, if the charter school decides to make changes during the design phase, the changes are accomplished between architect and owner only, and with relatively minimal cost. The design is then finalized prior to the construction bidding process so that results are fairly predictable.

A variation on the traditional design-bid-build method is the negotiated select team approach, also sometimes called design-assist. In this approach, the architect and contractor are selected at the same time and work collaboratively from the early stages of the design process. This approach usually produces an earlier cost estimate for the entire project. Since the architect and GC work hand in hand during the design stage, this approach can ease the entire process.

Design-Build

The design-build approach is very different from the traditional approach and is appropriate for charter schools that prefer a single point of accountability for design and construction. In design-build, the charter school contracts with an entity (e.g., firm, joint venture, or consortium) that includes both architect and contractor, rather than separately contracting with each. Thus, one single source administers both design and construction. When a project is complex and necessitates close coordination between design and construction expertise, owners may prefer the design-build approach.

The design-build method has gained popularity due to concerns about tensions between architect and GC that often exist in the traditional approach. Owners may find themselves in the challenging position of mediating between architect and GC during the construction process. In design-build, the number of change orders can be substantially reduced since the architect and GC work hand in hand. Change orders usually lead to construction delays and increased costs, so the ability to control the potential for these setbacks is crucial.

Unlike the traditional design-bid-build method, there is no direct relationship between the owner and the architect in a design-build: The architect is working for the GC, not for you, the facility's owner. A possible disadvantage is the design-build team may push for cost and timesaving strategies that may be in their interest, not yours, and which could compromise design and construction quality.

Construction Management

Construction management is a term used when a construction manager (CM) oversees the project delivery methods already discussed. The CM is added to the building team to oversee variables such as scheduling, cost, project management, or building technology. CMs usually have training as architects, engineers, or builders. The three most common roles for the CM are advisor, agent, and contractor.

CM as Advisor

This is the most common CM arrangement and is usually paired with the traditional design-bid-build approach. The CM is contracted to advise the owner about the scope of the project (e.g., cost, scheduling, and construction issues), but does not construct the building. This role can be crucial. The CM is considered the owner's representative (or project manager), and is usually added to the team at the project outset or, at the latest, once the design phase is completed. The development team consists of four major players (owner, architect, GC, and CM), and communication and coordination among all four parties is critical. You will have separate contracts with the architect and GC, and each looks out for his or her own interest. The CM should always focus on your best interest.

CM as Agent

As agent, the CM acts on the owner's behalf, so you can stay out of the project to a large extent. The CM is hired at the project's beginning, oversees all activities through construction completion, and has broad fiduciary powers throughout the project. This approach is not utilized as often as CM as advisor or CM as contractor.

CM as Contractor

In this case, the CM fills dual roles as both GC and CM. He or she assumes all responsibility and liability for project construction. The CM as contractor method combines several aspects of other approaches. The CM is hired early in the design process, and thus provides an early cost commitment and potentially better management over construction scheduling. The owner retains control of, and responsibility for, the design process, since the architect is hired independently of the CM.

Project Delivery Options: Pros and Cons

Traditional Design-Bid-Build

Pros	Cons
▶ Design-bid-build's linear process is easy for owners to manage and understand ▶ Owners can actively participate in the design process ▶ Scheduling is straightforward since design and construction phases are sequential, not overlapping ▶ Design-bid-build process benefits from the architect's professional responsibility to design a quality building and act on behalf of the owner ▶ Once the contractor makes a cost commitment, it is usually reliable because it is based on nearly completed design documents ▶ Design and construction roles are separate and well-understood, making both responsibility and liability relatively clear ▶ Owners have the opportunity to review competitive bids for construction costs ▶ Contractors are familiar with process and work well under this approach ▶ Architects are more active in construction administration than in other project delivery methods so design intentions are carried through construction	▶ Construction costs are not firmly established until design stage is completed ▶ If bids run over budget, redesign, value engineering, and rebidding processes can lead to project delays and additional design costs ▶ Architect does not typically receive benefit of the contractor's advice on constructability and costs during the design phase ▶ Knowledge of some advanced construction technology offered by specialty subcontractors and general contractors is not as readily available in this approach ▶ Since most contractors compete on the basis of the lowest bid, any gaps or alterations in the design documents may lead to opportunities for contractors to delay construction and/or request change orders ▶ This approach's relatively long process may be unacceptable for owners ▶ Since the process is linear, any delay in one of the phases usually sets back the entire schedule ▶ Construction delays may result in added costs to owner and architect ▶ Adversarial relationships and potential for litigation can develop between architect and contractor, due to their separate contracts with the owner

Project Delivery Options: Pros and Cons

Design-Build

Pros	Cons
▶ Provides a single point of responsibility for design and construction, minimizing owner risk and responsibility ▶ Interactions between GC and architect are better coordinated, which saves time. The owner provides input at an early stage, and once the design-builder is hired, owner involvement is limited ▶ Related to the above, time-consuming meetings and paperwork may be reduced, since the architect and contractor are on the same team ▶ Early cost estimates in this approach can be advantageous in terms of project budgeting and financing ▶ Time delays due to scheduling problems and change orders may be reduced since the architect and contractor closely coordinate activities ▶ Potential for conflicts between architect and contractor are eliminated	▶ Not as well understood and can be more complex (as compared to traditional design-bid-build) ▶ Design, scheduling, and construction are interwoven, making it difficult for the owner to participate in decision-making ▶ Owner may not have the time or expertise to prepare adequate bid selection materials, thus decreasing the advantages of design-build ▶ Architect does not directly serve as the owner's agent, but is contracted (or employed) by the design-build firm, shifting the architect's allegiance away from owner to the design-builder ▶ Design-builder's cost commitment may not be based on full design and documentations since the designer and builder are working together. Disagreements with the owner may arise over what was implied in the documents, and design changes required by the owner can add costs ▶ Deliberations about cost-savings strategies take place with the design-build team, which may lead to reductions in building quality without input from, or knowledge of, the owner

Project Delivery Options: Pros and Cons

Construction Management

	Pros	Cons
Construction Management Advisor	▶ Less experienced owners without in-house construction capability benefit from CM expertise ▶ Given decision-making authority and management responsibility, a CM advisor may speed up the process ▶ Architect is accountable to owner and protects owner's interest; architect benefits from CM advisor's input at design stage ▶ A CM advisor provides second-level review of construction documents, reduces errors and omissions, reduces costs related to change orders and other delays ▶ Clearly delineated responsibilities between all parties lessen potential for ethical dilemmas or conflicts	▶ Added levels of coordination and overlapping areas of authority can confuse the traditional roles and complicate the traditional processes of design and construction ▶ A CM advisor represents an added cost ▶ A CM advisor may suppress direct communication between owner, architect, and contractor ▶ Confusion in decision-making process may contribute to design and/or construction delays ▶ Since each of the three prime parties holds a separate contract with the owner, there is the potential for adversarial relationships, increasing the likelihood of disputes
Construction Management Agent	▶ Since the CM contractor makes a cost commitment early in the project, the owner has a degree of security about costs ▶ Since CM contractor commits to deliver the project for a specified price, it is in their interest to complete the construction on time ▶ Owners with limited construction experience can benefit from CM contractor's expertise ▶ Like other approaches, independence of architect and contractor makes responsibility and liability relatively clear ▶ Scheduling is straightforward because design and construction phases are usually sequential	▶ Time required to select an additional professional extends the overall time required for the the project timeline ▶ A CM contractor represents an added cost ▶ Since the owner does not contract directly with prime or trade contractors, owner may be unable to control quality during construction process ▶ Since each of the three prime parties holds a separate contract with the owner, there is the potential for adversarial relationships, increasing the likelihood of disputes ▶ When CM contractor is selected by low bid, change orders and delays are likely, which increases costs ▶ Linear process of this approach makes it relatively lengthy

How to Manage the Construction Process

This section assumes you use the traditional approach (design-bid-build). The architect and GC in this case are overseen by the charter school representative and are critical players on the development team early on.

How to Select a General Contractor

Selecting and hiring the right GC is a critical decision to ensure your project's success. We advise you to select a builder with charter school experience. Also, you want a GC that possesses a reputation for quality construction and a proven record of completing projects on schedule. It may save you time and money in the long run, especially if there are aspects of your project that are unusual.

Seek out candidates who are easy to work with and interact well with your development team, particularly your architect. A positive relationship between architect and contractor will go a long way to saving your school from conflicts during the construction process.

Seven Steps for Hiring your General Contractor

❶ Establish Criteria

Prospective candidates should be evaluated on a level playing field. You must first establish basic criteria on which to make a decision. Criteria for selecting an architect (see Chapter 2) can be adapted to facilitate the hiring decision for your builder.

❷ Identify Prospective Candidates

Develop a long and short list of desirable candidates. Sources for possible candidates include your architect, local chapters of trade and/or professional associations, such as the Associated General Contractors of America (AGC), the American Institute of Architects (AIA), the chamber of commerce, your state charter school association, the national and local association of independent schools, and local school districts.

❸ Contact Prospective Candidates via a Request for Proposals

A request for proposals (RFP), or request for bids, is an effective means of soliciting candidates. The RFP is a written document that describes the proposed project, the types of services sought, the proposed schedule, and any unusual aspects of the project. The RFP also provides specific guidelines for each candidate to follow in the bid, such as page length, types of attachments required, due date, and type of contract preferred. By issuing an RFP, all candidates will submit the same information.

A request for qualifications (RFQ) provides a thorough understanding of the candidate's credentials. Qualifications from a general contractor provide customer references, a list of pertinent projects, the GC's years in business, banking relationship, surety for bonding, and financial viability. Even if you have a positive personal interaction with a candidate, qualifications are still critical. When you apply for financing, banks rely on the GC's qualifications to confirm that he or she will perform the duties outlined under the contract. Ask for multiple copies (including electronic) of the proposals and qualifications so several members of the team or committee can review them simultaneously.

You may want to hold a pre-bid conference, in which you invite all potential bidders to visit the site, so they can get a better feel for the project. This approach may also cut down on your workload, in that you will not have to repeat the same information to multiple parties. Hosting such a conference also helps you identify the serious bidders.

❹ Review Qualifications Materials and Develop a Short List

General contractors can deliver their qualifications package for review before consideration of the bid. When checking references, having a single person make all the calls usually results in a more objective assessment of what is learned. If the owner and general contractor are in the same area, a visit might be preferred. Once all bids are received, rank them using the previously developed evaluative criteria. Then select a short list of three to five firms or individuals for personal interviews.

❺ Conduct Interviews

At least three or four people should be involved in the interview process to solicit different perspectives and mutually decide who to hire. A good approach is to include one or two key board members, the principal/school director, another staff member, and your architect. Invite

each candidate to make a presentation about her or his understanding of the project, relevant experience, enthusiasm for the project, ability to work within timing and financial constraints, and other relevant factors. Asking each candidate the identical set of questions will also assist you in comparing "apples to apples."

❻ Evaluate Proposals and Make Selection

The bids should be ranked and then selected on the basis of the established evaluative criteria. Before finalizing or announcing your decision, remember to check all references thoroughly! Talk to owners and/or architects of previous projects in which the GC was involved.

❼ Negotiate Contract(s)

Contracts are negotiated with the winning bidder. Maintain cordial relationships with the losing bidders in the event that some unforeseen event occurs with the winning bidder and you have to restart the process. Be prepared for requests for debriefings by the unsuccessful candidates, and decide ahead of time about your policy on debriefings and how much information you want to share. Remember to ask your selected contractors to use the industry-standard contract documents produced by the AIA, which are the most widely used contracts in the construction industry. These contracts make it easier to produce quality projects because they facilitate communication among all the parties involved in construction.

In some instances, it may make sense to negotiate a contract with a single general contractor rather than bidding it out to several, especially if there is already a trusting relationship between the charter school and the GC. It may also be appropriate if the project is so complex that it requires detailed pricing analysis for a series of complicated scenarios before decisions are made, or if the GC is part of the team from the beginning. The owner can still accrue the benefits of bidding from a smaller pool of subcontractors by asking the GC to share his or her subcontractor bid results in an "open book" format. A good contractor will share this information with a trusted owner.

Charter schools might also consider the use of bid alternates during the bidding process. For example, you may want skylights in the building, but this design feature might put you over budget. You can ask your architect to include this component as a bid alternate, to provide a specific amount for that design component.

How to Maintain Your Project Budget

Construction can easily comprise approximately 50 to 75% of a development budget, depending on factors such as land acquisition costs, local wages, etc. Ongoing monitoring of the construction process and budget will help reduce cost overruns. Of course, as noted earlier, selecting the best payment approach for your consultants and negotiating clean, clear contracts will go a long way toward achieving these goals. Along with a reasonable contingency, this will give the flexibility you need to counter unforeseen events during the construction process.

It is important to recognize that changes or eliminations of specific project components are an inevitable part of the construction process. Why? First, a specific product may not be available, and substitutions may have to be researched and secured. Second, there may be a price increase in materials, forcing you to consider a less expensive alternative. Or, there may be delays in shipping that will create a "logjam" with other project components, so you will want to select a more readily available option. Minimize change orders, especially those driven by contractors, as they can be costly and ruin your budget. You and your architect should approve all changes and substitutions to ensure they do not compromise construction quality or the overall project. If your project budget includes sufficient contingency funds, you should have enough cushion to handle most substitutions.

Your team will maintain the project budget as an ongoing process, not only during the construction process. Managing the budget starts in the predevelopment stage when designers and other consultants constitute the bulk of the expenditures. We advise keeping detailed financial records of these early expenditures, as they can most likely be reimbursed at closing of the construction loan, if proof of expenditure is available.

Payment During Construction Process

The contractor will typically provide an application for payment (form AIA G702 and G703) on a monthly basis. This document includes a breakdown, by building trade, of the entire contract amount. It also reflects the amount completed to date, the amount remaining, the withheld retainage, and the amount due. The architect and project manager will need to review this document for accuracy before approving payment to the contractor.

The contract with the GC stipulates the time frame within which the owner has to make payment to the contractor, usually 25 days. Within that window, the architect reviews and approves the application for payment, and the owner or project manager sends it to the lender with a requisition for payment for the lender's review and approval. Then the lender typically sends an inspector to the site to verify that the work billed is indeed complete, and the inspector writes a report to the lender approving payment.

Prior to authorizing payment, the lender typically collects additional documentation to support the inspector's report. For example, the lender may collect conditional lien waivers (lien waivers that the GC gives to the lender indicating he or she has not been paid for work that has been completed, but expects to be paid based on the current month's work) and unconditional lien waivers (lien waivers that state that the GC has been paid for the prior month's work). The lender may also want a certification from the owner stating that there are no pending issues (i.e., that the work completed to this point is satisfactory) and that there is no change in the owner's financial condition. The lender will also likely contact the title company and require a title update (also referred to as a title run, title bring-down, or continuation report). At this point, the lender transfers the funds to the owner, who then writes the check to the GC.

While these steps may seem cumbersome, they are designed to protect the lender and the owner by ensuring that funds are not released until the work is completed to everyone's satisfaction. An owner who does these transactions in a timely manner will reap the benefits of a good relationship with their GC and lender. To streamline the process, a lender's inspector often attends monthly meetings.

Project Closeout and Final Occupancy

At project closeout, the contractor notifies you, the owner, that the building is sufficiently completed, according to the certificate of substantial completion, and is ready for occupancy. At this stage, the following nine steps are taken:

❶ When the project is near completion, the architect conducts a walk-through with the contractor, creating the punch list. Unfinished tasks — which should be minimal at this point in the project — are listed as conditions to be completed by the contractor prior to final payment. It is a good idea to have both the project manager and a representative from the charter school attend this session. Several people should look over the completed construction. Check details such as door hardware, light switches and missing light bulbs, function of plumbing fixtures, availability of hot water, finishes, paint touch-ups, and correct installation of hardware for built-in furnishings.

❷ The owner or project manager works from a final punch list of outstanding items and undertakes a detailed inspection to make sure the work fully conforms to the contract documents.

❸ The GC and his or her subcontractors, along with the owner and the owner's facilities or maintenance staff, conduct a walk-through of the project to demonstrate how all building systems operate. Take pictures or video of these demonstrations for future reference.

❹ The owner and contractor determine the final contract amount to be withheld (retainage) until final completion. If the construction is financed, the lender will probably not release retainage (up to 10% of contract amount) until the certificate of substantial completion and certificate of occupancy are received. (Note: Depending on scope and length of project, there may be subcontractors who performed and completed work during the early phases of the project. On a case-by-case basis, a lender may release their retainage.)

❺ Once the facility is complete, the architect issues a certificate of substantial completion, which is then signed off by the GC and the owner.

❻ The owner and contractor perform a walk-through and inspection, and agree that the building is ready for a final inspection by all building inspection departments of the government agencies that have jurisdiction.

❼ Third parties inspect and sign off on the project, resulting in the issuance of a certificate of occupancy.

❽ The GC then provides all warranties, affidavits, receipts, releases, and waivers of liens of bonds to the owner, indemnifying the owner against liens. Usually, if a bank finances the project, the owner will also have to provide these items to the bank.

❾ The GC issues final application for payment and, either simultaneously or after receipt of payment, issues a final release of liens.

Many development professionals recommend producing an operations and maintenance manual prior to moving into the new facility. The purpose of the manual is to maintain all key information related to the project in a single location, so once your development team is disbanded, you and your staff are armed with the information necessary to manage the building. Ideally, the design team and your contractor should produce the manual together with the following key elements:

- Identify major design elements, systems, and materials that are crucial to the long-term quality and performance of the building (e.g., exterior wall and roof materials, windows, exterior doors, landscaping, all major operating systems and related components such as HVAC, plumbing, electrical, mechanical)
- Collect all vendor-supplied operations and maintenance information and manuals, and all warranties, guarantees, and certifications that are contractually owed to you
- Assemble all previously produced design materials (e.g., as-built drawings, final finish schedules, and plans)
- Set up a maintenance schedule (weekly, monthly, quarterly, and annually) for all major system components

The general contractor typically warrants the overall project for one year following completion. During this time, the GC is obligated to return to the site to correct any deficiencies. Send your requests to your GC in writing and organize them so similar items (e.g., plumbing issues on one request, roof leaks on another, etc.) can be addressed at one time. Phone calls regarding each independent item are usually not well received. Keep a written log of when the deficiency was first noted, when the contractor was notified, when the problem was corrected, and if the problem recurred. Emergencies should, of course, be treated with immediate attention.

Managing Construction Risks

RISK #1 The project's budget is understated, and money runs out before the project is completed.	❶ Develop a detailed budget with a contingency. The contingency for new construction is usually 10% for new-construction hard costs, 15 to 20% for renovation hard costs, and 5% for soft costs. The budget should provide a realistic estimate of all project costs, with construction costs based on a guaranteed price contract or bid and with individual line items for each soft cost. ❷ Execute a fixed-price contract (i.e., stipulated sum or guaranteed maximum price). The contract price is fixed, determined in advance of any construction, and based on defined construction specifications that are prepared by the architect and agreed to by the owner. Carefully review the GC's exclusions. Ask contractors to use the AIA contract formats since they are industry standard. This format is also extremely helpful for the borrower and lenders. It ensures accurate information, legal requirements, etc. These contracts are detailed and use standard language. ❸ Make monthly disbursements to the contractor through the construction lender, based on an application and certification for payment. This is a generally accepted process for disbursing construction loan proceeds, whereby the GC requests payment from the owner (borrower), according to a schedule outlined in a construction contract. The applications for payment provide detailed information about how much work has been completed to date, and are signed off by the architect. The lender's inspector provides a separate report on payment applications. Do not sign a contract which allows payments in equal monthly installments over the term of the contract. ❹ Hire a project manager to oversee the development/construction project.
RISK #2 The GC runs into cash-flow problems. He or she doesn't have cash available to purchase supplies or pay subcontractors. Or the GC diverts loan proceeds earmarked for the construction project to another purpose.	❶ Make sure the GC posts payment bond and performance bonds. These are bonds issued by a surety company that are similar to an insurance policy. If the GC does not pay his or her subcontractors, or the GC is unable to complete the project, the borrower can make a claim to the surety company. For a smaller GC, have the GC obtain a letter of credit that equals 25% of the hard costs. ❷ Require a lien waiver and release upon each application for payment. By using this release, the GC, subcontractors, materials suppliers, and mechanics acknowledge that upon payment, any right to place a lien on the property for work performed on the project to date will be waived. ❸ Obtain a satisfactory contractor's qualification statement, which indicates the experience, availability, and capability of the proposed contractor. The statement should include financial statements, a resume of significant (and similar) work experience, and references. ❹ Check the GC's references for work on similar projects.

Managing Construction Risks (continued)

RISK #3 The GC (or a subcontractor) places a mechanic's lien on the property, thus placing the senior lender's first deed of trust (or mortgage) at risk.	❶ Require a release of conditional lien upon each application for payment, and for each new request, require an unconditional release of lien for the prior payment (see risk #2, item 2 above). ❷ Obtain title insurance. This is an insurance policy assuring that the senior lender will have a first deed of trust. Depending upon the state, "bring downs" or "bring to dates" may be required for each construction loan advance, so that the bank is insured only up to the amount advanced by that date.
RISK #4 The GC has completed 95% of your project, but has started another large project and doesn't show up to complete your project.	❶ Obtain a satisfactory contractor's qualification statement (see risk #2, item 3 above). ❷ Make sure the GC posts payment bond and performance bonds (see risk #2, item 1 above). ❸ Hire a project manager to oversee the development/construction project. ❹ Require retainage. This is a standard payment plan by which a certain percentage (typically 10%) is withheld from the progress paid to the GC to ensure he or she will not walk away from the project prior to 100% completion. This is standard practice for many construction lenders. ❺ Contact the GC's bond company. ❻ As part of your architect's contract, a punch list should be created by the architect to address any unfinished or unsatisfactory work the GC must fix prior to retainage release.
RISK #5 An environmental problem is discovered on the property (e.g., contaminated groundwater due to a previous facility located on or adjacent to the property).	❶ Obtain a Phase 1 Environmental Site Assessment Report. This is a report from a third party (prior to construction and usually required by your lender) that identifies any existing, potential, or suspect conditions that may pose an environmental liability to the property. ❷ Hire a project manager to oversee the development/construction project.

Managing Construction Risks (continued)

RISK #6 When the building is completed, the city inspector determines that it does not meet code requirements, and will not issue a final permit until corrected.	❶ Make sure your architect has certificates of general and professional liability (errors and omission insurance). The architect's professional liability insurance covers negligent work performed by the architect and protects the owner if there is damage due to such negligence. ❷ Obtain an architect qualification statement. This is a statement verifying the architect's qualifications and experience with similar projects. ❸ Check the architect's references for work completed on similar projects. ❹ Require certificate of occupancy prior to release of final loan funds. This is a certificate issued by the appropriate government authority indicating that the project is ready and fit for occupancy, and that there are no building code violations. ❺ A construction inspector is appointed by the lender and serves as her or his representative to monitor construction progress on a monthly basis. This individual warrants the work on the lender's behalf only. ❻ If possible, review a construction inspector pre-construction report. This is a written report from the lender's construction inspector that provides an analysis of the feasibility of the project, specifically the reasonableness of the price that the GC is bidding and the time frame proposed. ❼ Obtain satisfactory contractor's qualification statement. (See risk #2, item 3 above). ❽ Hire a project manager to oversee the development/construction project.
RISK #7 An accident occurs during construction, and a worker is seriously injured. The worker sues the GC, thus tying up the GC and impeding completion of your project.	❶ Ensure that either the GC or the school acquires builder's risk coverage on the property during construction. Also, make sure the school's general liability insurance policy covers the increased value of the new property (with proposed improvements). ❷ Confirm that the GC has his or her own liability policy and has sufficient workers' compensation insurance to cover workers and subcontractors in case of an accident.

Managing Construction Risks (continued)

RISK #8 A flood, fire, or other disaster occurs on the construction site, causing serious damage to construction in progress.	❶ Confirm that the GC or the owner has obtained builder's risk insurance in an amount that is at least equal to the GC's contract but no less than the as-built value per the appraisal. ❷ Determine whether the property is in a flood zone, and perform a search for flood compliance (usually completed by the lender).
RISK #9 There's a downturn in the real estate market, and once the building is completed, it is appraised for less than what it cost to construct it. The senior lender's loan-to-value is insufficient, and requires additional collateral coverage.	❶ Obtain an as-built appraisal reflecting adequate collateral coverage. This is a third-party estimate of the property's value once constructed, based on plans, specifications, and current market conditions. Lenders typically allow a maximum of loan-to-value percentage of the property's value to be in the form of senior debt to make sure the property can be sold to cover the outstanding loan in a liquidation scenario. The lender providing the loan orders the appraisal. ❷ If possible, obtain a construction inspector pre-construction report. (See risk #6 above). ❸ Ask your lender for construction inspector's reports throughout the project, if possible.
RISK #10 The charter school's current operations suffer because management is focused on the new development project and "no one is minding the store."	❶ Hire a project manager to oversee the development/construction project.
RISK #11 The building is constructed with a small portion encroaching on a neighbor's property.	❶ Obtain site survey. ❷ Obtain site plan from the architect, and ensure approval by city/state building department (same organizations who approve the plans and specifications in order to receive building permit). ❸ During construction and at the time the foundations have been poured, request a foundation survey be completed, to ensure proper placement of building.

Case Study

Focus: Construction

Equitas Academy

Opened in the fall of 2009, Equitas Academy is a charter elementary school (kindergarten through fifth grades) in the Pico Union neighborhood of central Los Angeles, California. It is an independent, non-charter management organization school founded by Malka Borrego, who has a strong personal commitment to her home community.

Many area elementary schools are in program improvement, and Los Angeles Unified School District (LAUSD) schools in the Pico Union area are often overcrowded. To accommodate school overpopulation, more than 70% of LAUSD schools in Pico Union operate year round..

Although the district has responded to the needs of Pico Union residents by increasing the number of schools, creating primary centers and smaller high schools, the community requires more services. The result has been both busing of children to outside neighborhoods or having them attend year-round schools with a shortened school year calendar.

Many parents don't want to bus their children outside their home neighborhoods. With local density this high, there is a compelling need for more schools and, more specifically, high-achieving urban schools.

From Warehouse to School

Equitas Academy initially occupied two leased facilities—an LAUSD Proposition 39 location and a privately owned location, neither of which could accommodate the school's growth plan.

In 2011, Borrego identified a 25,000-square-foot commercial and warehouse building, 1.57 miles from the current school location where she wanted to establish a charter elementary school serving grades kindergarten through fifth, with a maximum enrollment of 450 students, while also making use of an existing surface parking lot. Equitas Academy obtained a conditional-use permit to use the building, which had been zoned for commercial manufacturing, for a charter school.

With a $3.7 million loan, Equitas converted the existing building into 18 classrooms, a multipurpose/lunch area, a teachers' lounge, and administrative offices. The existing surface parking lot became a landscaped outdoor play area with 15 parking spaces. The new school allowed Equitas to expand its reach to include 800 Pico Union elementary students.

Project Takeaways:

- Instead of building from scratch, consider redeveloping an existing space within the community.
- Establishing solid, long-term financing partnerships, in this case with Pacific Charter School Development and Capital Impact Partners, can make all the difference in fulfilling school expansion plans.

Spend a day at Equitas Academy by visiting www.capitalimpact.org/stories

Financing $

Chapter 5

Advice From The Field

"Not all banks are created equal, and it's not simply about the money. Remember, your funders are your partners. Choosing a partner who will work with you in the long-term is worth it."

—Sarah Kirby Tepera, Montessori For All

Checklist of Key Activities

Prior to breaking ground on your facility:

- Know **what lenders look for**, and **mitigate risks** (page 53)
- Identify your best **financing options** (page 58)
- Apply for a **loan**: Prepare documents, contact lender, obtain term sheet, provide information for underwriting process, obtain commitment letter, and review and sign final documents to close (page 66)
- Identify **other sources of funds** — such as state and local funding — **fundraise**, and launch a **capital campaign** (page 68)

What Do Lenders Look For?

Lenders want assurance that your project will be successful and you will be able to repay your loan as planned. Therefore, they will ask for information to assess the level of risks that would prevent you from making your loan payments, and they will structure the loan to reduce those risks as much as possible. When assessing risks, lenders typically evaluate your team's experience and capacity to manage the project, your financial performance and ability to repay the loan with cash flow, your school model and how you compare with other schools, and the collateral you offer, in case the loan is in default.

❶ Your Team

Lenders want to understand how the school is run. They will also assess your staff and project development team's level of experience.

Management Team

Lenders typically require resumes from your school's leadership team (executive director, academic director, finance director, principal). The lenders will review the team's qualifications and tenure to evaluate their level of experience and expertise. It is also important for lenders to understand how the daily operations are handled at the school. They want to know who manages the curriculum and student policies, how parents and the community are engaged, how the school manages the relationship with the charter authorizer, how the school works with the board, who is responsible for fundraising, and who manages the finances (does the school have the internal expertise, or does it contract with an experienced back-office provider?). Lenders will also ask questions about teachers' credentials, professional development opportunities, and turnover.

Board of Directors

Lenders want to know your charter school's governance structure. They will ask for board member biographies and review their expertise. They will also ask how the management team works with the board (how often they meet, whether there are subcommittees, etc.). Lenders may ask for copies of recent board reports. Make sure you have the ability to show that board members provide expertise in areas where staff need additional support, such as fundraising, real estate development, and financing.

Development Team

Lenders will evaluate and review the qualifications of your project development team, including your architect, general contractor, and project manager. Lenders also want to know if you have previously managed similar projects.

❷ School Model

Lenders are interested in your school model and student outcomes, and how they compare with other neighborhood district and charter schools. They will also review your charter.

Model

Lenders value the unique qualities your school offers (e.g., curriculum, size of school, teacher-student ratio, safety, accessibility, special programs, etc.) and take into consideration the demographics of the area the school serves. They evaluate demand for your programs and will ask for enrollment data from the past three years and the number of students you have on a waiting list. They will review your academic performance track record and assess student achievement. Some mission-driven lenders will have a comprehensive definition of school quality and will ask for information about school culture, community and parent engagement, teacher engagement, and more.

Competition

Lenders will inquire about your student's local school options and will compare your school with other district and charter schools. In particular, they want to understand to what extent the district schools are effective.

Charter

Lenders will investigate the charter law in the state you are operating. They will review your charter, evaluate your relationship with the charter authorizer, and discern if the authorizer is charter-friendly, for example, by looking at the district's policy and track record for charter approval and renewal. Some lenders may ask to contact the authorizer during their underwriting process. They will also compare the charter term with the loan term, and evaluate the charter renewal risks.

❸ Financial Performance

Lenders will review your historical financial statements to evaluate operating performance and financial strength. Lenders typically require three years of audited financials with audit reports, as well as most recent interim statements. They will review financial projections for the project to evaluate your capacity to repay the loan.

Income Statement

Lenders will evaluate your revenue sources and trends, as well as expenses, to see if your school operates at a surplus or deficit each year. They will evaluate how much of your revenue is from grants and fundraising, and calculate your facility "burden" (lease or debt payments for your facility as a percentage of your per-pupil funding).

Balance Sheet

Lenders will evaluate your assets (what the school owns), liquidity (how much cash you have), and liabilities (what the school owes). They will evaluate your ability to pay the bills every month and your capacity to make debt payments.

Cash Flow Statement

Lenders will assess whether or not your operating cash flow is sufficient to cover operating expenses and manage potential per-pupil funding deferrals. They will evaluate if your school has to borrow funds to cover operating losses or finance capital expense.

Audit Report

Lenders will verify if auditors identify any findings and proposed remediation action plans.

Financial Projections

Lenders will ask to provide five-year cash flow projections that display your projected enrollment, per-pupil funding, other funding and fundraising, personnel expenses, facility expenses, and supplies and other operating costs. They will calculate the cash flow available for debt service (projected operating revenue minus operating expense before depreciation and interest) and calculate a debt service coverage ratio (DSCR), which is the cash flow available for debt service divided by projected annual debt payments (principal and interest).

❹ Collateral

Lenders will evaluate the collateral you can offer in the event the school cannot make loan payments and has to foreclose. Cash flow is the first source of repayment for the loan, and collateral is the second source of repayment. If cash flow is not sufficient to cover debt payments for a certain period of time — for example, before the school is fully enrolled — lenders may require guarantees from Charter Management Organizations (CMO) or third parties.

Real Estate Due Diligence

Lenders will require an appraisal to estimate the value of the school facility, environmental reports, and a property condition report, if your project renovates an existing building. They will evaluate any obstacles to properly perfecting the lenders' security interest in the school property. Lenders will check if the school has clear title to property, and they also typically require a loan-to-value (LTV) of 70 to 90% (LTV= loan amount ÷ appraised value of the property).

Construction Due Diligence

Lenders will require qualification statements for the project's architect, general contractor, and project manager. They will evaluate their experience and expertise, as well as their financial strength, to make sure the project's parties will deliver on their contracts. Lenders will also review all contracts, and construction documents are assigned to lenders as part of their collateral package. Lenders usually hire a construction inspector to complete a plan and cost review, and to monitor construction progress.

Leases

If the school is leasing the property instead of acquiring it, lenders will carefully review the lease and require leasehold mortgage or collateral assignment of the lease. The term of the lease will have to be at least as long as the term of the loan.

Mitigating Risks

Failure to meet enrollment goals or revocation of your charter would result in loss of operating revenue, the main source for repaying your loan. Lenders will ask you to explain your plan for mitigating those risks. The chart on the next page summarizes some potential risks a lender might see in a charter school loan request and how you can address these red flags.

Red Flags: Mitigating Risks

Risk	Red Flags	Ways to Mitigate
Organizational Risk	▶ Being a start-up school ▶ Changes in leadership or inexperienced staff ▶ Small and unengaged board	Note: Very few lenders offer facility financing to start-up schools. They usually wait until schools have a track record of three years ▶ Seek out organizations that provide grants to high-quality start-ups (e.g., NewSchools Venture Fund, Building Excellent Schools Fellows program, and Silicon Schools Fund). Also, seek state or federal start-up grants. See section "Finding Other Sources of Funding" on page 68 ▶ Demonstrate depth of management and board experience. Organize site visit and in-person meeting with lenders ▶ Present strong business plan with strong school model and conservative financial projections ▶ Demonstrate support from charter authorizer, local community, and philanthropic partners ▶ Have a related entity or individual with strong financials provide a repayment guarantee
Charter Renewal Risk	▶ Charter has never been renewed ▶ Charter authorizer is not charter-friendly	▶ Explain your local process and plans for receiving, keeping, and renewing your charter ▶ Demonstrate that you are on track to meet the requirements of charter renewal (especially academic performance) ▶ Demonstrate ability to repay loan before charter expires ▶ Demonstrate good relationship with authorizer
Construction Risk	▶ No staff or board expertise with real estate development ▶ Short timeframe to complete the construction project before school opens	▶ Hire an experienced project manager ▶ Be conservative in your assumptions for project timeline, project costs (project budget), and financial projections (revenue and expense). Include ample contingency in your estimates ▶ Select an experienced and strong development team ▶ Have an alternative space available in case construction is delayed and school needs to open

Red Flags: Mitigating Risks (continued)

Risk	Red Flags	Ways to Mitigate
Cash Flow Risk	▶ Decline in enrollment ▶ History of per-pupil funding cuts or payment deferrals in your state ▶ Strong reliance on grants and/or fundraising revenue ▶ Uneven operating performance track record	▶ Demonstrate solid enrollment and waiting lists ▶ Show strong financial performance for the most recent period (ideally surpluses and positive fund balance for three years) ▶ Provide conservative and detailed five-year cash flow projections with debt service coverage ratio above 1.25 times. Lenders will run sensitivity scenarios to test some assumptions ▶ Demonstrate ability to make loan payments without relying on grants or fundraising ▶ Have a related entity or individual with strong financials provide a repayment guarantee ▶ Fund debt service reserve that will be used in case of cash flow shortfall
Collateral Risk	▶ Value of the school property is not sufficient to repay the loan in case of default (LTV is above 100%) ▶ There is limited demand in your area for school facilities	▶ Demonstrate the value of the property through an appraisal by a certified appraiser (the lower the LTV, the better it is for lenders) ▶ Provide information on how the property could be used for other purposes if liquidated (e.g., other schools could use/purchase) ▶ Describe a property management plan and funds to be set aside for repairs to the building to maintain value ▶ Demonstrate good relationship with landlord. In case the school is leasing its facility, lenders want to be able to find a strong operator to replace you as tenant
Regulatory Risk	▶ Charter law is new or at risk ▶ State has a track record for per-pupil funding cuts and/or payment deferrals	▶ Document political support for charter law ▶ Explain the terms of your current charter and how the per-pupil allocation is disbursed

What Are My Financing Options?

Loan Terminology

You can start comparing your loan options based on four basic elements: loan fees, interest rate, term, and amortization.

However, there are other criteria to take into consideration when you evaluate your options. Some lenders charge prepayment penalties if you repay your loan before the term of the loan. If you anticipate you will want to make prepayments, or if you want the flexibility to use excess cash to prepay your loan, check your loan documents to see if there is a prepayment penalty.

Some lenders offer flexibility with interest-only periods for your loan. Interest-only payments are lower than mortgage payments and can help you complete your construction project and stabilize operations before you start making mortgage payments. Lenders have requirements for collateral and guarantees that can vary greatly. Consider this when you evaluate your loan options, as they may impact the amount you will be able to borrow and the amount of your annual loan payments.

Loan Fees

Lenders typically charge the following fees. Include these fees in your project budget along with other closing costs:

- **Application or Underwriting Fee**: Lenders can charge an application fee that must accompany the original loan request. It normally ranges from $100 to $1,000 and can be credited toward the origination fee if the loan is approved. This fee covers the up-front work lenders complete to evaluate your loan application.
- **Origination or Commitment Fee**: Lenders charge a fee when the loan is approved, and they issue a commitment letter. It normally ranges from 1 to 2% of the loan amount. A 1% origination fee on a $1 million loan would be $10,000. This fee covers the due diligence work lenders complete before they issue a commitment letter. The fee is collected either when lenders issue a commitment letter or when the loan closes (sometimes it is 50% at commitment, 50% at closing). It is nonrefundable, meaning the lender will keep the fee, even if the loan does not close for any reason.
- **Legal or Documentation Fee**: Lenders charge a fee for the internal preparation of loan documents and the legal due diligence process (review of contracts, leases, loan documents for existing lenders, etc.), or require you to reimburse the legal fees charged by their outside attorneys for this work. The document preparation, due diligence, and legal fees are in addition to the fees charged by your own attorneys and vary widely depending on the lender and type of loan. Be sure to ask for an estimate up front. The more complex the transaction is (i.e., use of multiple financing sources, use of federal, state, or municipal tax or subsidy programs, regulatory issues, title issues, etc.), the higher the fees charged by the lender are likely to be.
- **Closing Costs**: Your school is responsible for the costs of third-party reports (appraisals, environmental reports, property condition reports, etc.) requested by lenders and other costs associated with the loan closing (title, recording, searches, etc.). It is important that you include all these costs in your project budget. Your lender can help you estimate these costs.

Interest

This is the amount charged for borrowing funds. The interest rate is usually quoted in an annual percentage rate.

Interest rates can be fixed or variable. When the interest rate is fixed, it does not change over the term of the loan, and it provides for payment certainty. Variable rates are adjusted on a regular basis (weekly, monthly, or annually) and are based on publicly published rates, plus an established margin. Variable rates may be lower than fixed rates, but the school will take the risk of paying more interest if the rates are going up. Lenders may offer floors or caps for variable-rate loans.

Both fixed and variable interest rates are typically tied to some underlying index rate (like the prime rate or a Treasury bond rate), plus an additional spread. It is important to note that most interest rates are not settled on until the closing day, so there is a possibility of rate changes between term sheet and loan closing. Use the Financing Evaluation Worksheet (Appendix C) to compare sources of financing, their terms, and conditions.

Term

Loan term is simply the length of the loan. A five-year loan means you make payments for five years. The loan will mature five years from closing, and any outstanding balance will be due at that time.

Amortization

Amortization determines the period over which your loan will be repaid (the longer the amortization, the lower the loan payments). Amortization should match the life of the assets or the term of the lease. For example, if you borrow $1 million with a five-year term and a five-year amortization, at 6% interest rate your annual payment will be $232,000. If instead your amortization is 10 years, your annual payment will be $133,000; but at the end of five years, you will still owe $575,000 (called balloon payment).

Loan Categories

There are three main categories of loans for facilities: conventional loans, tax-exempt bond financing, and New Markets Tax Credits (NMTC) financing. It is important for your school to understand the major characteristics of each category before you approach a financial institution.

Loan Categories

	Conventional Loans	Tax-Exempt Bonds	New Markets Tax Credits
Loan Fees	**Standard**	**High**	**High**
Interest Rate	Market rate (fixed or variable). Varies significantly from lender to lender	Below-market rate and fixed for the term of the loan	Below-market rate and fixed for seven years
Terms	Five to 10 years	20 to 30 years	Seven years
Amortization	Five to 25 years	20 to 30 years	Usually none (interest-only payments for seven years). Full amount due at maturity
Upkeep	Standard reporting and covenant requirements	More involved annual reporting. Annual fees	Complex structure and more compliance
Other	May be able to leverage existing bank relationships	Significant collateral restrictions with little ability to change (less flexible after closing)	Restrictions on location and type of business. See eligibility criteria page 62

Conventional Financing

Conventional financing generally comes from regional and national commercial banks, community banks, and community development financial institutions (CDFIs). There are also private finance companies offering conventional loans. However, they may charge a premium, so be sure you examine terms carefully.

Tax-Exempt Bond Financing

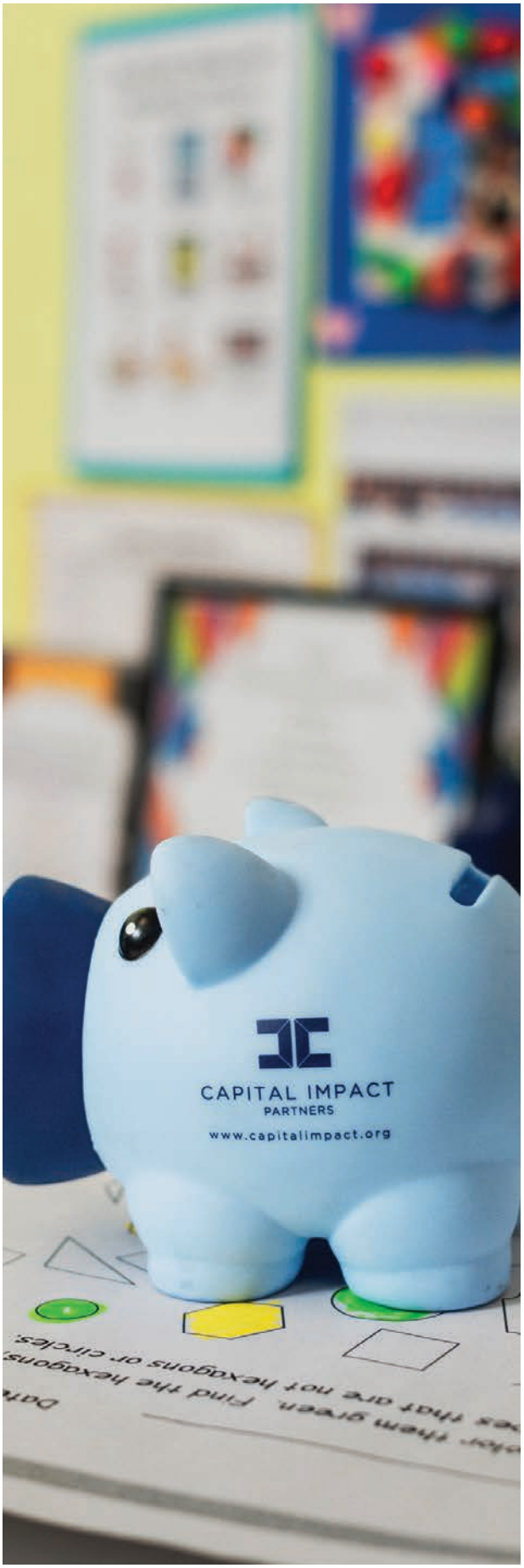
Tax-exempt bonds are a good alternative to conventional financing for strong charter schools with solid credit and a clear ability to service debt over a long period of time. Tax-exempt bonds may offer lower interest rates and provide longer terms than conventional financing. These bonds are a form of long-term debt financing used for the construction of institutional facilities such as charter schools. Typically, they are authorized by federal, state, or municipal law and issued by a qualified agency such as a local school district or state agency. Private and corporate investors that are seeking tax-exempt income then purchase the bonds through a registered securities broker or dealer.

Tax-exempt bonds can also require significant reporting requirements and restrictive covenants. Completing a bond transaction requires multiple parties. Due to additional legal and consultant fees, and loan reserves funded up front, transaction costs (all paid for by the borrower) are higher. Therefore, bond financings are recommended for projects over $5 million.

Tax-exempt bonds may be rated by one of the three major credit rating agencies — Moody's, Standard & Poor's, or Fitch. The rating quality will determine the bond's price and other factors that affect the terms of the ultimate sale to the investor community. Bonds without a rating will pay a premium via a higher interest rate.

Unless the charter school is established and very strong, the tax-exempt bonds will have to be issued on a credit-enhanced basis. In other words, the bondholders may require that the bonds have an additional source of security by a third-party source of credit support, such as a letter of credit. Credit enhancement can add additional costs to the transaction.

If you are interested in bond financing, you need to hire a broker who will walk you through the process of rating, attracting investors, and issuing the bonds. They will work with a bond underwriter who prepares a package to demonstrate ability to support the tax-exempt debt.



Typical Parties to a Tax-Exempt Bond Transaction

- **Borrower**: Charter school
- **Borrower's Legal Counsel**: The borrower's legal counsel protects the interests of the charter school during negotiation and provides certain legal opinions required at bond closing.
- **Issuing Authority**: Tax-exempt bonds are issued by a state, local government unit, government agency, or public authority on behalf of the borrower. The issuing authority serves as a "conduit" for the bonds to the borrower.
- **Issuer's Legal Counsel**: The issuer's legal counsel represents the interests of the issuing authority at bond closing, performing duties such as preparing the bond purchase agreement, reviewing and preparing the official statement, reviewing various legal opinions from other parties, and qualifying the bonds for sale under the particular state's securities laws.
- **Underwriter**: The underwriter structures the financing, negotiates the business terms, prepares the offering statement (to be circulated to potential buyers of the bonds), arranges the credit enhancement (if needed), organizes and manages the marketing and selling of the bonds, negotiates the terms of the bond sales, and arranges for the delivery of the bonds and payment of the purchase prices at bond closing.
- **Underwriter's Legal Counsel**: The underwriter's counsel represents the underwriter's interests during and at the close of the transaction.
- **Credit Enhancer (Bank, Bond Insurer, or CDFIs)**: A commercial bank or a bond insurance company that provides a credit enhancement (such as a letter of credit) to the bond.
- **Credit Enhancer's Legal Counsel**: Represents the interests of the bank or bond insurance agency.
- **Bond Trustee**: The trustee holds, invests, and administers the bond funds for the particular bond issue. The trustee also serves as bond registrar, transfer agent, and paying agent for the bonds, and acts on behalf of the bondholders to ensure that the borrower meets the terms of the covenants contained in the bond documents. In the event of a bond default, the trustee pursues all legal remedies permitted in the bond documents.
- **Bond Legal Counsel**: The bond's legal counsel writes the majority of the financing documents and provides opinions on the legality and tax-exempt nature of the bond issue, as well as the underlying security (collateral) for the issue.
- **Financial Auditor**: The auditor prepares a summary of the charter school's historical audits to include in the offering statements. The auditor also typically prepares comparative year-to-date statements for the charter school. In addition, the auditor provides a "comfort letter" at the time of the bond sale (and subsequent closing) that addresses the financial information provided in the official statement.

New Markets Tax Credits

New Markets Tax Credits (NMTC) are another attractive type of financing for charter schools. NMTC is a federal tax credit program created to stimulate increased investment and economic growth in low-income communities. It attracts private capital to low-income communities by providing investors with a federal tax credit for investments made in businesses or economic development projects located in some of the nation's most distressed communities.

To be eligible for NMTC financing, the school facility must be located in a qualifying low-income census tract, as measured by poverty rate or median family income. Before you finalize your site location, you can contact your CDFI partner and ask them to check NMTC eligibility for you. There are very specific federal guidelines that your project needs to stay within, and you will have to issue annual compliance certificates and social impact data reports.

The benefit for a charter school is that a portion of the investments from private investors (approximately 20 to 25% of total project costs) will turn into "free" equity for the school at the end of the seven-year NMTC compliance period. In addition, NMTC financings generally require interest-only payments (no principal payments), reducing the annual loan payments for the school. The loans have a seven-year term and have to be refinanced at that time by the school.

NMTC financings are better for projects over $5 million due to the complexity of the structure, and the transaction costs tend to be high given the number of parties involved (see "Typical Parties to NMTC Financing" on page 63).
A consultant expert in NMTC financing may help you manage the process and ultimately save costs. The process to obtain NMTC financing is similar to bond and conventional financing. The organizations who receive NMTC allocations, called "CDE" as defined on page 63, are affiliates of larger financial institutions, states, municipalities, real estate development firms, and nonprofit organizations. CDFIs receive NMTC allocations and have historically invested in charter school projects that demonstrate strong impact. They will help find the other parties involved in the NMTC financing. To get started, contact an organization that received an NMTC allocation. Lists of CDEs can be found at the CDFI Fund. See the CDFI fund website for more information, www.cdfifund.gov.

Typical Parties to NMTC Financing

- **Borrower/QALICB (Qualified Active Loan Income Community Business)**: Charter school or special-purpose entity affiliated with the school that will own the real estate property and lease it back to the school. This entity will have to comply with NMTC regulations during the seven-year compliance period.
- **CDE (Community Development Entity)**: Eligible organization that applies for and receives allocations of tax credits from the Treasury Department. They will provide the tax credits to equity investors in exchange for their investments into the project. The CDEs will use these investments to make qualified low-income community investments (QLICI) to businesses and projects located in eligible low-income communities (LCI).
- **Equity Investor**: A for-profit private corporation (usually large commercial banks) that will purchase tax credits in exchange for an investment in the project. Investments typically represent 20 to 25% of total project costs.
- **Leverage Lender**: A financial institution (bank or CDFI) that will make a loan to the investment fund, representing approximately 75% of total project costs, unless the school has grants or equity it can leverage through the NMTC structure. This is called the "leverage NMTC structure" and is the most commonly used structure for charter school projects.
- **Investment Fund**: Special-purpose entity created for the transaction, usually managed by the equity investor, which pulls funding from the equity investor and the leverage lenders to make qualified equity investments (QEI) in the CDEs.
- **NMTC Accountant**: Accounting and consulting firm that will advise the parties on underlying tax, structuring, and business issues of the NMTC program. The firm will develop an extensive model of the transaction that includes project budget and financial forecasts, as well as various tests to confirm compliance with the NMTC program.
- **Attorneys**: Each of the QALICBs, CDEs, equity investors, and leverage lenders will hire legal counsel that represents their interest during the closing of the financing. They will prepare legal and tax opinions and draft or review loan documentation.

Analysis of Loan Types

Loan Type	Use of Loan Funds	Typical Loan Terms	Comments
Construction Loan (Usually Short-Term)	Cost to construct a building or renovate an existing structure	▶ Interest-only payments during construction. Full principal repayment is required at the end of the construction period (usually 12 to 24 months) ▶ Lender controls disbursements to ensure construction is proceeding as agreed	▶ Often requires a commitment for long-term permanent loan from this or another lender (take-out financing) ▶ Construction due diligence includes a plan and cost review from inspector, GC contract with maximum guaranteed price, building permit and payment, and performance bond. Lender looks for quality of construction documents, and strength and experience of project team
Permanent, Mortgage, or Acquisition Loan	Purchase land or buildings, or finance a project at the end of the construction period	▶ Term varies: - Acquisition: 12 to 18 months - Mini-permanent: 10 years - Permanent: 20 to 25 years ▶ Usually, principal and interest payments are made monthly ▶ Lenders will require a loan-to-value in the range of 70 (commercial banks) to 90% (CDFIs)	▶ Often combined with a construction loan ▶ If loan term is shorter than amortization period, there will be a balloon payment, which will require refinancing at end of loan term ▶ Real estate due diligence includes appraisal, environmental report, and other reports requested by lenders
Leasehold Improvement (LHI) Loan	Fund the costs of renovating a leased facility	▶ Loan term will not exceed lease term. Borrower will need to obtain consent from landlord ▶ Usually principal and interest payments are made monthly	▶ This type of financing can be difficult to obtain. Many lenders shy away from LHI loans because there is little collateral available compared to mortgage loans, which are secured by real estate

Who Are the Lenders?

Various loan sources exist, and every lender will have its own processes and application requirements. The following chart describes various types of lenders and how to find them.

Types of Lenders

Type of Lender	How to Find Them	Comments
Large Regional and National Commercial Banks	▶ Usually have a presence in the community ▶ Talk to loan officers in the nonprofit, small business, or real estate department	▶ Typically higher requirements, but better loan rates ▶ If you serve a low-income community, your loan may help the bank meet its Community Reinvestment Act goals ▶ Will probably be interested in your deposit accounts (such as business checking) and, for this reason, may provide better terms
Small Community Banks	▶ Talk to neighborhood banks near your proposed facility ▶ Ask board members and parents where they bank ▶ These banks may not have a nonprofit lending department	▶ May have maximum loan size ▶ May have lower minimum loan size requirements and more flexible terms than commercial banks ▶ Will probably be interested in your deposit accounts (such as business checking) and, for this reason, may provide better terms
Community Development Financial Institution (CDFI)	▶ See the CDFI Fund for a list of organizations ▶ There are local and regional CDFIs as well as large national CDFIs ▶ Many national CDFIs are familiar with charter schools	▶ CDFIs ensure that projects in markets often overlooked by traditional banks have access to investment capital ▶ May have dedicated loan funds for charter schools, more flexible lending criteria, and share same mission
Finance Companies	▶ See your local charter school association or resource center for private financing companies in your area. There are some national finance companies as well	▶ Compare rates, as private finance companies may charge a premium over other sources of financing ▶ Get references from schools who may have worked with these companies

Community Development Financial Institutions (CDFI)

A Community Development Financial Institution (CDFI) is a certified financial institution that offers credit and financial services. These specialized financial institutions give loans to perceived "high risk" businesses, such as charter schools and other community programs, and have helped prove creditworthiness of community-based businesses to the investor community. Many CDFIs have committed loan funds for charter school facilities and provide flexible sources of financing that will often structure a loan with a longer amortization schedule or an interest-only period. They also accept nontraditional forms of collateral and accept real estate located in low- to moderate-income areas. CDFIs offer conventional loans, and some offer financing through NMTC and the CDFI Bond Guarantee Program, a federally guaranteed program that offers qualified borrowers access to long-term loans. Visit www.cdfifund.gov for further information about contacting CDFIs in your community.

The Loan Process

Lenders recommend you begin the loan process once you have a sense of what type and size of site you are looking for, and what resources you have. It may be appropriate to contact potential lenders before you have a final site identified. Lenders can help identify financing options for your projects and give a sense of their terms and requirements. The loan process begins during the site selection phase and continues through the development process and beyond, as your relationship with your lender extends for the life of your loan.

How to Apply for a Loan

❶ Get Prepared

Lenders will ask many questions and you will have to provide several documents during the loan process. It is good to have the following documents ready before contacting them:

- Audited financial statements for the last three years
- Five-year cash flow projections for the project (if available)
- Needs assessment and feasibility study for the project (preliminary ideas for project size, location, and space requirements)
- Preliminary project costs (project budget) and sources of funds (how much cash you have reserved for the project, what grants or other funding you intend to apply to in order to finance the project)
- Initial site idea
- School business plan detailing the school's strategic plan
- Copy of charter and authorizer contact information
- Presentation of school model, student achievements, and how it serves the community needs
- Biographies for management team and board of directors

❷ Contact Lender

Discuss your loan request with your lender. Some lenders have application forms they will ask you to complete. Others will simply ask you to provide a list of documents and/or to meet with you. The lender will perform an initial review of your materials.

❸ Obtain Term Sheet from Lender

If a lender is interested in financing your project, they will typically prepare a term sheet or proposal letter. This document is usually non-binding, meaning the institution expresses its interest but is not legally committing to lend money. The term sheet typically outlines the loan structure and its preliminary terms and conditions, as listed below:

- **Loan Amount**: Generally subject to appraised value of school facility and project cash flow
- **Term and Amortization of Loan**: May not match (also see "Loan Terminology" section on page 58)
- **Payments**: May allow an interest-only period before regular payments (principal and interest) begin
- **Interest Rate**: Fixed or variable, usually index plus spread

- **Fees**: Underwriting/application fee, origination/commitment fee, legal/documentation fees
- **Collateral/Guarantee**: Usually real estate (property the school is purchasing), lease assignment (when school is renting its facility), or guarantee from a supporting organization or wealthy individual
- **Reporting Requirements**: Typically include annual audited and quarterly financial statements, enrollment information, change in management team, student achievement scores, and other reports to and from authorizers — lenders use these to understand changes happening at your school
- **Loan Covenants**: Financial ratios to be met by your organization, such as debt service coverage, liquidity, and leverage; other covenants imposed by lender, such as subordination of management fees
- **Conditions Precedent to Closing**: Specific items the lender will need to obtain and approve prior to closing the loan. These can include final project budget, commitment of other sources of funds (e.g., grants), building permit, zoning approval changes (such as conditional-use permit), and charter renewal
- **Expiration Date**: Deadline for the school to sign and return the term sheet

Read the term sheet carefully. It contains important details the lender will use in the final loan. There is typically a list of items or actions required before the lender will officially commit to the loan. Approach your lender with questions you have about specific items, and negotiate the terms as much as you can. If you agree with the preliminary terms and conditions for your loan, sign and return the term sheet, usually with a check for an underwriting fee and/or deposit for third-party report expenses. See Appendix C for the Financing Evaluation Worksheet to compare terms offered by different lenders.

❹ Provide Documents and Information Required by Lender's Underwriting Process

Your lender will collect additional information usually listed in the term sheet or verbally so the lender can complete the underwriting process and secure credit approval for your loan. This is also called due diligence process. It involves a detailed and deeper look at your organization, financial performance, education outcomes, project feasibility, and evaluation of the risks associated with your project. Your lender develops a base case and sensitivity scenarios with the cash flow projections you provided. The lender reviews the charter, usually contacts your authorizer, and will come for a site visit to evaluate your operation and meet with your management team. The lender performs real estate due diligence, including ordering an appraisal, environmental reports, soil test reports/geotechnical reports, seismic evaluation report (if necessary), property condition report (if necessary), survey, title reports, lien and tax searches, and reviews the lease and/or purchase and sale agreement.

For construction loans, your lender orders a plan and cost review to confirm the budget, timeline, and qualifications of the construction team. Your lender reviews the architect, engineer, general contractor, and project manager qualification statements and contracts, and list of subcontractors, as well as the contractor's schedule of values, the estimated draw schedule, and the payment and performance bond. Your lender also reviews the plans and specifications, building permit, and any other permit or license required for the project. They will review your project budget and verify the levels of contingencies. This process can take a couple of months, so you need to maintain regular communication with the lender. Some due diligence starts in the underwriting and is finished in the closing process, after the commitment letter is issued.

❺ Obtain Commitment Letter from Lender

Once your lender obtains credit approval, they usually issue a commitment letter, allowing you to officially commit to your facility project (e.g., close on the purchase, contract with a general contractor, etc.). The commitment letter resembles the term sheet but is more specific and detailed. It is a legal commitment by the lender to make a loan, subject to the conditions specified.

Again, read this document carefully. The commitment letter is an outline for the loan documents. If you agree to the terms and conditions outlined in the commitment letter, you sign and return it, usually with a check for the commitment fee and/or deposit for legal fees. Lenders expect little to no negotiation of the loan terms and conditions from this point forward.

❻ Complete Loan Documentation and Close Your Loan

Once you receive a commitment letter from a lender, the actual closing day is usually 30 to 90 days away. The closing day is when you sign the final loan documents and receive the loan proceeds to purchase your facility and start construction. Lenders will prepare legal loan documents based on the terms and conditions outlined in the commitment letter, and will finalize their due diligence. Your project may have to complete other specific items before closing, such as building permit and finalization of the construction documents.

You will review the loan documents with your counsel. These documents typically include a promissory note, a deed of trust, a loan agreement, and a security agreement. The closing date is normally set about a week ahead of time. You will arrange to go to a title company office to sign the final loan documents. The title company manages the settlement statement and title work. They finalize the transfer of money for fees and an initial disbursement of loan funds. Within a couple of weeks, you will receive a set of final executed loan documents that you should save. Congratulations on your loan!

Finding Other Sources of Funding

Federal Programs

Charter schools can use federal funds for facility projects, but these funds usually flow through state or local conduit government agencies. Check with your state and local governments about the following programs.

Community Facilities Grants and Loans

The U.S. Department of Agriculture (USDA) provides affordable funding through its Community Facilities Direct Loan & Grant Program. Funds can be applied toward purchasing, constructing, and improving educational facilities in rural areas. For more information on this program and other USDA programs, visit www.rd.usda.gov.

Start-Up and Replication and Expansion of High-Quality Charter Grants

The U.S. Department of Education (DOE) provides various grants to states and charter schools as part of its Charter Schools Program (CSP). Funds are for new schools or for charter management organizations that want to replicate and expand high-quality charter schools. For more information on this program, visit www2.ed.gov/about/offices/list/oii/csp/about-cs-competitions.html.

Credit Enhancement

Managed by DOE, the Credit Enhancement for Charter School Facilities Program provides grants to public and private nonprofit entities, enabling them to help charter schools enhance their credit; this allows schools to secure financial capital to buy, construct, renovate, or lease appropriate school facilities. Individual charter schools can look for the list of grant recipients to see who may be able to help them with credit enhancement. For more information, visit www2.ed.gov/programs/charterfacilities/index.html.

Qualified Zones Academy Bonds

The Qualified Zones Academy Bonds (QZAB) federal program facilitates bond financing for charter schools. QZABs can be used for renovation and modernization of an existing school structure, but cannot be used for new construction. Schools should either be located in an Empowerment Zone or Enterprise Community, or have at least 35% of the school's students eligible for free or reduced-price lunch under the federal lunch program. Interest on the QZAB is paid by the federal government through a district reimbursement or tax credit to the bondholder. Thus, the charter schools are permitted to borrow money from financial institutions at a zero interest rate. For more information, contact your state department of education.

State and Local Funds

Direct State Funding

States provide either direct funding to charter schools for their facilities (per-pupil funding appropriated annually) or funding through a variety of mechanisms such as competitive applications. As of January 2016, 19 states provide direct funding, and 32 states provide

other types of funding. Contact your state department of education for more information.

State Programs for Charter School Facilities

Administered by DOE, the State Charter School Facilities Incentive Grant Program assists charter schools with facility costs. Grants are available to help states establish or enhance and administer per-pupil facilities aid for charter schools; this allows states to make payments for charter school facilities based on a formula that takes into account the number of pupils enrolled. Each state program has specific guidelines for application and awards. For more information, see www.ed.gov/programs/statecharter/awards.html.

Community Development Block Grant

Administered by the U.S. Department of Housing and Urban Development (HUD), the Community Development Block Grant (CDBG) program provides communities with resources to address a wide range of unique community development needs. Federal funds are distributed to states to revitalize communities. For more information, contact your local county or city development office, or visit https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs.

Local Grants

Check with city and/or county governments to learn about local sources of grants. Your school may be eligible for funds based on the demographics of students you serve, or because you are revitalizing the community through your facility project. Some schools have received small grants from local legislators when they have been able to demonstrate the positive impact of their school on a neighborhood.

Fundraising

The saying "money attracts money" is particularly fitting as it relates to fundraising in the nonprofit sector. Lenders rarely provide 100% financing, and they almost always expect to see equity in the project. Foundations and other philanthropic investors want to know who else has invested in your project, and will often establish challenge grants that match funds raised from other sources. In short, prospective investors want to see what sources of money you already have in place, and usually no one wants to throw the first dollar into the hat. So, where do you start?

National Nonprofit Funds

The Charter School Growth Fund supports the expansion of high-performing charter schools by offering a mix of grants and low-interest loans. For more information, check out www.chartergrowthfund.org.

NewSchools Venture Fund raises funds from donors to invest in public education entrepreneurs, organizations, and educators, especially for underserved communities. To learn more, visit www.newschools.org.

Private Foundations

Foundations are a vital component of any fundraising campaign (see section "Applying to Foundations" on page 70). Charter school managers should undertake a thorough and persistent search to identify foundations that are interested in funding projects such as yours.

There are four main types of foundations.

- **Independent foundations** are established by wealthy families or individuals.
- **Company-sponsored foundations** (or corporate foundations) are created and operated by businesses.
- **Operating foundations** pursue social welfare, research, or other charitable programs that are led by the donor or governing body.
- **Community foundations** are supported by and operated for the benefit of a specific community or geographic region.

National foundations that provide funding for charter schools, such as the Bill and Melinda Gates Foundation (www.gatesfoundation.org) and The Walton Family Foundation (www.waltonfamilyfoundation.org), are sources of predevelopment and start-up funding, or other special initiatives funding. The Walton Family Foundation has a Building Equity Initiative to help public charter schools access capital to secure facilities (www.waltonfamilyfoundation.org/newsroom/building-equity-initiative-overview). Capital project funding can also be obtained from a community or family foundation, which often maintains a specific geographic focus.

$ Applying to Foundations

Once you know you meet the eligibility criteria for a foundation, get an application or find out the process for applying. Most foundations make grants only once or twice a year.

Be Clear About Your Request. This guide is focused on developing your facility. If you are requesting foundation funds for your facility, you are looking for a "capital grant" (a grant for bricks and mortar or a "building grant"). This is different from a request for an operating grant (to pay staff, buy materials, etc.) to fund programs. Many foundations have specific guidelines for capital grants. Check before you apply.

Hone Your Message. If you are aware of a foundation's hesitation over charter schools, think carefully about how you will present your program. A pre-application meeting can be useful to answer any questions about how charter schools work. Be prepared to respond to questions about charter schools siphoning resources from traditional public schools, etc. If you meet eligibility requirements in other areas, such as serving a low-income population, try to emphasize the impact of your program in reducing poverty, for example.

Demonstrate Stability. Foundations want to know how you will sustain your program in the future. They are concerned about grantees becoming dependent on foundation support. This is a good opportunity to demonstrate how your school is self-sufficient through per-pupil allocations.

Do Your Homework. Research the size of grants a foundation has made in the past, and be sure your request fits in that range. Also, foundations often require status reports to find out how their investment is doing. It is important to honor this commitment. Many schools use it as an opportunity to further familiarize foundations with their work.

Beware of Commingling Funds. Never change the use of grant funds without consent of the donor. Even if you are in a bind and need to make payroll, don't use grant funds restricted for a capital project for any other use. Make sure you understand what the funds can be used for when you receive them, and make sure your financial management system can keep them separate.

Foundations provide funds in one of the following ways: (1) grants, (2) program-related investments (PRIs), or (3) recoverable grants. Grants are made for a specific amount and purpose; no repayment is required. PRIs are investments made by foundations to support charitable activities that require repayment within a specified timeframe. Typically, PRIs carry below-market interest rates and are used to leverage additional dollars from other sources. Recoverable grants function as interest-free loans. For information on foundations across the country, visit the Foundation Center at www.fdncenter.org.

Launching a Capital Campaign

A capital campaign is an organized, systematic approach to raising grant money for a specific purpose or project. The critical difference between a capital campaign and fundraising can be summed up in three words: focus, duration, and purpose. A capital campaign is planned around a specific goal, usually a facility project. The campaign can be as short as six months or as long as two or more years. Further, it requires a coordinated effort among the board of directors, school staff, management, and frequently, volunteer labor to implement the capital plan.

Consider hiring a fundraising consultant. These professionals can assess the campaign's feasibility: How responsive are prospective investors (foundations, corporations, private investors, and the community at large) to your organization? Would they likely support your project, and to what extent? If the answers are affirmative, the consultant can then develop a targeted list of prospective candidates, set clear financial goals within a specified framework, and then implement the capital campaign.

The capital campaign plan should be a written document that includes financial benchmarks for each source of funds raised (e.g., foundation grants, corporate donations, individual donors, etc.), as well as a timeline for each goal. The plan should itemize each prospective funder category and the specific donors you intend to apply to in each category. If one of your board members or a friend of the charter school has a personal contact or prior relationship, you may decide to assign them as point person for that donor.

As noted in the previous section, foundations have varied initiatives and interests, so it is important to research appropriate candidates before making a formal application. In fact, many foundations require that you send an "inquiry letter" describing your project before submitting a formal application.

Individual Donors and Private Investors

Charter schools can also run successful campaigns targeted to individual donors. For example, a "Buy a Brick" campaign, with each donor's name engraved on a brick footpath to the school's entrance, or a "Wall of Community Supporters" using tiles decorated by students, can be a personal approach. These strategies generate dollars and build community goodwill for your capital project.

The cost of raising many small contributions from a large pool of people is usually high. Greater payoff may be found by targeting wealthy individuals in your community or by thinking creatively about novel approaches to financing the facility. For example:

- Your seller may be willing to donate the property in exchange for a tax break.
- A private investor may be willing to purchase a property and then lease it back to the charter school under more favorable terms and conditions than would be available in the open market.
- A wealthy individual may be willing to donate stocks or bonds in exchange for a tax break, which could then be used to collateralize a loan.
- A private group with a vested interest in your project, such as maintaining historical integrity, might contribute. For instance, the National Trust for Historic Preservation provides grants to projects related to maintaining and preserving historical buildings. For information on those grants, visit www.nationaltrust.org.

Investigating your options and determining how you will fund your charter school facility can be an intensive process. But in the end, you'll be prepared to see your dreams for a facility become reality!

Planning and Scheduling

Project work plans and construction schedules (established along with your general contractor) should include major benchmarks, action steps, and completion dates that will help you keep track of key activities, components, and individual assignments. To help you create your own, the following chart lays out a sample project schedule with action steps and suggested time periods covered in The Answer Key.

Action Steps

Concept

1 Project Concept

Purpose

- Defines scope of project
- Analyzes how school fulfills an unmet need

Timing: Varies

- Develop during early concept phase
- Incorporate into business plan if necessary
- Refine as necessary during entire life of project

Predevelopment

2 Assemble Development Team

Purpose

- Identifies necessary team members, both internal and external
- Defines roles for team members
- Outlines process/criteria for consultant selection

Timing: Varies

- Identify team members during early concept phase and predevelopment phase
- Identify cost of consultants during preliminary budgeting

Predevelopment

3 Site Selection

Purpose

- Details site selection process based on criteria

Timing: Varies

- Identify site selection criteria during predevelopment phase
- Identify potential sites during predevelopment phase
- Define site costs during preliminary budgeting
- Purchase and prepare site before construction

Predevelopment & Design & Pre-Construction

4 Schematic Design

Timing: Four to six weeks

- Get site information and survey
- Meet with development team to develop design
- Develop multiple schemes
- Present to development team, stakeholders, third parties, and funders (if necessary)
- Prepare design of preferred scheme
- Present design drawings for approval

Design & Pre-Construction

5 Design Development

Timing: Four weeks

- Design team and consultants finalize work
- Prepare design development documents
- Review design development documents with development team, staff, and board

Planning and Scheduling (continued)

Design & Pre-Construction

6 Construction Documents

Timing: 18 weeks

- Begin project management planning, scheduling, base drawings
- Survey, soil test, give criteria to engineers for their design
- Deliver base drawings to engineers for drafting
- Develop construction systems
- Make material selections
- Find food service and library consultants
- Undergo progress reviews with school board
- Prepare specifications and consult with supplier representatives
- Undergo quality control review

Design & Pre-Construction

7 Bidding And Permits

Purpose

- Outlines steps and timeframes for any required regulatory, governmental, or third-party approvals
- Secures actual budget figures for construction costs

Timing: Varies (between three weeks and 12 weeks)

- Identify all necessary approvals during budgeting
- Incorporate permit and approval schedule into project timeline
- Contact bidders and hold pre-bid conference
- Perform formal bid opening

Design & Pre-Construction

8 Award Contract

Purpose

- Evaluates bids

Timing: Three weeks

- Negotiate price/ contract
- Prepare contract
- Issue "Notice to Proceed"

Construction

9 Construction

Timing: 14 months

- Six to 12 months for renovation projects
- Eight to 15 months for new construction projects

Contingency

10 Contingency

- For allowable days (weather, etc.)

Timing: Two months

Move In

11 Move In

Before students arrive

- Furniture, fixtures, and equipment
- Staff training

Timing: One to two months

$ Financing (Financing influences your entire project and must be addressed throughout all phases.)

Purpose

- Outlines steps to secure financing for the project
- Determines levels of debt vs. grant/gift financing
- Defines fundraising process if necessary

Timing: Varies

- Define during concept phase
- Refine as necessary during budgeting, fundraising, and building process
- Secure/close prior to construction

Appendix A: **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 (60 – 120 sq. ft. per student)

_____ = _____ to _____ sq. ft.

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

Detailed Calculation, Form B:

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.

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)?

Appendix B: **Project Sources & Uses Template**

USES OF FUNDS		SOURCES OF FUNDS	
Acquisition of building		Cash	
Construction/Renovation Costs		Grants	
Demolition of old walls		Donations	
Electrical		Loan 1	
Plumbing		Loan 2	
Heating/ventilation			
Roof		**Grand Total**	
Drywall and painting			
Carpet			
Windows			
Fixtures and fit-out			
Site work			
Total Construction			
Hard Cost Contingency (10 to 20%)			
Total Hard Costs			
Soft Costs			
Architect			
Project manager			
Engineering			
Insurance during construction			
Appraisal, environmental studies, soil reports, plan and cost review, property condition report, other third-party reports			
Closing costs (title, survey, recording, etc.)			
Legal fees (school's and lender's)			
Financing fees (loan origination fee, etc.)			
Interest during construction			
Inspection fees			
Accountant			
Total			
Soft Cost Contingency (5 to 10%)			
Total Soft Costs			
Grand Total			

Appendix C: **Financing Evaluation Worksheet**

The following worksheet can be adapted to your school's financing needs.

Use it to compare sources of financing, their terms and conditions.

Financial Institution			
Loan Amount			
Term			
Amortization			
Balloon Payment (to be refinanced)			
Interest Rate Fixed or variable?			
Collateral Required Mortgage/Assignment of Contracts/Leasehold			
Guarantees Required			
Equity Contribution Required			
Application Fee			
Estimated Time to Credit Approval			
Estimated Time to Closing			
Origination Fee			
Legal Fees (estimate)			
Other Closing Costs (estimate)			
Prepayment Penalties			
Loan Conditions			
Closing			
Loan Covenants			
Other			

Appendix D: **Initial Documents Requested By Lenders**

School Info

- History, vision, mission, and school model
- Enrollment and waiting list (by grade), and student achievement track record (last three years)
- Copy of charter
- Resumes of leadership team and bios of board members

Project Info

- Location (access to public transportation, proximity to other amenities) and zoning
- Size, layout, previous use of building (if applicable)
- Competition (performance of other public schools in neighborhood), impact of the move (if applicable)
- Timeline (expected school opening date)

Financial Info

- Sources and uses for project
- Audited annual financial statements (last three years)
- Most recent interim financial statements
- Annual operating budget (current fiscal year) and/or five-year projections (if available)

Appendix E: **Construction Consultant Document Checklist**

Borrower/Project Name _____

Construction Consultant _____

Company Name _____

Address & Phone _____

_____

Required items needed to complete Plan & Cost Review:

_____ 1. One complete set of signed and sealed plans and specifications
   a. Site plan
   b. Civil engineering plans showing all utilities & on- and off-site improvements to be made
   c. Architectural plans
   d. Structural plans
   e. Mechanical plans (HVAC, plumbing, & fire protection)
   f. Electrical plans
   g. Landscaping plans

_____ 2. Copy of general construction contract and contract documents to include: list of all subcontractors for the project and contractor's qualification statement/builder license

_____ 3. Contractor's schedule of values and the estimated draw schedule

_____ 4. Construction completion schedule

_____ 5. Payment & performance bond

_____ 6. Appraisal (as-built)

_____ 7. Survey and/or plat, most recent copy available

_____ 8. Soil test reports/geotechnical report

_____ 9. Project development budget (sources and uses of funds)

_____ 10. Building permit and all other developmental permits (e.g., grading, stormwater)

_____ 11. Copy of architect's contract to include architect's qualification statement/architect license

_____ 12. Copy of engineer's contract

_____ 13. Seismic evaluation report

_____ 14. Property condition report

_____ 15. Environmental site assessment & recommendations

Appendix F: **Financial Projections Template**

Excel spreadsheet example

Cash Flow Projections	FY Actual	FY Projected	FY Projected	FY Projected	FY Projected	FY Projected
Enrollment/Encounters						
Personnel FTE						
Operating Revenue 1	$-	$-	$-	$-	$-	$-
Operating Revenue 2	$-	$-	$-	$-	$-	$-
Operating Revenue 3	$-	$-	$-	$-	$-	$-
❶ Total Operating Revenue	$-	$-	$-	$-	$-	$-
Operating Expense 1	$-	$-	$-	$-	$-	$-
Operating Expense 2	$-	$-	$-	$-	$-	$-
Operating Expense 3	$-	$-	$-	$-	$-	$-
❷ Total Operating Expense	$-	$-	$-	$-	$-	$-
❸ Cash Flow Available for Debt Service	$-	$-	$-	$-	$-	$-
Existing Debt Payments	$-	$-	$-	$-	$-	$-
Proposed New Debt Payments	$-	$-	$-	$-	$-	$-
❹ Total Debt Service	$-	$-	$-	$-	$-	$-
❺ Debt Service Coverage Ratio (DSCR)	0.00	0.00	0.00	0.00	0.00	0.00

Financial Projections Equations

❶ **Total Operating Revenue** = Sum of All Operating Revenues Per FY

❷ **Total Operating Expense** = Sum of All Operating Expenses Per FY

❸ **Cash Flow Available for Debt Service** = Total Operating Revenue — Total Operating Expense

❹ **Total Debt Service** = Existing Debt Payments + Proposed New Debt Payments

❺ **DSCR** = Cash Flow Available for Debt Service ÷ Total Debt Service

Please contact us if you want this template provided in an Excel format.

Glossary of Terms

The terminology provided in The Answer Key is defined within the sections; however, this glossary provides additional definitions and concepts for your facility development project.

A

Abstract of title: A summary of the public records relating to the title (or ownership) of a particular piece of land or property. An abstract of title should be a chronological history of recorded instruments that affect the title of the subject property. In some states, an attorney does a title search using an abstract. An attorney or title insurance company reviews an abstract of title to determine whether there are any title defects that must be cleared before a buyer can purchase clear, marketable, and insurable title.

Acceleration clause: A clause in a note, bond, mortgage, or deed of trust that gives the lender the right to demand the remaining balance due and payable before its original date in an event of a default.

Accessory building: A building or structure detached from but on the same property as a main building. Examples of accessory buildings are garages, storage buildings, and guest houses.

Accrued interest: Interest accumulated on a loan but not paid since the last due date.

Act of God: An event that causes damage by nature such as a flood, earthquake, or tornado. Often referred to in insurance documents.

Action to quiet title: A court action to establish ownership of real property. This court action usually removes any interest or claim to title of real estate, also referred to as a "cloud" on the title. Normally a lender will not commit to a mortgage for a property with title issues. If the complainant is successful in the court action, the title is made quiet, or "clean."

Adaptive reuse: Providing a new use for an older, but sound structure. Examples might be an abandoned warehouse that is converted into housing or a business such as a charter school.

Add-on interest: Interest added to the amount of the loan on the front end or beginning of the loan repayment period. The balance (of principal and interest) is then paid by installments. This form of interest is much more expensive than simple interest paid on the entire amount for the entire term of the loan.

Adjustable-rate mortgage (ARM): Normally used to describe residential mortgages where the interest rate changes during the life of the loan in line with movements in an index rate. The rate is usually based on indices tied to the nation's economy. Commercial mortgages with these rates are referred to as "floaters," or as having floating rates.

Adjusted basis: The original cost of the property plus improvements (including what it cost to sell the property), less depreciation. The gain on the sale is calculated by subtracting the adjusted basis from the sale price.

Agreement of sale: A contract in which a seller agrees to sell and a buyer agrees to buy, under certain specific terms and conditions spelled out in writing and signed by both parties. May be known by various names, such as contract of purchase, purchase agreement, binder or sales agreement, according to location or jurisdiction. See Earnest Money.

American Institute of Architects (AIA): A professional organization of architects. All members of the AIA are registered architects who adhere to AIA's standards of ethical practice. However, registered or licensed architects are not required to be members of the AIA.

American Land Title Association (ALTA): An organization comprising title insurance companies, abstractors, and attorneys specializing in real property law. ALTA has adopted many title insurance policy forms that standardize coverage nationally for property owners and lenders. Many states require ALTA-standardized title insurance policies.

Amortization schedule: A list showing the payment number, interest payment, principal payment, total payment, and unpaid principal balance.

Amortization: The process of paying off a debt or mortgage, usually by monthly payments. There will be a portion of interest and principal in every loan payment. In most standard mortgages, the monthly payment is even, with an increasing amount of that payment going toward principal reduction over time.

Amount financed: The base loan amount without regard to closing costs, discount points, or mortgage insurance premiums.

Application fee: Some lenders may require a small fee as part of the application process. It may be nonrefundable.

Appraisal Institute: A professional organization of real estate appraisers. The Appraisal Institute is the result of a merger between the former American Institute of Real Estate Appraisers (AIREA) and the Society of Real Estate Appraisers. The surviving designations are the MAI (member of the Appraisal Institute) and SRA (senior residential appraiser).

Appraisal report: A written opinion of the fair market value of real estate. The report contains the estimate of value; date of valuation; certification and signature of the appraiser; the purpose, qualifying conditions, and description of the subject property and its ownership; a neighborhood description; the approaches to value; and the final determination of value. An appraiser usually reports the present market value for an existing property and proposed improvements. For example, the appraiser may report a value as of the conclusion of construction and as of a projected date. Normally required for all mortgages to be completed by a licensed professional. Three different types of valuation approaches exist, depending upon the property type and current or anticipated usage. The market approach bases value on the sales of other comparable properties. The cost approach bases value on what it will cost to replace the property. The income approach bases value on the income produced by owning the property. In most appraisals all three approaches will be used, with the appraiser stating which approach was most influential in making the final determination of value. In some markets, charter schools can pose a difficulty for appraisers as they attempt to locate comparable school properties and to calculate the possible income generated by the property.

Appraiser: One who estimates value on a professional level. Qualified appraisers have designations of MAI (member of the Appraisal Institute) or SRA (senior residential appraiser).

Appreciation: An increase in the value of a property due to changes in market conditions or other causes.

Arm's-length transaction: A transaction between individuals who do not have a conflict of interest or reason for collusion. The value of property should be questioned for fairness or accuracy if there is not an arm's-length transaction between buyer and seller. In general, appraisers typically use comparable sales that are arm's-length transactions in the market approach to value.

Arrears: Refers to the end of a period with respect to interest payments. For example, interest on a mortgage is paid in arrears, as contrasted with rent, which is paid in advance. A mortgage payment due May 1, for instance, is for the interest and principal for April; rent due May 1 is for the month of May. The term can also pertain to delinquent mortgage payments. A mortgage loan that is three months delinquent can be said to be three months in arrears.

Assessed valuation: The dollar amount or value on what real estate tax is levied. If a property worth $100,000 is assessed for tax purposes at 50% of value, the assessed valuation is $50,000. County or township tax assessors normally make appraisals for tax reasons. Many state laws require properties to be reappraised periodically. If the taxpayer disagrees with the appraisal, he or she can appeal to a board of appeal or board of equalization.

Assessment: (1) The fair market value of property for tax purposes. (2) An expense appropriated to a unit of a whole, such as a condominium assessment for common grounds, maintenance, or an additional charge for improvement. (3) A levy for adding a product or service to a neighborhood, such as curbs or sewers. (4) A value given to a property owner for the taking of the property by the process of condemnation.

Asset: Something of value that is owned. An asset could be a parcel of land, a building, stocks or bonds, and other "fixed assets" such as heavy equipment, computers, and furniture.

Assign: The act of transferring rights or property to another.

Assignee: One who receives rights or property. An assignee stands in the place of the assignor for rights, liabilities, and interest in the property.

Assignor: One who assigns rights or property.

Assumption of mortgage: An obligation undertaken by the purchaser of property to be liable for payment of an existing mortgage. In a full assumption, the purchaser is substituted for the original mortgagor in the mortgage instrument, and the original mortgagor is to be released from further liability. In the assumption, the lender's consent is usually required. The original mortgagor should always obtain a written release from further liability to be fully released under the assumption. Failure to obtain such a release may keep the original mortgagor liable for payments on the mortgage if the assumptor of the mortgage fails to make the monthly payments.

Attestation: The act of witnessing a signature on a legal document.

B

Backup contract: A term often used with contracts to buy real estate. A backup contract is a contract that replaces a prior contract in the event of failure to perform or close by the parties of the prior contract. The seller should get a release from the buyer on the first contract before canceling the contract and proceeding with the second (or backup) contract.

Balloon mortgage: A mortgage loan with periodic payments of principal and interest that do not completely amortize the loan. The balance of this type of mortgage loan is due and payable in a lump sum at a specified time in the future. The borrower pays interest regularly, but may or may not make small principal repayments during the loan period. The unpaid balance is due at a specific time in the future as stated in the mortgage or deed of trust. At the maturity date, the borrower must pay the full amount by refinancing the debt or selling the property to pay the full amount. This final payment can be called a bullet, or simply the balloon payment. Some lenders guarantee refinancing when the balloon payment is due as long as certain conditions or covenants are met, although they do not commit to a specified interest rate. The rate at refinancing could be much higher than the borrower's current rate. This can be referred to as a "rate reset" or an "extendible rider." Other lenders do not offer automatic refinancing. Without such a guarantee, the borrower could be forced to start the whole business of shopping for mortgage funds again, aside from paying closing costs and front-end charges a second time. A balloon mortgage can be a senior or junior mortgage (i.e., a first or second mortgage).

Bankruptcy: When a person or business is declared by a court to be unable to pay outstanding debts, that person or business is said to be in bankruptcy. Any assets must then be turned to a trustee for management, an individual appointed by the bankruptcy court.

Baseline: A surveyor's term used to show an east-west line.

Basis points: A term used in relationship to interest rates. One basis point is equal to 1/100 of 1%, so that 100 basis points equal 1%. May be used to describe the amount over an index rate that is charged to a borrower or to describe the amount of fees for a loan.

Binder: A preliminary agreement secured by the payment of earnest money, under which a buyer offers to purchase real estate. See Agreement of Sale.

Blanket mortgage: (1) A single mortgage used to secure a debt for money loaned on several properties such as the lots a builder owns in a subdivision. It is important for the borrower (mortgagor) to ask for a partial release clause in a blanket mortgage. A partial release clause will release each lot that is sold for a stated amount that is a portion of the entire debt. Without a partial release clause, the entire debt must be paid before the mortgage is released. (2) Mortgage lien secured by two or more property parcels. (3) A mortgage on a residential cooperative building.

Blended rate: Interest paid on a full loan amount, with two mortgages at different interest rates (and possibly different terms and amortizations).

Block grant: Federal funds allocated to a state for a group of related services, such as affordable housing, maternal and child health services, or drug abuse programs.

Boilerplates or boilerplating: Standard language found in contracts, deeds, or deeds of trust, and in covenants, conditions, and restrictions.

Bond: A formal certificate that evidences a debt and outlines the terms. It is a formal promise to pay the lender (or bond issuer) a specified sum of money at a future date — with or without collateral. The promise must be in writing, and be signed and sealed by the maker (borrower). The balance owed is paid on a future date with a series of interest payments in the interval.

Book value: An accounting term used to show the value of a business as a whole or particular asset, such as real estate. The value is shown by accounting records that give the cost of the assets plus any improvement minus depreciation. Depending on the reason for valuation, book value may be marked down for a distress sale, but is not typically marked up to reflect an increase in value.

Boring test: Using soil samples obtained by boring deep holes in the ground to determine the strength of the subsoil for construction purposes.

Breach of contract: Failure to perform according to the terms of a contract. The party who has not breached the contract can rescind the agreement and sue for damages or for performance.

Breach of trust: Abuse of the responsibilities or authority as set forth in a trust agreement or contract.

Bridge financing or bridge loan: Short-term mortgage financing between the end of one loan or financing instrument and the beginning of another, normally for less than one year.

Broker: Someone who, for a fee, places loans with lending institutions but does not directly lend money or service loans. Also, a term used for real estate agents who bring sellers and prospective buyers together, or landlords and prospective tenants.

Builder's risk insurance: Insurance used to protect builders against fire and special risks while they have a building under construction. Normally required by construction lenders.

Building code: Local and state laws that set minimum construction standards.

Building line or setback: Distances from the ends and/or sides of a lot beyond which construction may not extend. The building line may be established by a filed plat of subdivision, by restrictive covenants in deeds or leases, by building codes, or by zoning ordinances.

Building permit: A written permit that must be obtained from a local jurisdiction by anyone performing new construction on a property.

Buyer's agent: A real estate agent who works for the buyer of a house, not the seller.

C

Cap: An upper limit on how much an interest rate or the monthly payment of an adjustable or floating rate mortgage can change at each adjustment or during the life of a mortgage. This limit may adjust annually. A lender would normally charge a fee to a borrower for a cap. See also Collar and Floor.

Capital improvement: A permanent improvement that increases the value of real property, extends the useful life of the property, and is an expenditure that differs from a necessary repair expense. For example, painting a house is a maintenance repair expense, whereas the installation of vinyl or aluminum siding is a capital improvement.

Carryback financing: When the seller finances the sale of property to a buyer. See Seller Financing.

Cash flow: Cash receipts minus cash disbursements from a given operation or asset (such as a building) for a particular period of time. Similar to EBITDA (earnings before interest expenses, taxes, depreciation, and amortization costs).

Cash reserve: A requirement by some lenders that buyers have sufficient cash remaining after closing to make future mortgage payments or property repairs. Lenders may require reserves to be funded into a separate account as a part of the closing process.

Certificate of occupancy (CO): An official document by a governing authority stating that a structure complies with local zoning and building codes is ready for use and may be occupied legally. In some jurisdictions known as a use and occupancy permit (U&O).

Certificate of title: A certificate issued by a title company or a written opinion rendered by an attorney that the seller has clear title to the property being offered for sale. A certificate of title offers no protection against any hidden defects in the title that an examination of the records could not reveal. The issuer of a certificate of title is liable only for damages due to negligence. The protection offered a property owner under a certificate of title is not as secure as that offered in a title insurance policy.

Change order: A form used by a general contractor or other builder to specify changes from the approved construction documents used to construct a building. Should be approved by architect and project manager. Most lenders will want to approve change orders of a minimum size as part of their loan disbursement process.

Clear title: A title that is free of liens and legal questions as to ownership of the property.

Closing costs: Those expenses which buyers, sellers, and lenders normally incur to complete a transaction in the transfer of ownership of real estate. These costs are in addition to price of the property and are items prepaid at or before the closing day. They include the appraisal, credit report, processing or application fee, origination fee, and transfer taxes. In commercial transactions, most closing costs incurred by the lender are paid for by the borrower.

Closing day: The day on which the formalities of a real estate sale are concluded, and at which time title passes from seller to buyer. It is normally a meeting during which all the papers are signed (the loan is "closed") and loan funds are often transferred. May also be referred to as settlement.

Cloud (on title): An outstanding claim or encumbrance which adversely affects the marketability of title.

Codes: Standards for constructing buildings that are established by city, state, or municipal governments. In most areas these codes are modeled after national codes and establish minimum requirements for construction buildings. Points covered by codes include design, quality of construction, use and occupancy of the building on the site, safety, and health. Some jurisdictions may require additional codes for school buildings.

Collar: The use of a cap and a floor in a floating rate loan. A collar prevents the interest rate from rising above the cap or below the floor. Usually paid for annually by the borrower.

Collateral or security: Assets that are pledged to secure a debt. If the borrower does not repay the loan as agreed, the lender can foreclose and take possession of the collateral. Typically, the property financed with a mortgage serves as the bank's collateral.

Commission: Money paid to a real estate agent or broker by the seller (or the buyer) as compensation for finding a buyer (or seller) and completing the sale. Usually the commission is set as a percentage of the sales price and, depending upon local real estate practice, may be negotiable.

Commitment letter: A formal, legally binding written offer by a lending institution stating the terms under which it agrees to loan money to a borrower.

Common area maintenance (CAM): Charges paid by the tenant to landlord for the upkeep of areas designated for the use and benefit of all tenants. Common areas in commercial buildings often include stairways, hallways, restrooms, courtyards, etc.

Comparables: Properties that are similar or comparable to the subject project. See Direct Sales Comparison.

Completion bonds: Bonds provided by contractors to lenders to guarantee completion of construction in accordance with plans and specifications.

Condemnation: A determination by a governmental agency that a particular building is unsafe or unfit for use.

Contiguous: Properties that touch each other.

Contingency: An item in any contract stating that the contract is good only in certain cases. For example, a real estate sales contract may be binding only if the buyer obtains financing at a certain rate or if the seller replaces the shingles on the roof. Contingencies must be written in the contract to be enforceable. Also, a line item in a budget to cover unforeseen expenses.

Contract of purchase or contract of sale: See Agreement of Sale.

Contractor: In the construction industry, a contractor is one who contracts to erect buildings or portions of them. There are also (sub)contractors for each phase of construction: heating, electrical, plumbing, air conditioning, mechanical, and others.

Conversion clause or convertible loan: A provision in some floating or adjustable-rate loans that allows you to change the adjustable rate to a fixed-rate loan at some point during the term. Usually conversion is allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed-rate mortgages. The conversion feature may be available at extra cost.

Co-signer: A person or corporation who signs loan documents, such as a mortgage note with another person. The co-signer is responsible for making payments if the borrower does not.

Cost approach: A way to determine the market value of a property by evaluating the costs of creating a property exactly like the subject.

Co-tenancy: A form of co-ownership of property. Examples include: tenancy in common, tenancy by the entirety, and joint tenancy.

Counter offer: Rejection of an offer by a seller or buyer with a simultaneous substitute offer.

Covenant: A clause in a mortgage that obligates or restricts the borrower and which, if violated, can result in a default leading to foreclosure. Covenants typically fall into two categories: reporting (such as submission dates for audited financial statements) and financial (maintaining a certain level of cash or debt service coverage). Charter schools may also have covenants for enrollment levels or student achievement.

Credit report: A report of an individual's (or business's) credit history prepared by a credit bureau and used by a lender in determining an applicant's creditworthiness.

Cross-default clause: A provision in one mortgage making the mortgagor in default on all mortgages included in the group if a default occurs on just one mortgage. The cross-default clause allows a lender to foreclose if the borrower is in default on just one mortgage.

D

Daily interest: The amount of interest the borrower pays the lender calculated on a daily basis. It equals the annual interest rate divided by 360 or 365, and multiplied by the amount of the loan. Also called per diem interest.

Debt service coverage (or debt coverage ratio): Relationship between net operating income (NOI) and annual debt service payments. NOI is the income from a property or of a business after operating expenses have been deducted but before deducting taxes and financing expenses (principal and interest). Annual debt service is the amount to be paid each year in principal and interest. Lenders usually require that this ratio be at or above a certain level for the life of a loan. The ratio can be described as calculating the amount available in operating income for each dollar of debt.

Debt service: Loan payment.

Declaration of trust: A document that acknowledges property is being held by a trustee for another individual or organization.

Decree: An order or judgment of a court.

Deed: A formal written legal instrument by which title to real property is transferred from one owner to another. The deed must contain an accurate description of the property being conveyed, be signed and witnessed according to the laws of the state where the property is located, and be delivered to the purchaser at closing day. There are two parties to a deed: the grantor and the grantee. Compare to a Deed of Trust.

Deed of trust: Like a promissory note, a document in which real property is given as security for a debt. However, in a deed of trust there are three parties to the instrument: the borrower (or trustor), the trustee, and the lender (or beneficiary). In such a transaction, the borrower transfers the legal title for the property to the trustee who holds the property in trust as security for the payment of the debt to the lender or beneficiary. Many lenders will name officers of the financial institution as the trustee. If the borrower pays the debt as agreed, the deed of trust becomes void. If, however, the borrower defaults in the payment of the debt, the trustee may sell the property at a public sale under the terms of the deed of trust. In most jurisdictions where the deed of trust is in force, the property may be sold without benefit of legal proceedings. Not the same as a deed.

Default: Failure to make mortgage payments as agreed in the mortgage or deed of trust. It is the mortgagor's responsibility to remember the due date and send the loan payment prior to the due date, not after. Generally, 30 days after the due date if payment is not received, the mortgage is in default. In the event of default, the mortgage may give the lender the right to accelerate payments, take possession and receive rents, and start foreclosure. Defaults may also come about by the failure to observe other conditions (covenants) in the mortgage or deed of trust.

Defective title: Title that is not clear.

Deferred interest: Interest due but unpaid. Mortgages that permit negative amortization (such as a graduated-payment mortgage or a floating-rate loan without a rate cap) will allow deferred interest.

Deferred maintenance: In an appraisal, a type of depreciation (decrease in value) caused by failure to properly maintain a property; sometimes called curable physical depreciation.

Deficiency: In the event of a foreclosure, there is a deficiency when the highest bid in a foreclosure sale is less than the outstanding balance plus foreclosure-related costs.

Delinquency: A loan in which a payment is overdue but not yet in default.

Demand note: A debt instrument that allows the lender to call the balance due at any time without prior notice.

Deposit: Cash paid to the seller when a formal sales contract is signed. See Earnest Money.

Depreciation: Decline in value of a property due to normal wear and tear, adverse changes in the neighborhood, or any other reason. In accounting, the cost of an asset is depreciated (allocated) over its useful life.

Direct sales comparison: Property value estimation in an appraisal using the sales prices of similar properties (comparables) and making value adjustments according to such things as square footage, room count, lot size, condition, and amenities in order to obtain a realistic fair market value of the property being appraised. Same as Market Approach.

Discounting: The process of reducing the value of money to be received in the future to reflect the opportunity cost of waiting to receive the money.

Down payment: The amount of cash normally required by a lender to be paid by the borrower at closing. Down payment plus mortgage amount should equal the total project cost (sales price or construction costs). Typically 5 to 25% of the amount of the total cost. Sometimes called equity.

Due diligence: See Underwriting.

Due-on-sale clause: A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property that secures the mortgage.

E

Earnest money (good faith deposit): The deposit money given to the seller or seller's agent by the potential buyer upon the signing of the agreement of sale. This money indicates a seriousness on the part of the buyer. If the sale goes through, the earnest money is applied against the down payment. If the sale does not go through, the earnest money may be forfeited or lost, unless the offer to purchase expressly provides that it is refundable. Most purchase contracts require that certain contingencies (such as the availability of financing and acceptance of property condition) be removed prior to the deposit being forfeited. Additional earnest money may be required for an extension of the sale agreement.

Easement or easement rights: (1) A legal interest that one person/corporation has in land belonging to or in possession of another person/corporation entitling the owner of the easement to use the other's land. (2) A right of way giving persons other than the owner limited access to or over a property. An electric company obtaining a right of way across private property is a common example.

Economic life: The period of time over which real property is estimated to be profitably utilized.

Economic obsolescence: Loss in property value caused by conditions external to the property. A common example would be the typewriter, made obsolete by the personal computer.

Effective age: The apparent age of a property based on its appearance and wear; may be more than, the same as, or less than the actual or chronological age.

Egress: A means of exit from a parcel of land or from a building, usually used in reference to fire safety.

Eminent domain: Right of a government agency to take private property for a public purpose against the will of the owner. Fair compensation must be paid to the owner whose property is taken.

Encroachment: An obstruction, building, or part of a building that intrudes beyond a legal boundary onto neighboring private or public land, or a building extending beyond the building line.

Encumbrance: (1) A legal right or interest in land that affects a good or clear title and diminishes the land's value. It can take numerous forms, such as zoning ordinances, easement rights, claims, mortgages, liens, charges, a pending legal action, unpaid taxes, or restrictive covenants. An encumbrance does not legally prevent transfer of the property to another. A title search is usually done to reveal the existence of such encumbrances. (2) Anything that imposes a legal burden on title to land such as liens for security purposes, easements, and restrictive covenants.

Equity financing: Use of buyer's funds to finance property.

Equity: The value of an owner's unencumbered interest in real estate. Equity is computed by subtracting borrowed funds and other liens from the property's fair market value. Equity increases in a property as a mortgage is paid off, and as the property appreciates in value. When the mortgage and all other debts against the property are paid in full, the owner has 100% equity in the property.

Erosion: The loss of land by wearing action of water or wind.

Escrow agent: A person or corporation employed by parties to a real estate transaction to receive documents and money, and deliver them in accordance with their instructions. Often a title company.

Escrow agreement (escrow instructions): A contract between the parties to a real estate transaction to affect a settlement of the transaction in escrow.

Escrow: Usually documents and money deposited with a neutral third party (the escrow agent) to hold until the occurrence of a specified event, such as the signing of loan documents. In real estate sales transactions, the escrow agent is given the deed by the seller, down payment, or equity by the buyer and mortgage funds by the buyer. The escrow agent releases loan funds and down payment to the seller at closing and delivers the title to the buyer.

Estoppel certificate: Document in which the borrower verifies the remaining balance and interest rate of a loan.

Estoppel: A doctrine of law that prevents a person from asserting facts or rights inconsistent with prior words or conduct.

F

Feasibility analysis: Study of the cash flow, marketability, profitability potential, and overall desirability of a project.

Fee simple: Absolute ownership of and rights to use and control real property.

Finance: To supply money for a purchase. A lender can finance a building with a mortgage loan.

First mortgage: The mortgage that has first claim to the borrower's assets in the event of a default.

Fixed expenses: Expenses or payments that do not vary from month to month depending on production of a business, such as rent or insurance. Compare to variable expenses.

Fixed lease: A lease in which the lessee pays a fixed amount for the duration of the lease. See also Gross Lease.

Fixed-payment mortgage: Periodic payments of principal and interest on a mortgage which remain constant over the loan term.

Fixed-rate mortgage: A mortgage in which the interest rate does not change during the entire term of the loan.

Fixture: Anything attached to real property in such a manner that to remove it would damage the property. Must meet legal tests.

Floating rate: An interest rate on a loan which changes during the life of the loan, often monthly but can change quarterly or annually. These variable rates are based on an index rate and can be used for mortgages and other loans, such as lines of credit. A floating rate is usually lower than a fixed rate of interest, but there is risk of very high rates in the future as index rates change.

Flood insurance: Insurance required for properties in federally designated flood areas.

Floor: The interest rate below which a floating rate cannot fall. Agreed upon by borrower and lender; normally requires annual fee.

Forbearance: The lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

Foreclose: The legal process of the lender taking a property when the borrower has defaulted on the loan. The lender typically then sells the property to recoup its loss on the unpaid loan, though some lenders may pursue alternative routes, such as placing a new borrower in the property.

Front foot: A measure of property by which the distance is measured along the street, highway, stream, or other body of water.

Fully amortizing mortgage: A method of loan amortization in which equal periodic payments completely repay the loan during the loan term.

Functional obsolescence: Outdated design, fixtures, and other factors within the structure itself that detract from a building's value.

G

General partnership: Form of co-ownership wherein all partners have a voice in the management of a business and unlimited liability for its debts.

General warranty deed: A deed which conveys not only all the grantor's interests in and title to the property to the grantee, but also warrants that if the title is defective or has a "cloud" on it (such as mortgage claims, tax liens, title claims, judgments, or mechanic's liens against it) the grantee may hold the grantor liable.

Good faith deposit: See Earnest Money.

Grade: The level of the ground at the structure foundation.

Graduated-payment mortgage (GPM): A type of stepped-payment loan in which the borrower's payments are initially lower than those on a comparable level-rate mortgage. The payments gradually increase over a predetermined period, and then are fixed at a level-pay schedule, which will be higher than the level-pay amortization of a level-pay mortgage originated at the same time. The difference between what the borrower actually pays and the amount required to fully amortize the mortgage is added to the unpaid principal balance. Normally for borrowers with future debt-service capacity higher than current capacity.

Gross area: The entire floor area of a building, including hallways, closets, and other non-usable space.

Gross lease: A lease agreement in which the lessee pays a fixed rental amount for the duration of the lease, and the lessor (property owner) pays the expenses associated with owning the property such as taxes, repairs, insurance, and other costs. Compare to Triple Net Lease.

Ground lease: A lease of the land only. Usually the land is leased for a relatively long period of time to a tenant that constructs a building on the property.

H

Hazard insurance: Insurance that compensates for a loss on a specific property due to damages caused by fire, vandalism, theft, storm damage, and certain other natural disasters.

Highest and best use: The use of a property that will yield the greatest return on the property.

HVAC: Heating, ventilation, and air conditioning.

I

Impound account: See Escrow.

Improvement: (1) A structure situated on real property. (2) An activity that increases a property's value such as upgrading an HVAC system or modernizing the facility.

Index: A statistic that indicates some current economic or financial condition. Indexes are often used to set and adjust the interest rates on loans. Common indexes are prime rate, LIBOR, and treasury bonds.

Industrial revenue bond: Bonds issued to raise funds for developing commercial buildings.

Ingress: A means of entry to a property.

Inspection: Physical examination of a property or building to confirm it meets the standards of a contract. When a property is constructed, it is normally inspected by an individual from a unit of local government to be sure all work is done properly. Construction lenders may also require inspections prior to disbursing loan funds. Inspections normally include a determination of the soundness of the building and the condition of mechanical systems, such as plumbing and heating.

Installment debt: Debts or accounts that are paid off in monthly payments or installments, such as credit card accounts. Often refers to unsecured debt.

Interest: A charge that a borrower pays to a lender to borrow money.

Interest-only loan: A method of loan amortization in which interest is paid periodically over the term of the loan and the entire loan amount (principal) is paid at maturity.

Involuntary lien: A lien such as taxes or mechanic's lien imposed without consent of the property owner.

J

Joint tenancy: Form of co-ownership, giving each tenant equal interest rights in the property, including the right of survivorship.

Junior mortgage: Any mortgage on a property that is subordinate to a senior mortgage in priority. See also Subordinate Mortgage.

L

Land contract (installment sale contract, installment contract, and contract for deed): A contract in which a seller of real estate promises to deliver a deed to the buyer at some time in the future after the buyer has, in an agreed-upon number of payments of principal and interest, paid the purchase price in full. During the payment period, the buyer may use and occupy the land and real estate, but no deed or title exchanges hands.

Late charge: The penalty a borrower must pay when a payment is made after the agreed-upon due date.

Latent defect: A concealed defect not easily determined from an inspection of the property.

Lease: A contract between the property owner and another person to use or occupy the land for a set period of time.

Leasehold: Legal interest in real property acquired by a tenant (lessee) when he/she enters into a rental agreement with the owner of the property (landlord or lessor). Normally for a fixed period of time at a specified price, without transfer of ownership. A leasehold is a fixed asset and can be used to obtain financing.

Lessor: A person who rents or leases a property to another. Also referred to as a landlord.

Letter of credit: Arrangement with a lending institution that agrees to substitute its credit for the borrower's credit. Used by borrower to secure debt and guarantees payment on that debt up to a specified amount. Borrower pays fees to the bank providing a letter of credit (LC).

Leverage: The amount of long-term debt a company has in relation to its equity. Can be expressed as a ratio or a decimal. Greater leverage (higher debt to net worth or net assets) is indicated by a higher leverage number.

Liability insurance: Protection for a property owner, contractor, individual or corporation to protect against claims of negligence or inappropriate action resulting in bodily injury or property damage.

Lien: A claim on property as security for money owed. Such claims may include obligations not met such as debt, judgments, unpaid taxes, materials, or labor. May be against all property or specific property.

Liquidated damages: A specified sum of money agreed upon in a contract that one party will pay the other in the event of a breach of the contract.

Liquidity: A measure of how easily (and without cost) assets can be converted to cash. Lenders may measure the strength of a borrower's liquidity using something called the current ratio: current assets divided by current liabilities. The higher the number, the better the liquidity.

Loan agreement: Document which specifies amount, repayment structure, and covenants. Compare to Promissory Note and Deed of Trust.

Loan balance: The amount of money remaining to be paid on an amortizing loan at a given time.

Loan commitment: See Commitment Letter.

Loan origination: The process whereby a lender initiates a loan with a borrower.

Loan Servicing: See Servicing.

Loan-to-value ratio (LTV): A percentage that expresses the loan balance on a property compared to its appraised value (loan amount divided by the property value). In making a mortgage loan, a lender uses the LTV to ensure that a property is worth more than the loan amount. Most lenders will limit the loan amount based on this ratio.

M

Margin (also known as spread): The amount a lender adds to the index rate to calculate the interest rate of a loan. May be described in percentages or basis points.

Market approach: The process during an appraisal of comparing the subject property to equivalent properties sold recently to arrive at an estimate of value for the property.

Market interest rate: Interest rate currently utilized by lenders and investors, often for similar transactions.

Market value: Price that a property should be purchased by a buyer in a competitive and open market under "fair sale" conditions (e.g., there is sufficient marketing time, no coercion, typical financing availability, arm's-length negotiation, and knowledgeable buyers and sellers). Sometimes called fair market value.

Marketable title: A title that is free and clear of objectionable liens, clouds, or other title defects. A title which enables an owner to sell a property freely to others and which others will accept without objection.

Maturity: The date a loan or mortgage must be paid in full.

Mechanic's lien: A lien that can be filed by laborers or material suppliers. It is against real property created for the purpose of securing payments for services performed or materials furnished in the construction or repair of buildings or making other improvements to land.

Metes and bounds: A method of land description using measurements, boundaries, and directions.

Mortgage commitment: See Commitment Letter.

N

Negative amortization: Occurs when monthly payments on a loan do not cover all the interest cost accumulated. The interest cost not paid is added to the principal balance. This can result in a higher loan balance after time and higher monthly payments than the original loan amount. Most often happens with adjustable or floating interest rates with fixed monthly payments.

Nonconforming use: A use of land that violates zoning regulations or codes but can lawfully continue because the use began before the new zoning ordinance was enacted.

Note (also called promissory note): A legal document obligating a borrower to repay a loan at a stated interest rate and during a specified period of time. Compare to Mortgage.

Notice of default: A formal written notice to a borrower that a default has occurred and that legal action may be taken. See Default.

O

Offer: A purchase proposal to the seller of a property detailing the amount the interested buyer would pay and other conditions that would have to be met before the proposed sale.

Open-end mortgage: A mortgage agreement that allows the mortgagor to borrow additional funds from the mortgage lender in the future, normally with a borrowing limit. This limit may be based on loan-to-value ratio or may simply be the original loan amount (re-borrowing against principal previously paid).

Operating expenses: Costs necessary to run a business, such as salaries and utilities.

Option: A contract from the owner of a property, giving the right to buy or lease the property at a certain price within a specified period of time.

Origination fee: A fee paid to a lender for processing a loan application. Often stated as a percentage of the mortgage amount, or basis points, and paid at closing.

P

Participation: A loan in which two or more lenders participate. The borrower may or may not be aware of this arrangement. Some participations are done after loan closing; others are active partnerships during the underwriting process.

Party wall: A wall erected on the line between two adjacent properties for the use of both parties.

Physical depreciation: Physical deterioration and concurrent loss in property value caused by wear, tear, and decay.

Plat: A map or chart of a lot, subdivision, or community drawn by a surveyor that shows boundary lines, buildings, improvements on the land, and easements.

Plot plan: A drawing showing the placement of a building on a site with precise locations, dimensions, and elevations.

Plottage: The increase in value of land by assembling smaller properties into one larger site.

Point or points (also basis points): A term used in relationship to interest rates. One point is equal to 1/100 of 1%, so that 100 points equal 1%. May be used to describe the amount over an index rate that is charged to a borrower, or to describe the amount of fees for a loan.

Prepayment: Payment of a mortgage loan, or part of it, before the due date. Mortgage agreements often restrict the right of prepayment either by limiting the amount that can be prepaid in any one year or by charging a penalty for prepayment. The practice of charging money for an early payoff of the existing mortgage loan varies by state, type of lender, and type of loan.

Prepayment penalty: A fee charged to a borrower who pays off a loan before maturity. Must be included in loan documents.

Prime rate: The interest rate charged by lenders to their best customers. Often also refers to the prime rate as published in the *Wall Street Journal* (WSJ). The WSJ Prime Rate is determined via a poll of 30 U.S. banks.

Principal: In finance, the basic element of the loan as distinguished from interest and any other charges. It is the amount upon which interest is calculated and paid.

Pro-forma statements: Financial analysis showing what is expected to occur — projections. Can describe balance sheets or income statements.

Promissory note (note): A document on which a borrower promises to repay a loan. A legal document obligating a borrower to repay a loan at a stated interest rate and during a specified period of time. The agreement serves as proof of indebtedness and states the manner in which it shall be paid. The note states the actual amount of the debt that the mortgage secures. Compare to Deed of Trust and Loan Agreement.

Proposal letter (term sheet): An indication of preliminary interest from a lending institution. Normally outlines general terms for interest rate, amortization, and conditions precedent to closing.

Prorate: Allocation of costs and income between the buyer and seller of real estate at the time of the transaction closing, based upon the time of ownership of each.

Purchase agreement: See Agreement of Sale.

R

Rate lock: A specified interest rate, available normally for a short period of time, committed to by a lender.

Raw land: Land with no improvements.

Recording: Filing a document with the appropriate public official in order to provide notice and affect the property title.

Refinancing: The process of paying off one loan with the proceeds from a new loan secured by the same property.

Rentable area: The actual square foot area for which the tenant will pay rent. Compare with Gross Area and Usable Area.

Reserve or reserve account: Funds set aside, usually paid by the borrower at closing or out of borrower's cash, in a segregated bank account. Funds may be used to make normal monthly loan payments or in case of a late payment.

Restrictive covenants: Private restrictions limiting the use of real property. Restrictive covenants are created by deed and may bind all subsequent purchasers of the land, or may bind only one seller and buyer. Restrictive covenants may limit the density of buildings per acre, regulate size, style, or price range of buildings to be erected, or prevent particular businesses from operating.

Right of way: The right to cross over or under another person's property for ingress, egress, utility lines, or sewers.

Riparian rights: Rights of an owner of property adjacent to a body of water, allowing owner to use the water.

S

Sales agreement: See Agreement of Sale.

Sales comparison approach: See Market Approach.

Second mortgage: A mortgage that has rights that are subordinate to the rights of the first mortgage holder.

Security: See Collateral.

Security interest: The right of a creditor (a lender, for example) to take control of property offered as security.

Servicing: The act of billing, collecting payments, keeping records about covenant requirements, following up on delinquencies, and taking foreclosure actions. May also include loan analysis after closing.

Setback: A distance from the curb to the building. Often a minimum setback is specified by ordinance or code.

Site: Parcel of land developed to the point that it is ready for construction of a building or other improvements.

Specifications: A detailed description of the size, shape, materials, and other details of a construction project.

Spot zoning: Zoning that sets aside certain areas for purposes different from the general area requirements.

Spread (also known as margin): The number of percentage points the lender adds to the index rate to calculate the interest rate of a loan. May be described in percentages or basis points.

Step-up lease: A lease in which the rental amount paid by the lessee increases by a preset rate at predetermined intervals.

Subcontractor: Someone who performs services under contract with a general contractor. One example would be a plumber.

Sublease: A lease from a tenant to another lessee. The new lessee is a sublessee or a subtenant.

Subordinate mortgage: Any mortgage on a property that is subordinate to a senior mortgage in priority. Also called Junior Mortgage.

Survey: A map or plat showing a property's boundaries, any places the property may have been improved or changed, rights-of-way, and other physical features. A survey is often required by the lender to provide assurance that a building is actually sited on the land according to its legal description.

T

Takeout: Financing from a lender for a permanent loan to pay off a construction loan. Generally includes specific conditions and is normally required to be in place by construction lenders before closing the loan or construction can begin.

Tax credit: Allowable reduction in the amount of income tax owed.

Term loan: The period of time during which payments (of principal and/or interest) must be made. Compare to Amortization.

Terms: All conditions placed on a contract or loan, including the interest rate, any finance charges, and the length of the loan.

Title company: A company that examines real estate titles and issues title insurance.

Title insurance: Insurance that protects buyers and lenders against loss in the event of title disputes.

Title search or examination: A check of the public title records to make sure the buyer is purchasing real estate from the legal owner and there are no liens, overdue special assessments, or other claims or outstanding restrictive covenants filed in the record, which would adversely affect the marketability or value of title.

Title: Document establishing legal ownership of real estate. A clean title is one that shows no liens against it.

Tract: An area of land.

Triple-net lease: A lease in which the tenant pays, in addition to rent, taxes, insurance, and maintenance. Compare to gross lease.

U

Underwriting: The work and research done by a lender to evaluate borrower creditworthiness and to ascertain risks involved prior to deciding whether or not to make a loan.

Unsecured credit: Any credit that is not secured by property (such as a house). A credit card is unsecured credit; a mortgage loan is secured.

Usable area: Rentable area minus certain common areas that are shared by all tenants (corridors, storage, bathrooms, etc.).

Usury: Interest on a loan at a rate higher than allowed by law.

V

Variable expenses: Costs, such as utilities, which vary with a building's occupancy rate or the production levels of a company.

Variance: In zoning, the right to deviate from the use of land prescribed by an existing zoning ordinance.

Z

Zoning: A county or city law stating the types of use to which properties can be put in specific areas.

momentus capital. | capital impact partners. | cdc small business finance. | momentus securities.

Providing People with the Capital and Opportunities They Deserve

Small business owners, developers, and other local leaders are the engines of job creation and economic activity in communities across the country. When they succeed, their communities, local residents, and our country thrive. The current financial system, however, does not provide everyone with the opportunities they deserve. As a result, they are unable to fully contribute to their communities and our shared economy.

Momentus Capital Was Created to Meet This Challenge

Providing a Continuum of Solutions

Momentus Capital - a branded family of organizations - brings together leading organizations rooted in social mission to provide a continuum of financial, social, and knowledge capital at every growth stage to support economic mobility and wealth creation.

Small Business Lending

Long-term SBA loans with low down payments and competitive rates for small businesses, designed for working capital and commercial real estate financing. We also provide SBA-alternative options for those who don't meet traditional lending criteria.

Impact Investing

Non-dilutive investments in growth-stage enterprises and small businesses with a community focus. Through a diverse set of investment instruments, our goal is to increase access to health care and healthy food, and create jobs and generational wealth.

Community Development Lending

Flexible and affordable financing for community pillars including health centers, education facilities, food retailers, affordable housing, and cooperatives.

Business Advising & Capacity Building

Training, business advising, and access to professional networks and mentors to jumpstart careers and help entrepreneurs launch small businesses.

Community-Focused Investment Bank Services

Momentus Securities, an SEC-registered broker-dealer, MSRB-registered, and a FINRA/SIPC member, offers a range of services across markets and investment banking and helps drive institutional capital to small businesses and nonprofits. The range of investment banking options includes: advisory services, capital markets services, SBA loan trading services, and municipal advisory services.

To learn more about us visit
momentuscap.org

Offering a Continuum of Lending, Investment, and Advising Solutions

Across the Momentus Capital branded family of organizations, we offer solutions for entrepreneurs, community-based organizations, & local leaders at every growth stage – from inception to expansion. We can provide you with the capital & opportunities you deserve.

- **Small Business Lending**
- **Commercial Real Estate**
- **Community Development Real Estate**
- **Community Development Working Capital**
- **Impact Investments**
- **Business Advising & Training**

us.

momentus capital. | capital impact partners. | cdc small business finance. | momentus securities.