

Facility Planning: Seven Deadly Sins, Exposed



HIGHMARK
SCHOOL DEVELOPMENT
Your Facility Partner





HIGHMARK

SCHOOL DEVELOPMENT

ESSENTIALS OF FACILITY PLANNING

SEVEN DEADLY SINS, EXPOSED

FACILITY PLANNING

1. The Process
2. The Mindset
3. Targeted Size
4. Language
5. Information is Neutral
6. Stay Engaged
7. Binding Decisions



MORE DETAIL . . .

BEYOND ACADEMICS

ESSENTIAL STRATEGIES FOR
CHARTER SCHOOL LEADERS

PEGGY DOWNS

ADRIANNA BERTOIA PATRICK BEAUSOLEIL
MARK COMANDUCCI LINDSEY BIRD
JIM HEALEY NICK LEROY
CASSANDRA TURNER

✦ Recent eBook

✦ Chapter 5

✓ Six Sermons: Essentials of
Facility Planning

Validation – Informed By

✦ Real Estate Development for Charter Schools

- ✓ **94** school facility projects (mostly charters) in 17 states + DC
- ✓ **\$1 billion** deployed as facility developer
- ✓ **3.4 million SF** of charter school space - 64,000 charter students

✦ Charter School Builder *and*

✦ Non-Profit Funder *and*

✦ Publicly-Traded Funder (and building owner)

- ✓ **Builder: 400+ charter schools** 23 states; **\$650 million** in construction
 - ✓ **5.6 million SF** of charter school space = 128.5 acres
- ✓ **CDFI Funder, Lender: 250** charter schools and **\$1 billion** deployed.
- ✓ **REIT Funder, Owner: 65** charter schools funded

Seven Deadly Sins

✦ What you are about to see is real.



✦ These **deadly sins** are not made up.

✦ Founders, *experienced* school leaders, and boards all around the country have committed these sins.

These Deadly Sins

⚡ These sins have . . .

- ✓ Prevented charters from opening.
- ✓ Busted construction budgets
- ✓ Shattered development schedules.
- ✓ Forced founders to withdraw charters.
- ✓ Caused authorizers to revoke charters.
- ✓ Destroyed friendships.
- ✓ Created Hell for the sinners.



1a Process

- ✦ Following the wrong process is **a deadly sin.**
- ✦ The *right* process is *wholly different* from a district's facility process.
 - ✓ It's inverted from the district approach.
 - ✓ Do *not* start with hopes and dreams.
 - ✓ Do *not* start with an architect.
 - ✓ Do *not* start with a real estate agent.
 - ✓ Do *not* start with *the perfect* building.
 - ✓ Do *not* start by getting estimates to renovate a building.

1b Process – 5 Steps

1. Realistic rent/mortgage budget *you* can live with.
2. Potential funding source(s).
3. Spending limit or range—"deal size."
4. The team.
5. Real estate options.

Like shopping for a home!



2a Mindset

- ✦ Thinking and operating like a charity is **a deadly sin**.
 - ✓ You are running a business.
- ✦ Don't expect others—architects, builders—to work for free.
 - ✓ Churches do that. Businesses don't.
- ✦ You need business relationships to succeed.



2b Mindset

- ✦ Your *business* is a publicly-funded, non-profit school.
 - ✓ It's paid for by taxpaying humans and businesses.
 - ✓ They will send their children to your school.
- ✦ Businesses *will make money* "on the backs of" your students. That's America.
 - ✓ In America, students are educated "on the backs of" taxpayers.



2c Mindset

- ✦ Vendors *might* work for free (for a while) to help you.
 - ✓ You get what you pay for.
 - ✓ They *might* do this for a chance to win paid work.
- ✦ Not everyone wants your business: charters are risky; charter real estate is *especially* risky.
- ✦ You will have more businesses interested in your project once you have a likely path to financing.

3a Targeted Sizing: Rent and Building Size

✦ Underbudgeting rent and oversizing your building is **a deadly sin.**

- ✓ Budget 15-20% of revenue for rent or mortgage.
- ✓ Plan on 65-75 square feet per pupil, all-in.
 - These are normal targets and realistic for planning.
 - You're *not* estimating construction costs.
 - You are not counting or designing classrooms yet.
 - You *don't need* real estate identified to do this.
- ✓ **These will drive your real-estate search.**

3b Targeted Sizing: Rent

- ✦ More than 20%: classrooms suffer; investors walk.
- ✦ Less than 15%: you limit real-estate options.
 - ✓ E.g., Revenue = \$5M: $\$5M \times .20 = \textbf{\$1M for rent.}$
 - ✓ E.g., Revenue = \$5M: $\$5M \times .15 = \textbf{\$750K for rent.}$



- ✦ If you plan to occupy as a short-term tenant, *that* is your spending *target* for negotiating with the landlord.

3c Targeted Sizing: Building Size

✦ **Physical Building Size: Own or Rent**

- ✦ Plan on 65-75 SF per student, all-in. Just do it.
- ✦ 500 students – 32,500-37,500 SF

- ✓ This is your *targeted* range.
- ✓ This is normal and realistic for planning.
- ✓ This applies to all academic programs, all markets, funding levels, grades served, and enrollment counts.
- ✓ You're *not* designing a building or counting classrooms at this stage. That comes later.
- ✓ **This will drive your real-estate search.**

3d Targeted Sizing: Deal Size or Spending Limit

- ✦ **Targeted Transaction Size: Permanent Home**
- ✦ Calculate 15-20% of the school's revenue.
- ✦ Apply a finance rate ("cost of capital" or "interest rate").
 - New school: plan 8.5-10% rate, if you can get a loan.
 - Emerging school: plan 6.5-8.5% rate, if you can get a loan.
 - Long-tenured school of quality: plan 4.5-6.5% w/bond market.
 - Those ranges are highly malleable. Each credit is unique.
- ✦ You get "more building" if you pay a lower rate.
- ✦ $\text{Facility Payment} \div \text{Finance Rate} = \text{Transaction Size Limit}$

3e Targeted Sizing: Deal Size or Spending Limit

Targeted Transaction Size: Permanent Home

Facility Payment ÷ Finance Rate = Transaction Size Limit

Total School Revenue	Revenue as % Allocated for Rent	Dollars Allocated for Rent	Cost of Capital/"Loan Rate"	Transction Size - Upper Limit
\$5,000,000	15.0%	\$ 750,000	10.0%	\$ 7,500,000
\$5,000,000	15.0%	\$ 750,000	8.5%	\$ 8,823,529
\$5,000,000	15.0%	\$ 750,000	8.0%	\$ 9,375,000
\$5,000,000	15.0%	\$ 750,000	6.5%	\$ 11,538,462
\$5,000,000	15.0%	\$ 750,000	6.0%	\$ 12,500,000
\$5,000,000	15.0%	\$ 750,000	5%	\$ 16,666,667

Total School Revenue	Revenue as % Allocated for Rent	Dollars Allocated for Rent	Cost of Capital/"Loan Rate"	Transction Size - Upper Limit
\$5,000,000	20.0%	\$ 1,000,000	10.0%	\$ 10,000,000
\$5,000,000	20.0%	\$ 1,000,000	8.5%	\$ 11,764,706
\$5,000,000	20.0%	\$ 1,000,000	8.0%	\$ 12,500,000
\$5,000,000	20.0%	\$ 1,000,000	6.5%	\$ 15,384,615
\$5,000,000	20.0%	\$ 1,000,000	6.0%	\$ 16,666,667
\$5,000,000	20.0%	\$ 1,000,000	5%	\$ 22,222,222

3f Targeted Sizing: Deal Size or Spending Limit

Another Look: Deal Size – Spending *Range*

Targeted Spending Range: $\text{PPR} \times 2 \times \text{Enrollment} \pm 20\%$

- ✓ For this example, revenue is \$5M for 600 students.

- ✓ This is \$8,333 in per-pupil revenue.

- ✓ $\$8,333 \text{ Per pupil} \times 2 = \$16,667$

- ✓ $\$16,667 = \text{Targeted Development } \textit{Cost Per Seat}^*$

- ✓ $\$16,667 \times 600 \text{ Students} = \10M

- ✓ **$\$10\text{M} \pm 20\% = \$8\text{M}-\$12\text{M}^*$** , targeted spending range.

This will drive your real estate search.

4a Language: Targets, not Estimates

- ✦ It is **a deadly sin** to use the word “estimate” early in the process when discussing buildings.
 - ✓ Just don’t do it. It’ll get you in trouble. Don’t be a sinner.
 - ✓ The word you want is “target.”
- ✦ Early estimates are useless and irresponsible.
 - ✓ They can create false comfort with *bad* real estate
 - ✓ They can falsely derail *good* real estate.
 - ✓ Early estimates *are not estimates!* They’re misleading guesses.
- ✦ *Targets* demonstrate intention and keep spending in line.
 - ✓ *Targets* keep you—and your team—in control!



4b Language: Targets, not Estimates

- ✦ These early traps can make you reject good real estate and get you sucked into the wrong property.
 - ✓ "How much will it cost to renovate . . ."
 - ✓ "My brother-in-law estimates that that K-Mart store . . ."
 - ✓ "How much do you figure it'll take to build . . ."
- ✦ Useful estimates come **only after spending time and money** to understand a piece of property.
 - ✓ Before that, use "targets."

5a Information is Neutral

- ✦ Proceeding with emotion or assumptions is **a deadly sin.**
 - ✓ Don't get emotionally attached to a parcel or a building.
 - ✓ Don't assume *where* you can place your school.
 - ✓ Don't be a sinner.
- ✦ Real estate development is highly complex.
- ✦ Ignore *casual* comments from a seller, broker, builder, city employee, architect, building owner, brother-in-law, etc.
 - ✓ They can accidentally or intentionally mislead you.

5b Information is Neutral

✦ Embrace facts.

- ✓ Welcome facts even when they take a “great property” off the table.



✦ **Information is neutral:** what we *do with it* matters.

✦ Locations, budgets, and schedules can be busted for many reasons.

- ✓ Zoning, price, property condition, difficult seller, covenants, previous uses, environmental issues, proximity to prohibited businesses, neighbors, soil conditions, traffic impact, municipal process.

6a Stay Engaged

- ✦ It's **a deadly sin** to delay or avoid or disrespect requests from your prospective funding source.
 - ✓ Don't disappear. Don't be a sinner.
- ✦ You are asking for a lot of money for your building!
 - ✓ Any funder needs to understand, underwrite, and approve your school *as an operating business investment*.
 - ✓ Funders need *many* documents and conversations.
 - ✓ Don't treat the requests as an inconvenience or annoyance.
 - ✓ This is your chance to shine, to show your professionalism.
- ✦ Non-responsiveness **does** cause investors to walk away.

7a Binding Decisions

- ✠ It's **a deadly sin** to disrespect or ignore the legally-binding nature of contracts entered into by your school board.
 - ✠ You won't end up in Hell, but you might end up in court.
 - ✠ Take the legal stuff seriously!
-
- ✓ Contracts dealing with *your building* have lengthy ramifications.
 - ✓ Future boards and leaders live with binding decisions made by others.

7b Binding Decisions

The following things have happened.

What you are about to read is real.



7c Binding Decisions

- ✦ With real estate, facility funding, and construction . . .
 - ✓ . . . you can't just walk away from an executed purchase agreement or term sheet because you want something different.
 - ✓ . . . future leaders or business managers can't just pay less for a lease because they "don't like the terms of the agreement."



7c Binding Decisions

- ✦ With real estate, facility funding, and construction . . .
 - ✓ . . . a future board that changes the education model from PBL to classical *can't blame* the architect or builder for providing a board-approved PBL design.
 - ✓ . . . you *can't blame* your landlord if you don't fill your seats and your agreed-upon rent is now "too high."



FACILITY PLANNING

1. The Process
2. The Mindset
3. Targeted Size
4. Language
5. Information is Neutral
6. Stay Engaged
7. Binding Decisions



YOU CAN REACH ME . . .

✦ patrick@highmarkschools.com

✦ Tel. 616.717.0484

✦ www.highmarkschools.com

✦ The book

✦ Thank you. Go forth, and sin no more.

