

BUILDING EQUITY INITIATIVE

Year One Report

WALTON FAMILY
FOUNDATION

OCTOBER 2017



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INTRODUCTION

The Building Equity Initiative is a first-of-its-kind effort to provide charter schools with access to capital to create and expand facilities. Since its launch one year ago, the BEI has helped remove facilities barriers for educators and entrepreneurs in three cities, allowing them to serve an additional 6,900 students in the years to come.

When the BEI launched, we set out to create a larger network of resources that charter schools could utilize when finding and securing facilities with the help of Civic Builders. Today, there are more of these assets than ever — real estate experts, lenders, financiers, technical assistance providers and more.

Much work remains. In year two, we plan to build on the successes of year one while continuing to develop new and unprecedented ways to make capital easier and more affordable for those who need it most: charter school founders.

6,900 children

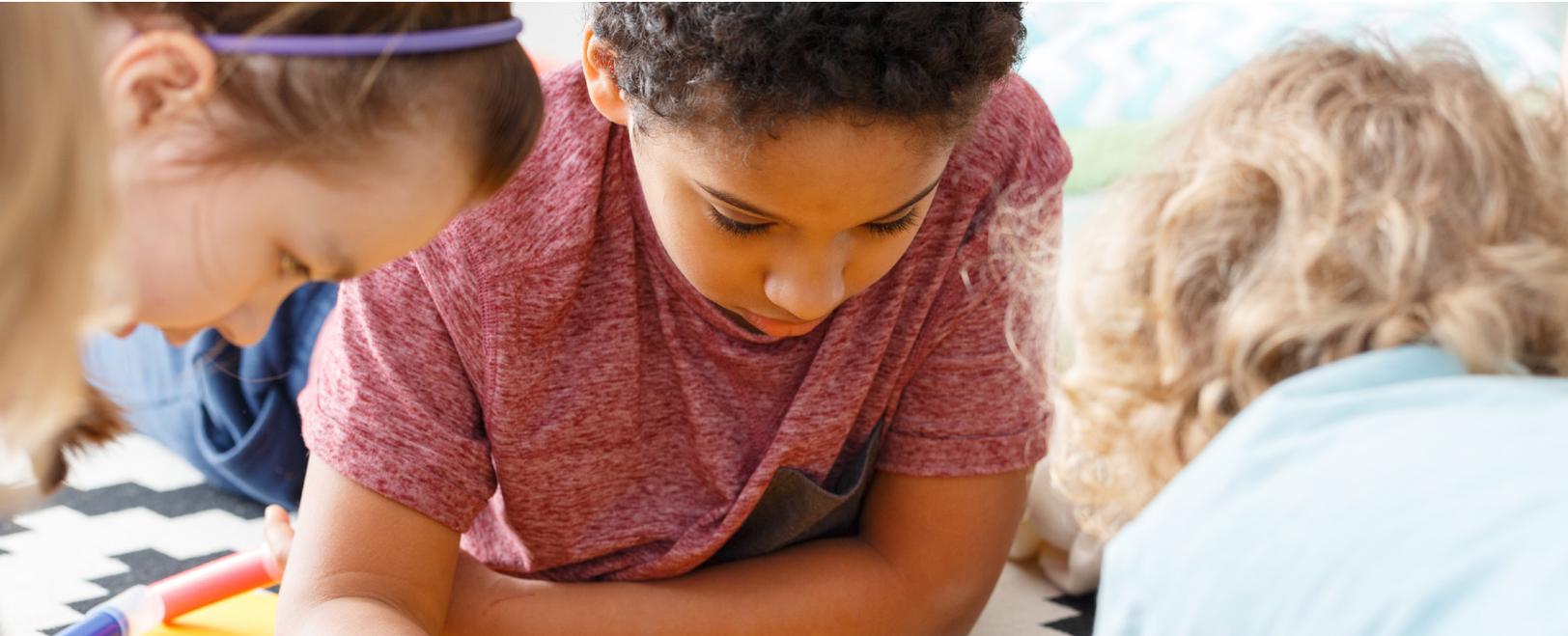
served by 2027

3 cities

Denver, New York City, Oakland

\$21,000,000

invested



WORKING TOGETHER TO CREATE THE BUILDINGS DENVER SCHOOLS NEED

Foundations are banding together to make a difference



Thomas A. Gougeon | President,
Gates Family Foundation

In Denver, we're proud to have beat-the-odds schools that are helping children in underserved communities excel. These schools know what works, and it's in our city's best interest to help them grow.

However, especially for smaller, newer charter schools, expanding isn't easy. Denver Public Schools has historically been a wonderful facilities partner, but capacity is increasingly stretched in the midst of a population boom. Often, even when the state grants permission for a high-quality school to grow, it can be

nearly impossible to access the necessary facilities or capital. In this environment, we've seen schools pay too much for real estate, delay opening, or invest disproportionate amounts of time and resources in facilities — activities that detract from building school culture, developing curriculum or recruiting staff and students.

A few years ago, a group of local foundation leaders coalesced around this challenge. In general, we had different priorities, but we agreed that helping our beat-the-odds charter schools grow was vital to Denver's future. We also recognized that we didn't have the tools to solve this problem alone.

Together, we set out to learn everything we could. We met with experts across the school-facilities sector: lenders, borrowers, builders, landowners, intermediaries.

After the research phase, a core group of us — the Anschutz Family Foundation, the Daniels Fund, the Donnell-Kay Foundation, and the Gates Family Foundation — decided to band together to create something brand-new: Colorado Charter Facilities Solutions. CCFS finances facilities for high-quality charter schools through a creative new approach that makes it easy for charter schools to plan for the facilities they need, access the capital they require, evaluate real estate options, and, if necessary, manage construction projects. The Walton Family Foundation, through its Building Equity Initiative, joined our partnership as well.

Together, we recruited Jane Ellis to lead the effort. Jane was formerly the director of charter school lending at a leading community development financial institution in North Carolina. Once Jane was on board, the group of us collaborated to create a policy and strategic plan that would guide our investments. For example, we decided to support more innovative, new models, as

opposed to focusing entirely on well-known charter management organizations.

Our objectives are unique — and so is our partnership.

None of us has enough resources to do this work at a significant scale on our own. But together, with multiple investors, we can make a real difference.

We also have the advantage of our collective experience and knowledge. We have all invested in charter schools in Denver before, but when we put our heads together, we are more confident in our assessments of charter schools and their leaders. This pooled wisdom

reduces the risk of this type of facilities investment because we are more likely to support schools with a higher chance of succeeding in the long term.

Having Walton as part of our partnership gives us an additional advantage: a national viewpoint and national contacts, which helps us broaden our perspective. We feel lucky to have both a national reach and deep local roots.

We hope this partnership will help us create charter facilities to serve 40,000 additional students over the next 10 years.



HELPING HIGH-QUALITY CHARTERS SECURE LONG-TERM HOMES

A new facilities financing startup in Colorado helps charters overcome financing obstacles



Jane Ellis | Executive Director,
Colorado Charter Facility Solutions

Imagine you buy a new home. You make a down payment and secure a bank loan for the rest of the cost. Your upfront contribution to the project — and other facts about your financial prospects — gives the bank confidence that you will honor the loan agreement and make loan payments on time.

Now, imagine that you need a facility for your charter school. You need classrooms, science labs, a multi-purpose room, and other

learning spaces. You can't access a building at no cost (or low cost) because you are not a district school. And even when you can find the perfect facility, you may not have enough resources for a sufficient down payment.

Colorado Charter Facility Solutions is a new nonprofit organization made possible by the Walton Family Foundation's Building Equity Initiative and a group of local Denver foundations. CCFS was created to make it easier and cheaper for high-quality charter school operators to secure facilities.

Since CCFS' launch last year, I've been working with charter school operators, district leaders, philanthropic partners, and local and national financial institutions to determine how to have the biggest impact in helping charter schools acquire attractive, affordable facilities.

In practice, this could mean many things. If a school is able to afford only a three percent down payment, CCFS may be able to help the school with another 17 percent for a 20 percent down payment. CCFS can also attract regional and nonprofit lenders to cover the remaining 80 percent. A primary goal of CCFS is to keep interest rates low so that schools don't spend more than 15 percent of total revenues on facilities. We want the remaining 85 percent to educate kids, pay teachers and do the other substantive work of running a school.

Denver Public Schools has been one of the best public school districts in the country in terms of its willingness to embrace charter schools as an integral part of the public school district. Because they share facilities with charter schools, this is an ideal location for our work. Seventy percent of charter schools in the city are in Denver Public Schools facilities; however, space is running short.

Only when underperforming or underenrolled schools close do additional facilities become available for high-quality charter schools. Thus, high-quality charters are left to solve their facility needs on their own.

As a society, we owe all children a high-quality education that helps them reach their potential. That doesn't just mean paying

teachers' salaries; it also means ensuring that children have access to spaces — from classrooms to science labs to gyms — where they can learn and grow. Our efforts in Denver will enable high-quality schools to provide educational opportunities that make a measurable difference for the students we serve.



Brilla Veritas Elementary School |
South Bronx, NY

CREATING A NEW PRECEDENT FOR CHARTER SCHOOL FACILITIES IN OAKLAND

Oakland charters are finding new ways to access high-quality buildings

David Umansky | CEO,
Civic Builders

Historically, charter schools in Oakland, California have had to settle for short-term leases or highly complicated one-off financing or construction projects.

“The real estate market in the Bay Area is extremely tight and expensive,” said John Sun, the CEO of Pacific Charter School Development, a nonprofit organization that works closely with charter schools to support facilities projects. “The land that is available and zoned for schools is very limited. It’s very, very difficult to find land that’s large enough and in the right zoning for a school, and if it’s zoned for a school, you’re often competing against residential developers, and there’s no way to compete.”

That is why local charter school leaders are excited about a groundbreaking new partnership with the Oakland Unified School District: a long-term lease between a charter school and the district. School leaders believe the arrangement will allow more underserved students to attend high-quality charters in state-of-the-art facilities.

KIPP Bridge Academy set the precedent in Oakland with a long-term lease on a district

property that currently houses a 70-year-old school building. KIPP Bridge was able to move from a short-term facility into the district building, and the school will be able to grow into its new home. The school will eventually build a brand-new “annex” on the same property to accommodate its expansion to serve students from kindergarten to eighth grade.

“People are very excited,” said Adam Kaye, the director of real estate for KIPP Bay Area Schools. “People love the idea of having our own future in our hands, to have a place we can call home.”

He said this deal wouldn’t have been possible without the willingness of the Oakland Unified School District.

“OUSD was a great partner in this,” he said. “You have to have a good partner to come to these long-term agreements.”

John Sun said the KIPP project “sets the stage” for other schools.

“This is an example of charter-district collaboration,” he said. “The district understands there’s a value in their signing up for these long-term agreements. ... I think this is a template we’re going to want to try to replicate.”

PCSD has helped more than 50 high-quality charter schools find real estate solutions over the last 13 years.

Jenna Stauffer, the CEO and founder of Lighthouse Community Charter School in Oakland, has been partnering with PCSD to find a permanent facility for its new K-12 charter school in Oakland. This year, the school has a one-year lease at a closed Catholic school building, but Stauffer hopes the school will have a permanent home soon.

“PCSD is an amazing facilities strategy partner for charter schools,” she said. “They’re helping us to do project management, strategy — on the ground, nitty gritty support ... They’ve been great thought partners. They’re willing to try anything and everything.”

Stauffer remembers frustrating conference calls with 30 people on the line when Lighthouse built its original building in 2009

— and said facilities challenges too often keep high-quality schools from serving the students who need them.

“This is the number one deterrent from being able to open more schools and from getting us to quality faster,” she said. “It’s such a resource and time drain to move all the time and to think about the operations of different facilities.”

KIPP Bridge Academy | Oakland, CA





FACES OF NEED

In the past year, we have learned so much about both the size of the facilities challenge and the people it affects every day. In the stories that follow, we meet the school founders, concerned parents, experts and school system leaders who are impacted by this challenge daily.



JANET MCNEAL

President,
Herron High School



Janet McNeal, the founding principal of Herron High School, has been an educator for four decades. Her years of experience, however, still haven't enabled her to acquire charter school facilities easily.

"In order to get into buildings, we take advantage of historic tax credits, new market tax credits, and a lot of creative financing," she said. And once this facilities-financing dance is finished, charter schools often must pay upwards of 14 percent of their operating budgets on routine facilities costs. This extra line item, which traditional district schools don't face, limits charter schools' ability to pay and retain teachers.

The Indianapolis Mayor's Office granted McNeal and her team a second charter in August 2015 to launch a new school to serve

more students. By November, they had identified a building they wanted to purchase and convert: a state armory for the Navy and the Marines.

They thought they'd be open by 2016, but some of the financing took a year longer than anticipated, and construction was delayed again and again. By the summer of 2017, construction had just begun. The first class of ninth graders will attend school this year in a temporary facility — a rented church — and move into their new building next fall.

"We do so much work academically and with our curriculum. I feel confident that the academics will be really strong," McNeal said. "The facility process just kills us."

NELSON SMITH

Senior Advisor,
National Association
of Charter School
Authorizers



The education officials who grant charters to school operators and the bankers who lend money to charters seeking facilities both perform a mix of academic and financial due diligence — inspecting publicly available performance data, financial reports and audits, and the quality and track record of school leaders and board members.

“We all have a real interest in seeing high quality, sustainable schools,” said Nelson Smith, senior advisor to the National Association of Charter School Authorizers. “Lenders don’t want to see a school go belly up, and both lenders and authorizers want to see good results for kids. We need to identify a common language about which schools are going to be successful for kids.”

Smith said that despite shared interests, authorizers and lenders have historically worked in different orbits, rarely communicating.

The result: In most parts of the country, even a school that is successfully authorized often struggles to acquire a school building. The process of planning and financing can be dauntingly complex. Smith knows this firsthand from his experience on the board of a charter school in Washington, D.C.

“In the long term, we need to rethink the idea of how we provide public school facilities access, so that all public school students have top-notch learning environments,” he said. “In the shorter term, we need to support intermediaries of different kinds who actually will take that role of financially helping and advocating for the local operator who wants to get started.”

CHRIS MEYER

CEO, New Schools
for Baton Rouge

SARAH TURNER

Facilities Lead,
New Schools for
Baton Rouge



Nine new high-quality charter schools are authorized to open in Baton Rouge, Louisiana in the next three years — but there are no buildings available to house them.

“We have probably the fastest growing school choice market in the country, and the biggest barrier for us is facilities,” the CEO of New Schools for Baton Rouge, Chris Meyer, said. “We need to match this growth with permanent facilities.”

His facilities director, Sarah Turner, added that the schools couldn’t “even access crummy buildings if they wanted to.”

New Schools for Baton Rouge is known as a “harbormaster” or “quarterback organization,” a type of educational nonprofit that coordinates among different organizations and brings resources to help improve schools in a city.

To address the urgent facilities issue, NSBR has taken on a unique role: It has begun

managing facilities, finance and construction projects on behalf of schools.

With NSBR involved, banks feel more comfortable with the risk of lending to relatively unknown new schools. The schools’ burden is also more manageable.

Meyer said it makes sense for NSBR to “carry the water” for schools now and help educators build long-term capacity for this work.

“Kids shouldn’t have to go to schools in really bad buildings,” he said. “We’re bringing some of the best educational models in the country to this community. We know kids can learn in bad facilities, but why should they?”

SCOTT BESS

Head of School,
Purdue Polytechnic
High School



Scott Bess got approval to launch Purdue Polytechnic High School in November 2015.

“That was almost the easy part,” he said.

Once the school was approved, the team started its facilities search. Even though the school has certain advantages — like a strong partnership with Purdue University — the school wasn’t able to secure a permanent facility. This year, the school is opening in a temporary facility, occupied mostly by tech startups. Next year, the school hopes to move to a permanent facility.

“It’s been a huge distraction for our team,” Bess said. “Answering the question of where we’re going to be is time we could not spend on students and teachers.”

Bess, who has been part of about a dozen new school openings, said the facilities issues are still complicated. He’s seen schools sign onto deals that they later realized they could not afford.

“People start talking about layered deals and tax credit deals,” he said. “It can be really intimidating.”

Although helping charter schools acquire facilities can seem like an insurmountable challenge, Bess said helping charters — especially new, innovative charters — find and afford spaces is essential to creating a strong community: “You lose out on the opportunity to have some interesting, innovative ideas coming through your city.”

SUYIN SO

Founder and
Executive Director,
Central Queens Academy

JEANNIE MENDEZ

Parent of Central
Queens Academy
student

Suyin So set out to create a school in Elmhurst, a community in the New York City borough of Queens. Elmhurst, one of America's most diverse neighborhoods, is a community with great need and engaged parents eager for high-quality educational options.

Central Queens Academy was authorized in 2012 with So as founder and executive director, and the school opened its doors to students the same year. In 2017, it is still waiting for a permanent facility.

"We knew it was going to be a tough environment facilities-wise, but we did not intend to be in two places in four grades for as long as we have," So said. "We did not fully anticipate the astronomical price of school buildings. There's a reality around the real estate and facilities that can feel a bit grinding."

This school year, the students will continue squeezing into two separate school buildings where they admittedly don't have enough space for a robust arts or physical education program — and where teachers don't have



Jeannie celebrates her daughter's accomplishments at Central Queens Academy

the space to do the personalized academic work they'd like to do with students.

Jeannie Mendez, whose son Brandon will be in the sixth grade this year, will drop her son at Central Queens Academy's smaller building, which is across the street from her home. Starting next year, he'll need to commute to the other CQA building, which is about 20 minutes from home.

"A lot of parents were concerned because it's a transition," Mendez said, adding that some parents have opted to pull their children out of the high-performing charter rather than commute to a different building.

Mendez said facilities issues present a frustrating challenge to charter school

families: "I wish they'd have one building just like they do for the public schools."

The school's facilities committee and team are now working with Civic Builders, an intermediary organization that helps charter schools access facilities by assuming such development responsibilities as financing,

design and construction. She hopes they'll move into a single new permanent facility in the fall of 2020.

"Civic has been tremendously helpful," she said. "They provide an essential layer of technical and financial resources."



Central Queens Academy | Elmhurst and Glendale, NY

JOE NERI

President and
CEO, IFF

ANDREW ALT

Director of School
Services, IFF

IFF is a nonprofit community development financial institution that has been supporting the growth of charter school facilities for two decades. But its CEO, Joe Neri, says in an ideal world, what he and his team do for charters wouldn't be necessary.

"Our goal is putting ourselves out of business, because schools should be able to access the public markets," he said.

Plus, he said, traditional public school districts should be routinely making spaces available for charter schools that go through rigorous authorizing processes.

Unfortunately, that utopia remains unrealized: There are state and local differences that affect charter schools' ability to access facilities. However, in most places, it remains difficult for high-quality charter schools to find or finance the facilities they need to educate their students well.

Andrew Alt, the director of school services at IFF, said schools often lack access to school buildings or flexible, affordable capital. Additionally, the educators in charge of schools often lack the experience, resources and time to adequately navigate the real estate process.



IFF does extensive research to make sure schools are located in the areas of highest need. It works with districts, authorizers, financial institutions, and other partners to help high-quality charter schools grow and serve more students.

Alt and Neri stressed that not all charters are equal in the eyes of lenders. A network with a 10-year history of success is a less risky lending proposition for a bank than a startup with authorization and little else.

"We need to be more sophisticated with how we talk about this challenge," Neri said. "There are challenges in the startup space, there are challenges with initial expansion and replication, and then there are challenges of much larger networks that operate a lot of

schools in multiple states. They're just very different."

Alt stated that the viability of a community is closely linked to the quality of its schools, so it has a crucial interest in supporting innovation and fostering growth among quality schools. In the near term, that means organizations

like IFF must continue serving as bridges that connect schools with capital. In the longer term, this approach might evolve.

"We all have a stake in the success of this sector," he said. "The question is how we can best achieve that."



PAYMON ROUHANIFARD

Superintendent,
Camden City
School District



This fall, three new buildings are opening their doors to students in Camden, New Jersey: two brand-new buildings, and one district building that has undergone significant renovations.

“It’s a huge initiative for us to provide a higher quality education for our kids and to revitalize communities,” said Paymon Rouhanifard, the Camden school superintendent. “It’s awe-inspiring to visit these schools. They didn’t exist two, three — and certainly not four — years ago. We’re making progress. We’re doing right by our kids and our families.”

The three new buildings will bring the total number of new, state-of-the-art facilities that have popped up in Camden under Rouhanifard’s leadership to 11.

When Rouhanifard became superintendent in 2013, more than half of the school buildings in the city were constructed before 1928. But he has been able to oversee a

facilities revitalization, thanks largely to New Jersey’s Urban Hope Act, which established “renaissance schools” — neighborhood schools operated by charter management organizations. The law creates an incentive for every new renaissance operator to build a brand-new facility or significantly renovate an existing district building. Recently, the Charter School Growth Fund established the Camden Facility Fund, with resources from local and national philanthropists, to support the facility construction.

Rouhanifard says facility funding was historically one of the biggest barriers to creating more high-quality schools to serve families and students in Camden.

“This fund has been a huge victory for our community to advance the growth of great schools,” he said. “We want to increase access to high-quality schools in the city. This allowed us to accelerate.”