

The Business of Charter Schools

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SELF  HELP



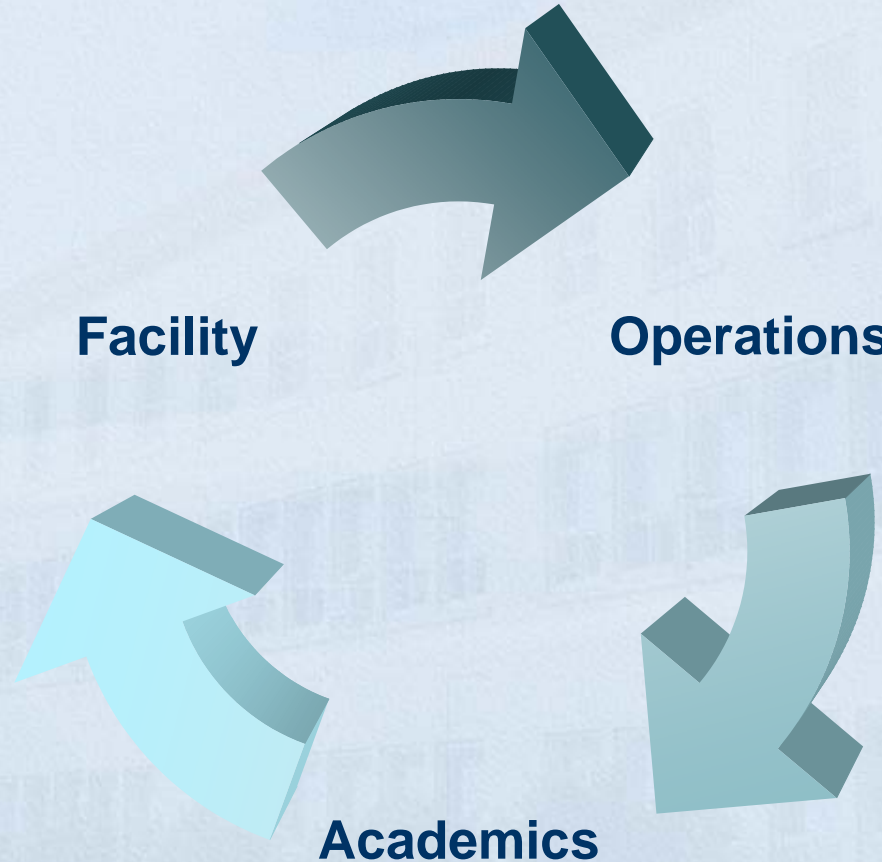
The Charter School “Ecosystem”

A successful charter school demands more than just stellar academics – it must be a sound business enterprise as well.

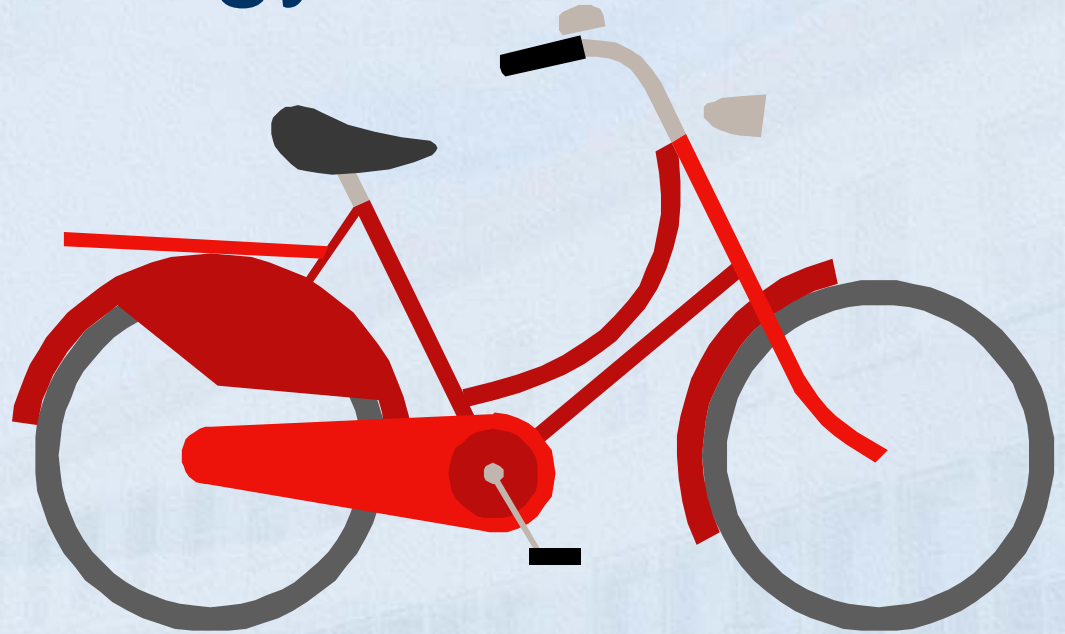
Facility

Operations

Academics



The Bicycle Analogy



Back Wheel:
**FINANCIAL
ENGINE**

Front Wheel:
MISSION



Who is Self-Help?

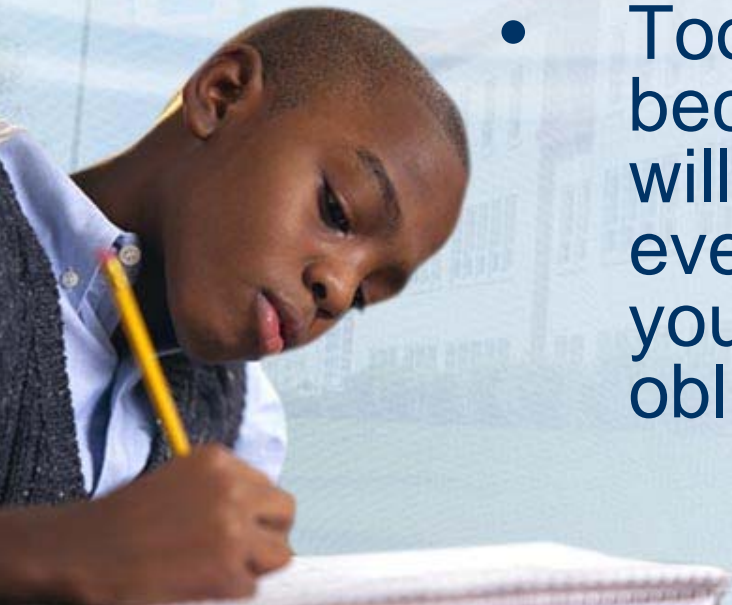
- Non-profit CDFI founded in 1980
- Mission: **Creating and protecting ownership and economic opportunity for people of color, women, rural residents and low-wealth families and communities.**
- Over \$100 million lent to charter schools nationwide since 1997



Two Factors

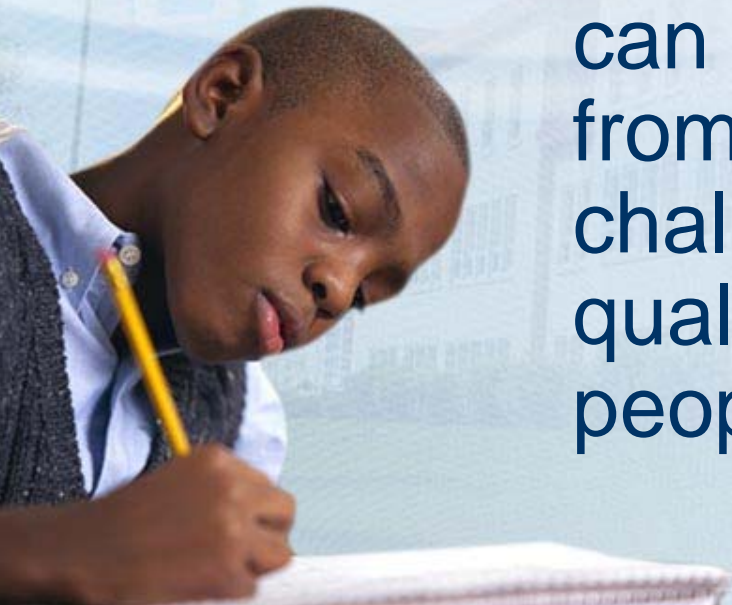
should drive your thinking about financial and facilities planning:

- 1. How many students you have**
 - 2. The amount of per pupil revenue you will receive**
- Plan only with money you have either in hand or committed by law
 - Too many schools get in trouble because they assume their enrollment will grow. If you play optimistically, even a modest shortfall can challenge your school's ability to honor its obligations.



How Much Can You Spend on Your Facility?

- Every penny spent on facilities is a penny not spent on instruction or faculty development.
- Overspending on real estate can be an enormous distraction from the most important challenge at hand – providing a quality education to young people.



How Much \$ Do You Have?

Get out your “Charter School Budgeting Worksheet 1” and calculate along with me.

- How many students do you expect to enroll in year 1?
- How much per pupil revenue will you have?

Calculate Problem #1:

$$[\# \text{ of students}] \times [\text{per pupil revenue}] = \text{maximum gross revenue}$$



Use a Realistic Revenue Projection

- Most new schools suffer 10% attrition from opening day.

Calculate Problem #2:

[Maximum gross revenue] x [0.9]
= **likely gross revenue**



How Much Should I Spend on my Building?

Key Rule: Occupancy costs should be no more than 15% your revenue.

(This includes maintenance, rent/mortgage payments, insurance and all other building related expenses)

Calculate Problem #3:

$[0.15] \times [\text{likely gross revenue}]$
= maximum facilities expense



Caution on Facility Spending #1

- Caution: Realtors may encourage you to spend 20% of your *maximum* gross revenue on your lease or mortgage because this can increase their commissions by as much as 30%.
- Spending such a high % of your revenues on facilities provides no margin for error should enrollment lapse.



What Size Building Do I Need?

Key Rule: You should plan at least
75 square feet per student (100 square
feet per pupil is ideal)

Calculate Problem #4:

[# of students] x [75]

= **minimum usable space for building**

[Max payment] / [Min square feet]

= **max rent/mortgage per square foot**



More Than Just Rent: Operating Costs

- Though rent or mortgage will be most of your facilities expense, it won't be all of it.
- Here are some other items you'll need to consider. These will not be included in a mortgage, and may or may not be included in a lease.

<u>Expense Item</u>	<u>Typical Cost/ft²/Year</u>
Utilities	\$1 - \$2
Repair/Maintenance	\$1.00
Roads and grounds	\$0 - \$.50
Cleaning	\$.90
Security	\$0 - \$.75
Administrative	\$.75 - \$1.55
Total Operating Expenses	\$4.5 - 6.5
Fixed Expenses	\$1 - \$2
Total Operating and Fixed Expenses	\$6-7



How Much Can I Spend on a Mortgage or Lease?

- Remember to account for those operating costs we've discussed. Typically, they come to about \$6/ft².

Calculate Problem #5:

[Max cost per ft²] – [\$6]

= Max mortgage or non-inclusive rent per ft²

[Max mortgage or non-inclusive rent per ft²] x
[building size in ft²]

= Max mortgage or non-inclusive rent

Mortgage or Lease
Utilities
CAM
Repair/Maintenance
Grounds
Security
Administration
+ Insurance
= Total Facility Cost

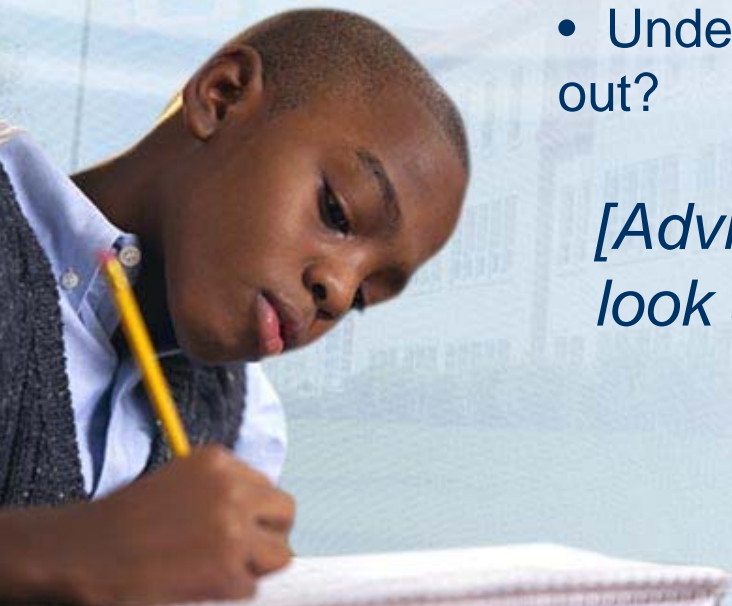


What's in a Lease?

It depends! Before you sign anything, understand:

- Who pays for: Utilities, CAM, Maintenance, Improvements, Taxes (remember, you are tax exempt.)
- If lease-to-purchase, how is the purchase price calculated?
- What happens to improvements you make? Can you deduct them from the cost of purchase?
- What constitutes “maintenance”? Usually not roof, HVAC, etc.
 - How can you exit the lease if need be?
 - Under what circumstances can the landlord kick you out?

[Advice: Have an attorney—on your side—look at the lease. You may have to pay to hire someone, but it's worth it.]



How Much Should I Spend on my Teaching Staff?

Key Rule: Your spending on teachers should equal *at least 55%* of your likely gross revenue. (This includes salary and benefits.)

Calculate Problem #6:

$$[0.55] \times [\text{likely gross revenue}] = \text{teacher staffing budget}$$



Caution on Facilities Spending #2:

- Caution: Schools that spend less than 55% of their revenues on instruction and more than 15% on facilities have limited budget flexibility:
- You can always hire additional teachers or part-time instructors to fill gaps, but you cannot easily eliminate 2,000 unused sq feet of a building they you renting or have purchased.

Calculate Problem #7:

[Minimum teacher staffing budget] / [# teachers]
= **average teacher salary and budget**



What's Left?

- After 55%+ for teacher pay,
- 15% for occupancy costs, you have:

30% likely gross revenue for student services, administration, and any other costs.

Calculate Problem #8:
What do you have left?

Beware Exclusive Contracts

- Don't sign “single-source” contracts with real estate brokers, financial advisors, etc.
- Read your contract and have *your* attorney read the contract BEFORE you sign it. Make sure you understand all terms and conditions before signing. Boilerplate language goes into effect with your signature.
- If you decide to sign an exclusive contract, have your lawyer clearly define the terms and conditions, especially the timeframe, deadlines, fees, deliverables, and exit strategies (if things don't work out.)
 - Find your own attorney. Do not use the broker's attorney or an attorney that the financial advisor brings to the table. You need an attorney looking out for your charter school's interests.



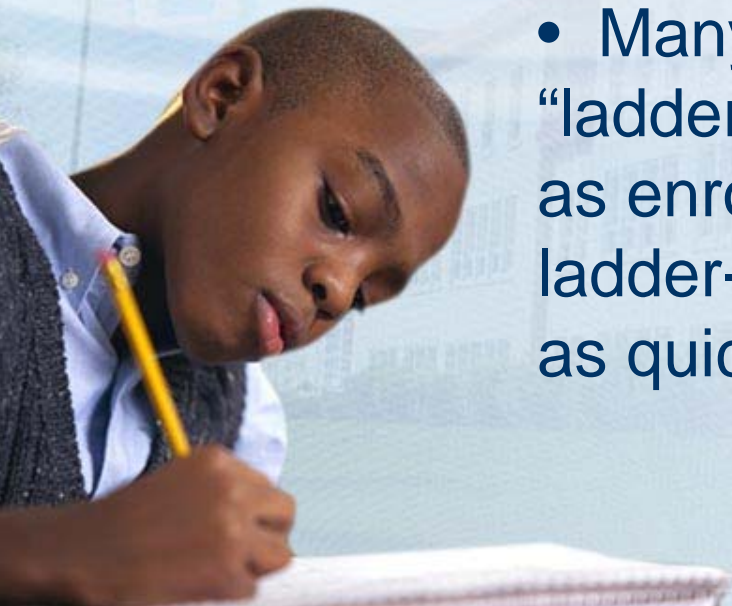
Projecting Ahead

- Turn to Charter School Budgeting Worksheet 2.
- Take a few minutes to fill in Year 1, and calculate Year 5.



How do I get the Building I Need if my School Starts Small?

- Caution: New school leaders face the choice:
 - Obtain a facility on day one that is big enough to accommodate their final, maximum ideal enrollment
 - [OR]
 - Lease a temporary facility for the first few years
- Either choice holds perils
 - Many landlords will allow you to create a “ladder-style” deal, where your rent increases as enrollment grows. Again, the peril of ladder-style deals is that schools seldom grow as quickly or smoothly as they wish.





Be Prepared:

Don't Take Projections for Granted

Return to your worksheet and calculate Year 5 – Scenario B.

- What would happen if you had signed a lease based on your original Year 5 projections?
- Could you still afford that lease? What would happen to the school?

Remember Tax Exemption

- Work with your state charter association to understand the best corporate structure, then:
 - File for tax-exempt status as soon as your charter is received.
 - Watch out for paying your landlord's taxes in leasing situations.



5 Key Take-Aways

1. Facility budget = Max 15% of likely gross revenue
2. Teacher staffing budget = at least 55% of likely gross revenue
3. Minimum facility size = 75 ft² per student. 100 ft² per student is ideal.
4. Be aware of your realtor's personal interests.
5. Do not sign any single-source agreements.



Thanks!

**And good luck!
Questions?**

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