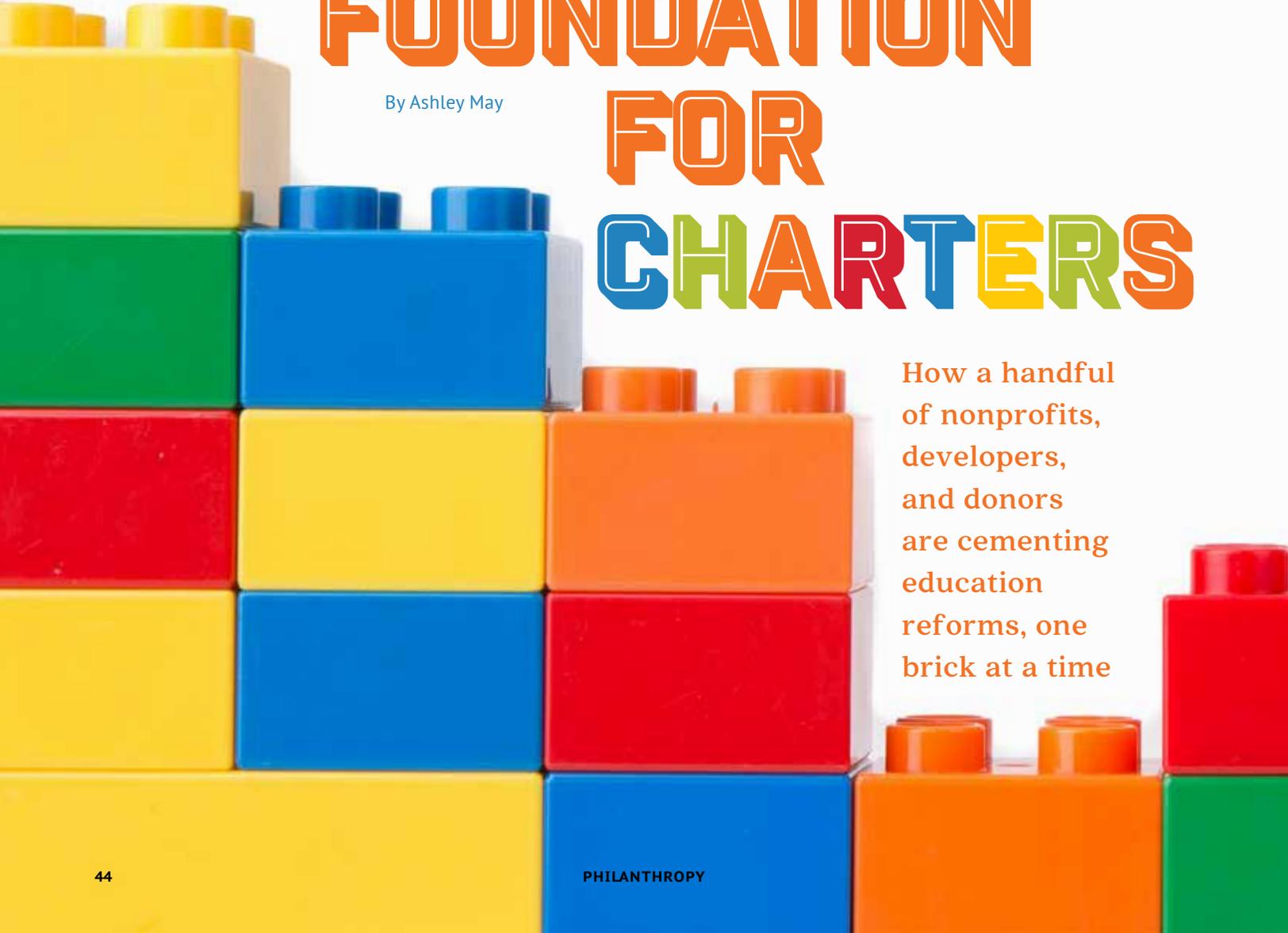




A FIRM FOUNDATION FOR CHARTERS

By Ashley May



How a handful
of nonprofits,
developers,
and donors
are cementing
education
reforms, one
brick at a time

Since Minnesota first created them in 1991, charter schools have grown exponentially. There are now 7,000 schools serving more than 3 million students. Many more children are stuck on overflowing waitlists—partly because of a serious shortage of physical spaces to house these learning laboratories. Many charter schools are stuck in temporary quarters, unable to expand, or forced into disruptive location changes simply because affordable buildings are not available. School leaders frequently have to use per-pupil funding intended for paying teachers and equipping classrooms for rent, cutting into educational quality. They are sometimes forced to occupy premises that are not ideal for learning—old factories in L.A., a former horse stable in D.C., trailers in lots of places.

Few educators are qualified in real estate, construction, or building finance, yet these matters can dictate the viability of schools, even ones that are thriving educationally. Marc Sternberg, who directs education grants at the Walton Family Foundation, says charter principals and board members should focus their attention on finding great teachers, developing curricula, and serving families. That’s why the Walton Family Foundation and other donors, plus some public-spirited businesses, are now offering charter schools helpful solutions to their building woes. It could be one of today’s most effective ways to cement the charter-school revolution.

Your rich uncle

The offices of Building Hope in Washington, D.C., aren’t snazzy. But then, this nonprofit is staffed mostly by accountants, engineers, and bankers. Mark Medema, who helped direct the group’s strategy until very recently, is representative: he has a bachelor’s degree in civil engineering and an MBA. That’s perfect for what this group does.

“Let’s say you’re buying a house,” he tells me, “and you need help with your down payment. What are you going to do? Well, you’ll go to a family member and see if they can help you out. Now let’s say you’re leading a school. Building Hope, we are that family member.”

Charter schools are considered high-risk borrowers by our banking system. Their charters typically expire and need to be reauthorized every five years, while a typical building loan runs for up to 30 years. School leaders or sponsors often have no financial track record, and leadership may turn over several times before a building is

paid off. Political winds can change quickly from warm to cold. For all of these reasons, charter schools pay more to borrow money than a business of a similar size would.

Enter Building Hope. Since opening its doors in 2003 it has invested more than \$200 million to help charters (primarily in Washington, D.C.) find a home. The nonprofit has loaned \$149 million directly to schools at interest rates much lower than traditional banks. And it has put up \$45 million for “credit enhancement” to improve the terms schools are able to get on commercial loans (lower interest rates, higher borrowing ratios, etc.). Combined, these two tools have enabled schools to borrow \$1 billion, allowing them to develop over 6 million square feet of educational space accommodating 67,000 students.

Throughout this run, Building Hope has had only four loan losses, totaling \$678,000. One long-term goal is to set a positive track record so that banks will know in the future that charter schools, given the right terms and support, are good for repayment.

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Meantime, Building Hope has fueled a social transformation in our nation's capital, where charter schools have flowered like cherry blossoms in spring. The nonprofit has helped more than triple the number of D.C. students in charters, helping cut D.C.'s dropout rate to less than half of what it was. Today, fully 45 percent of all D.C. children are in charters. Building Hope has helped 80 percent of Washington's charter-school operators acquire their buildings.

And lending and credit enhancement isn't the only way the group helps. The charity also helps incubate brand-new schools. And in 2014 it entered the field of real-estate development—buying lots or empty structures and then building or renovating facilities itself, so the structures can be leased to schools at below-market rates. The group now holds net assets of \$47 million.

A quarter billion for a quarter million

And Building Hope does all of the above on a remarkably modest annual budget: \$7.8 million. Imagine what a larger

While conventional schools get all of their building costs covered by taxpayers, charter schools get funding for some to none of their facility costs.

investment could accomplish. That, at least, is what the Walton Family Foundation aims to find out. It announced in 2016 that it would invest \$250 million (above and beyond its usual education-reform spending) to help high-performing charter schools find or expand facilities. The goal is a quarter million new school seats one decade from the start of the pledge.

Since 1997, Walton has given away \$1 billion in K-12 education grants, with \$386 million of that going to charter schools. (About a quarter of all current charter schools have received some Walton support.) So this new pledge for facilities is about two thirds the size of the total Walton has put into the sector to date.

Yet Sternberg is quick to point out that this amount, while it sounds big,

really is a drop in a leaky bucket. When announcing Walton's gift he reminded people that at least 600,000 students are on waiting lists for charters, and "costs for charter-school facilities will need to jump by more than 50 percent in the next three years. That's an increase of \$1.4 billion."

Every year, Sternberg notes, educators have to tell families their children cannot be accommodated for want of a suitable school building. While he wants the Walton Family Foundation and other philanthropists to help solve that problem, he also wants state and local education departments to stop discriminating against charters. While conventional schools get all of their building costs covered by taxpayers, charter schools get funding for only some to none of their facility costs. He stresses that Walton's activity "should not call off campaigns to make public space available for public charter schools," he urges. "Government must do its job to make space available and to remove the facilities bottleneck."

The grantmaker is also eager to usefully supplement rather than replace the banks and other community-development and finance institutions that are helping charters—like Building Hope, LISC, the Illinois Facilities Fund, Pacific Charter School Development, and others. To make sure it acts as a force-multiplier instead of pushing existing actors aside, it is partnering on strategy with Civic Builders, a New York-based real-estate developer with experience in this field. Together they are focusing on 17 target cities where they will work on projects in league with a variety of local partners, as well as explore ways to transform the field at large.

Although David Umansky is a co-founder of Civic Builders, he says the creation of the organization wasn't really his idea. In his telling, after the

New York charter law was passed in 1998, funders “came to me and said, ‘We have this idea to support charter schools with real estate. Can you be helpful?’” Umansky wrote a business plan, the funders forked over the cash, and Civic Builders was in business. “It was an organization founded out of particular needs that the funders themselves identified.”

Who were these funders? The Clark Foundation and the Tiger Foundation were leaders. Their prescience was so useful in helping charter-school founders in New York City navigate that region’s

nonprofit called Harlem RBI. He found an abandoned lot that had been labeled the “worst block in New York City” and created two baseball diamonds where kids could play the national pastime safely. In addition to athletic opportunities, his organization provided homework help and a social-support system for kids. It was wildly successful, and participants began to finish high school and go on to college.

But in the early 2000s, leaders of the group confronted a harsh reality. “Virtually every young person who came



difficult real-estate market that the city has become a leader in charter schooling, despite the fact that new development in the municipality is extremely difficult.

Since officially starting in 2002, Civic Builders has developed over a million square feet of real estate, erecting schools that serve 11,000 students in communities like East Harlem, the South Bronx, and Bedford-Stuyvesant. Similar to Building Hope, Civic Builders decided about five years ago to expand its methods of help, and now offers credit enhancement, help accessing tax credits, new lending programs, and even assistance managing the building process. “If a school were to say, ‘We’ve got all the capital, but we just need somebody to project-manage this,’ we could also do that,” notes Umansky.

Big money in the big apple

One school that put serious sweat equity and elbow grease into a facility is DREAM Charter School. Almost 25 years ago, Rich Berlin started a

So you want to help? Here’s how

Building Hope’s Mark Medema suggests ways that donors can reduce today’s charter-school building crunch, depending on whether they want to focus on one school, a city, or a state.

SCHOOL

- Give grants to schools that allow them to make intelligent plans and designs for a building.
- Defray the financed cost of a building by making a direct contribution to construction, land acquisition, etc.
- Make a program-related investment of your working capital in a building to reduce the amount the school must borrow; like all PRIs, this money is not donated but invested to come back to you over a period of years.
- Put up funds that allow a school to get better loan terms with a bank (credit enhancements).

CITY

- Make grants or program-related investments to nonprofits that operate revolving low-cost loan funds that support multiple projects in a city.

STATE

- Research the disparities between the way charters and conventional public schools get funding from the state for their building expenses.
- Advocate for fairer facility funding for charter schools.
- Organize public campaigns that press education bureaucracies to let charter schools have access to vacant or underused facilities already owned by school districts.

through this program was graduating high school, in a community with a 60 percent dropout rate. And about 90 percent of those young people were getting accepted and matriculating to college,” reports Berlin. “Yet just as we were breaking our arms patting ourselves on the back we started noticing that very few of our kids were succeeding in post-secondary education.” The main problem? “These young people had gone to failing schools their entire lives. No matter how intense our programs were, or how long we worked with kids, we couldn’t solve that in the number of hours we had.”

So with considerable fear and trepidation, Harlem RBI started a charter school, DREAM, in the fall of 2008. The city offered space, but only on a temporary basis, so the board immediately starting thinking about how it could acquire a building. There were several moments when Berlin’s team almost threw in the towel, but a couple board members stepped forward with seven-figure commitments to keep the search and fundraising alive for almost five years.

With help from Civic Builders, the school decided its ideal space would be 60,000 square feet—an almost ridiculous request in East Harlem, where real estate is scarce and mostly broken up into small pieces. Eventually the organization

Bronx Charter School for the Arts occupies what used to be an industrial warehouse.

approached the largest landowner in the neighborhood—the New York City Public Housing Authority—and asked if it would like to sell a lot being used for parking. The nonprofit’s initial offer was \$1. The agency answered sarcastically, “That’s nice,” then came back with a proposal making the price tag much bigger and requiring the building of a park and affordable housing units in addition to the school. Suddenly it was a \$90 million project.

Despite the Cartier price tag, the school opened in 2016. Harlem RBI raised \$22 million privately, almost all from individual donors. Mark Teixeira of the New York Yankees made a million-dollar gift and pledged to find nine other people to match it. The Bloomberg administration offered \$32 million. Tax credits and clever financing got the project the rest of the way around the bases.

“Squeezing a \$90 million transaction through a \$5 million nonprofit is an interesting trick,” winks Berlin, referring to Harlem RBI’s 2008 budget of \$5 million. The board and development team worked hard, and the Bloomberg administration’s support was crucial. Those political winds have since shifted. “It’s a very different environment in New York City right now. A deal like this would be hard to impossible to pull off anymore.”

A cheaper option

Spending \$90 million on a school building, park, and affordable housing isn’t a recipe to be replicated by many other charter schools. There are plenty of examples from around the country, though, where school leaders in less regulated environments found ways to erect schools more cheaply.

Real-estate developer Brian Watson comes from a family of entrepreneurs, where “real estate and construction were discussed around the dinner table.” After becoming a real-estate broker, he founded a development company, North Star Commercial Partners, that purchases vacant buildings, repurposes them, and leases them throughout the United States, especially in Colorado.

Like many others, Watson was influenced by *Half Time*, a book by Bob Buford that encourages successful businessmen to re-evaluate their goals mid-life so they can transition from private success to social significance. For Watson, this meant “I decided to make a pivot. Instead of just buying vacant buildings for a great economic return, which we had done for a while, I wanted to focus on creating jobs and opportunity and empowering people. And real estate just happens to be the





Los Feliz Charter School for the Arts in Los Angeles repurposed **shipping containers** for its building (left). On the right, Yes Prep! in Houston renovated a **Kroger grocery store**.

platform that I'd do it upon." So as he continued to purchase vacant buildings with unrealized value, he kept his eye out for community leaders and nonprofits who could make good use of them.

It wasn't long until charter-school operators came knocking on his door. "They were well-intentioned people," Watson explains, "who wanted to create choice and competition and quality educational environments, but they were not real-estate experts." He saw that many of the idealistic operators didn't realize that a rose-tinted economic decision on a facility could spell long-term danger for their school's viability. So he started using the resources of Northstar to create building solutions.

As an experienced commercial hand, Watson says he can get a much more attractive deal. "When you're an unsophisticated buyer, a seller is going to take advantage of that." Once a good value is purchased, Watson and his team go to work identifying a school for the building and renovating it to fit the school's purposes. "We build out the space and hand a turn-key solution to the school so it can focus on its school operations and student count and quality education." He offers schools long-term leases at below-market rents. In the process he helps not only the school and the children who attend it but also whole neighborhoods that benefit from having a good school nearby.

Most of the schools assisted by Watson have been well-known organizations like KIPP and BASIS. But Watson works with less prominent schools as well, helping some grow "from that church basement to a larger space." Brand-new schools are in the queue, as well as turnaround situations. In the case of a failing school, "we can come in and buy the facility and find a new charter operator to set up there. To me each kid

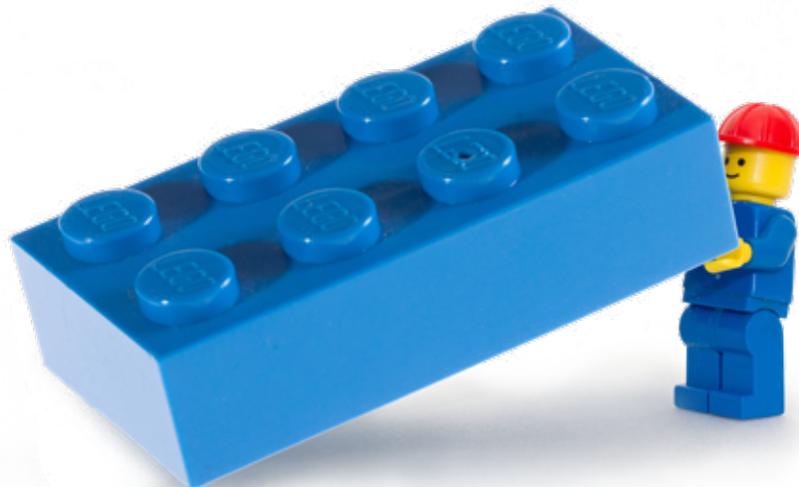
and each desk matters every single minute of every single day."

So far Watson has worked with 20 charter schools throughout the country. "The issue is making sure that we find good viable charter schools. We don't just help anybody. They have to have a strong business plan and model. Then we can find a good real-estate option for them."

A creative menagerie

The process of solving the charter-school building crunch has already sparked much creativity, and much more is needed. The building solutions may ultimately need to be as innovative as the charters themselves. Some major networks are creating their own modular building designs that are easily manufactured and then set up where needed. "Impact investors" are exploring ways to make mildly for-profit investments, or allocations of foundation endowments, in school buildings that will gradually return capital over a period of years, and allow it to be loaned out again on a rotating

The risk to the charter sector is serious if reliable ways are not found to ease charter schools into adequate facilities.



basis. Mark Medema and others are dreaming about an entity in every city with a full-time focus on coordinating facility acquisition and expansion. Some hope to use crowdfunding to build community support for school construction and maintenance.

The possibilities are numerous, and the actors many. In addition to groups like Building Hope and Civic Builders, Illinois Facilities Fund, Turner-Agassi Charter Schools Facilities Fund, Charter School Growth Fund, and Pacific Charter School Development are all doing practical work. And that's not all—regionally focused groups like Colorado Charter Facility Solutions are also making gains, as well as network-based groups like the KIPP Foundation. What everyone agrees on is that the need is vast, and the risk to the charter sector serious if reliable ways of easing charter schools into adequate physical facilities are not created.

The most powerful lever to address this problem is public-policy change. One encouraging bit of progress came recently when the Federal Charter Schools Program was updated to reward states that help their charter schools acquire facilities. There are many ways that states can do this. They can provide per-pupil-funding specifically earmarked for facilities. (Only four states plus D.C. do this at a level of at least \$1,000 per pupil per year.) States can create grant or loan programs that help charter schools acquire a home. (Only 11 states fund these even modestly.) States can pass laws allowing charter schools to have access to some of the same bonding or public grant or tax resources that conventional public schools use to build their campuses. (Only ten do this, and in many of those cases only in theory, not practice.)

Clearly, state legislators and educators can and should be doing much more. Philanthropists who care about education reform should press them to be fairer in this area. Overall, four out of ten states currently offer charter schools *no contribution* toward building costs. And most of the other six out of ten provide only nominal help.

A positive example advocates can cite is Washington, D.C., which offers charter schools a fairer shake than almost any other jurisdiction. The city provides per-pupil funding of \$3,124 per student specifically for facilities. It offers a grant program to help charters renovate old buildings. A program that helps successful schools replicate or expand recognizes that building costs must be covered as part of such growth. And D.C. charter schools have the option to borrow up to \$2 million from the District for construction or purchase of a building.

Much more typical are states like Arkansas or Hawaii. In these places, state law authorizes grants or loans to help charters find buildings, but the programs are not funded. So even where charters have earned the right to some facilities funding, a second battle is often necessary to get appropriations. And then there are the 20 states that don't even pretend to help with

facilities. The National Alliance for Public Charter Schools offers research and strategy for righting these wrongs, but there is a crying need for advocacy, and donors to pay for it, if the promise of charters is to be translated into bricks and mortar and operating classrooms.

Walton reports an all-too-typical story from Aurora, Colorado. Educator Sara Taylor had her charter-school application approved for a K-8 school focused on low-income students. Her location possibilities were limited by a need for access to public transportation, but she called up every local landlord and pastor with a usable building larger than 10,000 square feet. She found nothing, and had to delay the opening of her school.

Taylor planned renovations to bring an existing building up to code, but they turned out to be too expensive. She was outbid for other properties by commercial businesses. She almost had an option for locating her school inside a conventional public school with more space than it needed, but that fell through weeks before the lottery that was supposed to select families who could enroll their children.

With help from Walton, Taylor is continuing to look for a space. "You want to be an optimist," she says. But she's an educator now focused on real estate and construction. Not an ideal arrangement. **P**