

To Lease or Build - How About Both? Building Facilities on District Land

CCSA Conference
March 15, 2016

Agenda

- **Who We Are**
- **Examples**
- **How It Works**
- **Critical Lease Terms**
- **Securing Financing**
- **Considerations / Lessons Learned**

Low Income Investment Fund (LIIF)

- Community Development Financial Institution (CDFI)
 - 501c3 / Non-profit lender
- Based in San Francisco – national scope
- Mission of poverty alleviation, with \$1.8 billion invested in strategies that support healthy families & communities
- LIIF has been providing facilities financing to California's charter schools for 18 years
 - \$466 million in charter school financings for both facilities & cash flow
 - Over 72,000 seats created
- Work with both large & small CMOs, as well as strong single operators



Elizabeth Sanborn Falcon – Benchmark Realty Advisors



- Elizabeth Sanborn Falcon, owner of Benchmark Realty Advisors, represents tenants and owner-users in land and building acquisition and real estate financing
- Has arranged acquisitions with a total value in excess of \$750,000,000 and has arranged in excess of \$350,000,000 in financing secured by real estate through CDFI lenders, tax-exempt bond offerings, commercial banks and other lending institutions
- Has worked primarily with charter schools since 2000 and has arranged transactions for *Rocketship Education, Downtown College Prep, Aspire Public Schools, Ace Charter School, Summit Public Schools and Envision Schools*

Rocketship Education

- CMO operating since 2007; started in San Jose, CA
- Focus on low-performing schools and low-income communities
- 13 operating elementary schools as of August 2015
 - Bay Area – 10 schools
 - Milwaukee – 1 school opened in 2013
 - Tennessee (Nashville) – 2 schools open (1st in 2014, 2nd in 2015)



Who We Serve



85%
of Rocketeers
qualify for Free &
Reduced Lunch



63%
of Rocketeers are
English Language
Learners



85%
of Rocketeers are
African American
or Latino

Eugene Clark-Herrera

Orrick, Herrington & Sutcliffe LLP

- Eugene Clark-Herrera focuses his practice on financing for school and college facilities, as well as city and county facilities and infrastructure.
- His practice includes serving as bond and disclosure counsel on revenue and tax-supported bond financing involving counties, cities, school and college districts, charter schools, airports, and student and multi-family housing projects.
- Mr. Clark-Herrera has experience with a variety of financing structures and characteristics and has pioneered capital markets access for California public charter schools and advised governmental issuers, foundations, advocacy groups and policy makers in the development and expansion of public charter school access to tax-advantaged financing



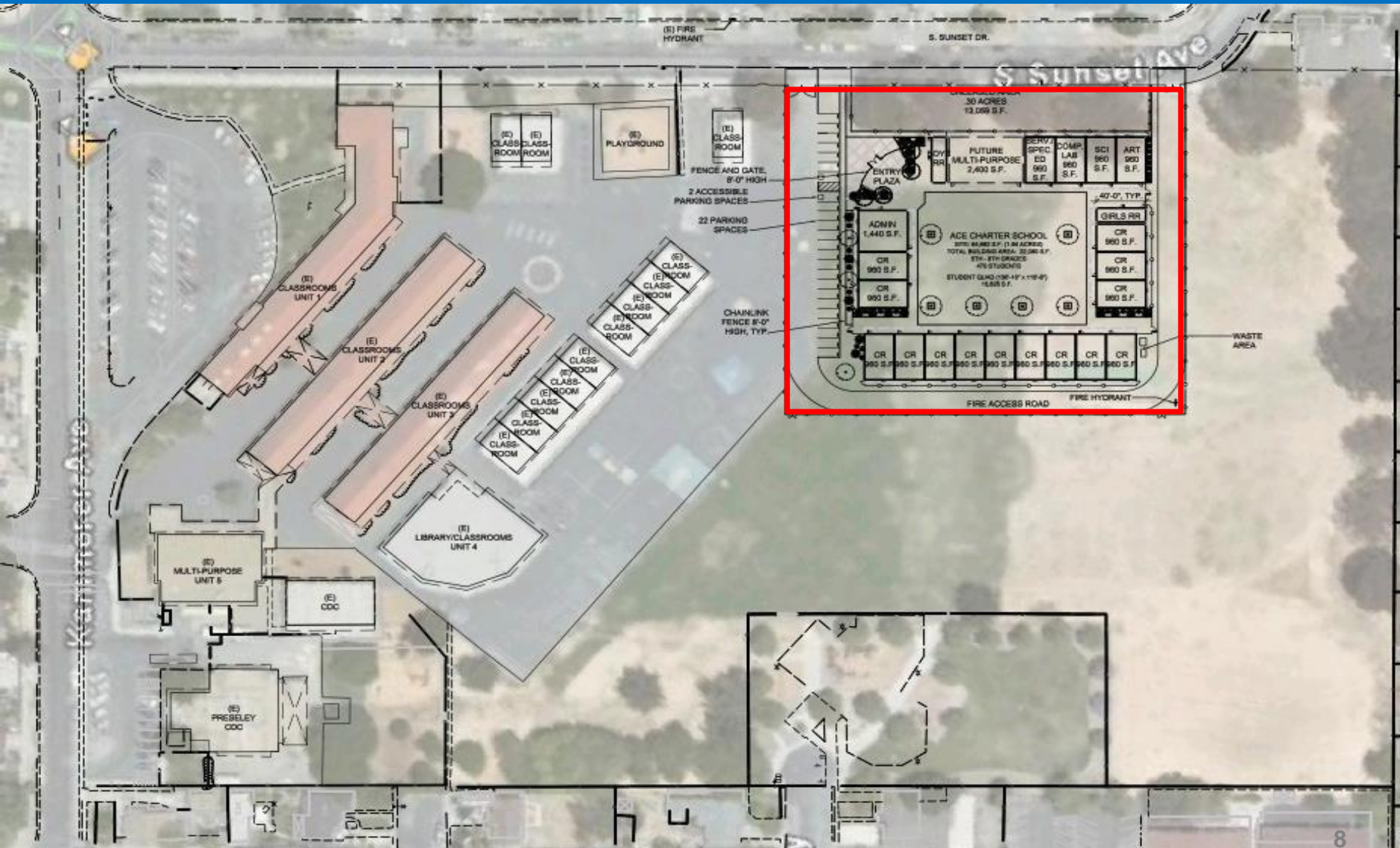
Examples

- **Charter campuses can be *stand-alone buildings* or can *incorporate existing District buildings***
- **District land can mean a shared campus with an under-utilized District facility, or vacant District-owned property upon which the school builds a new facility**

Example #1: ACE Empower

- **ACE Empower Middle School - Shared campus with Cesar Chavez Elementary School in Alum Rock District**
- **Total campus of 4 acres**
 - **Lease with the District governs an approximately 2 acre parcel that was vacant at lease commencement**
- **ACE's campus is 4 one story, modular units clustered in groups around a central quad area**
- **The campus includes 18 classrooms, a multipurpose room, and administrative office**

ACE Empower – Site Plan



ACE Empower - Before



ACE Empower – Aerial View



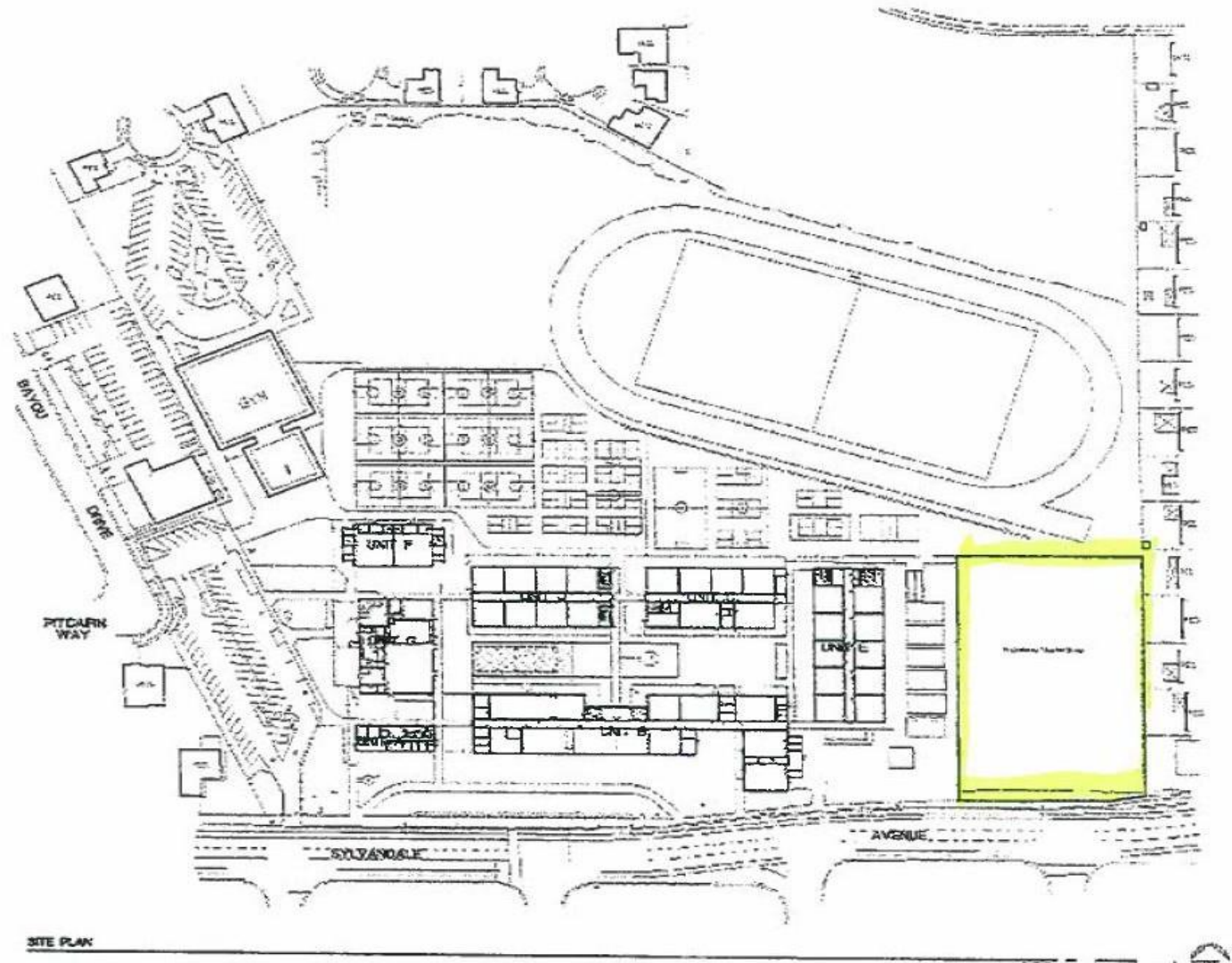
ACE Empower as complete



Example #2: Rocketship Spark Academy

- **Shared space with Sylvandale Middle School in Franklin- McKinley School District**
- **Serves TK-5th grade**
- **20,000 sq. ft. multi-story modular structure**
- **The school has 18 classrooms, a staff room, administrative offices, playground, parking lot, recess and physical education area**

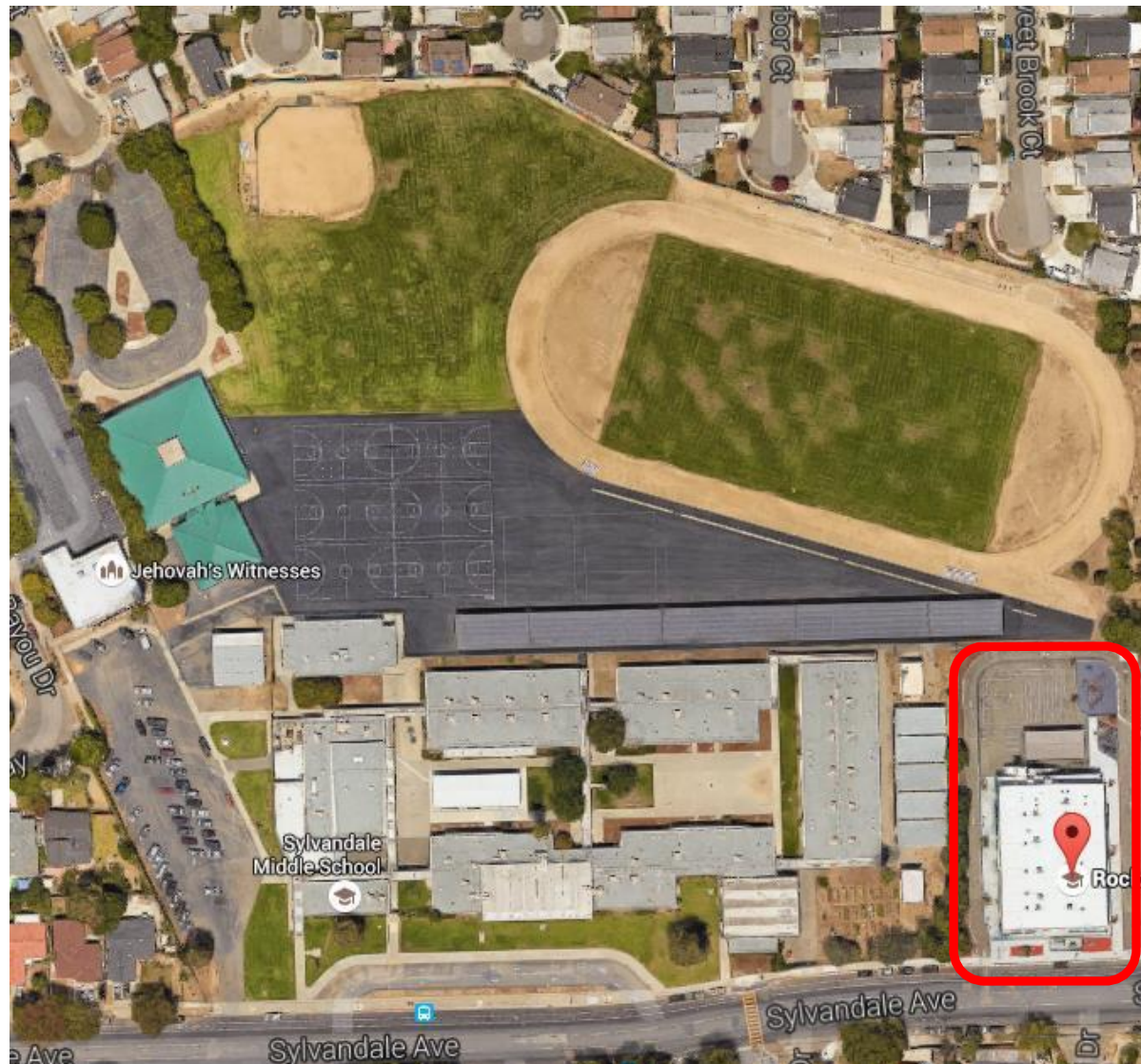
Spark Academy – District Site



Rocketship's New Site Plan



Spark Academy – Aerial View



Spark Academy as Complete



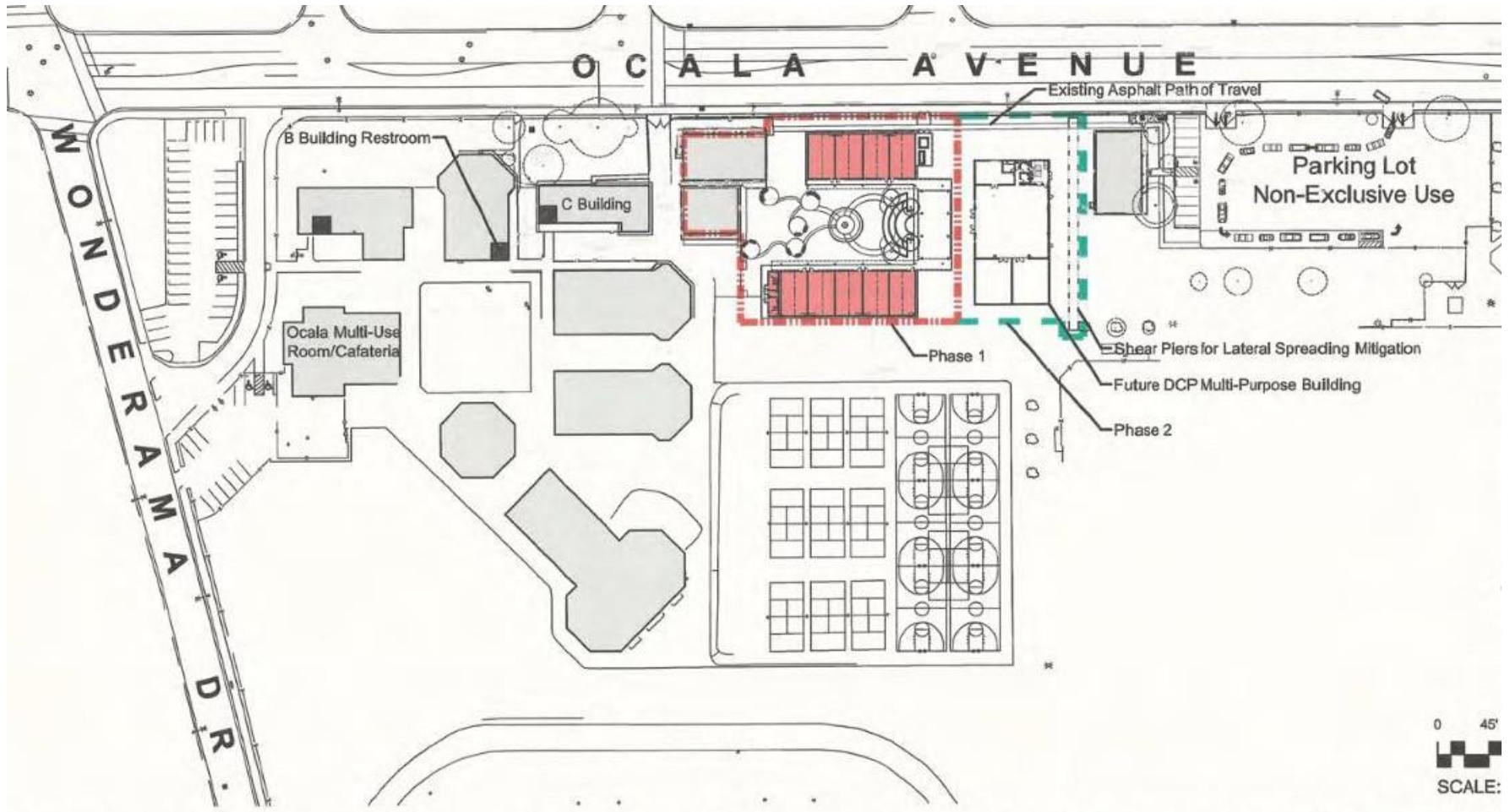
Example #3: DCP Alum Rock

- **Downtown College Prep Alum Rock Middle School - Shared campus with Ocala Middle School in Alum Rock District**
- **Total campus of 27 acres**
 - **Lease with the District governs 59,000 sq. ft. parcel that includes 5,500 sq. ft. of existing modular classroom space owned by District**
- **DCP's new campus consists of 14 modular classrooms, an outdoor amphitheater, and covered lunch shelter**
- **Shared use agreement for athletic facilities**

DCP Alum Rock - Before



DCP Alum Rock – Proposed Improvements



DCP Alum Rock – Proposed Improvements

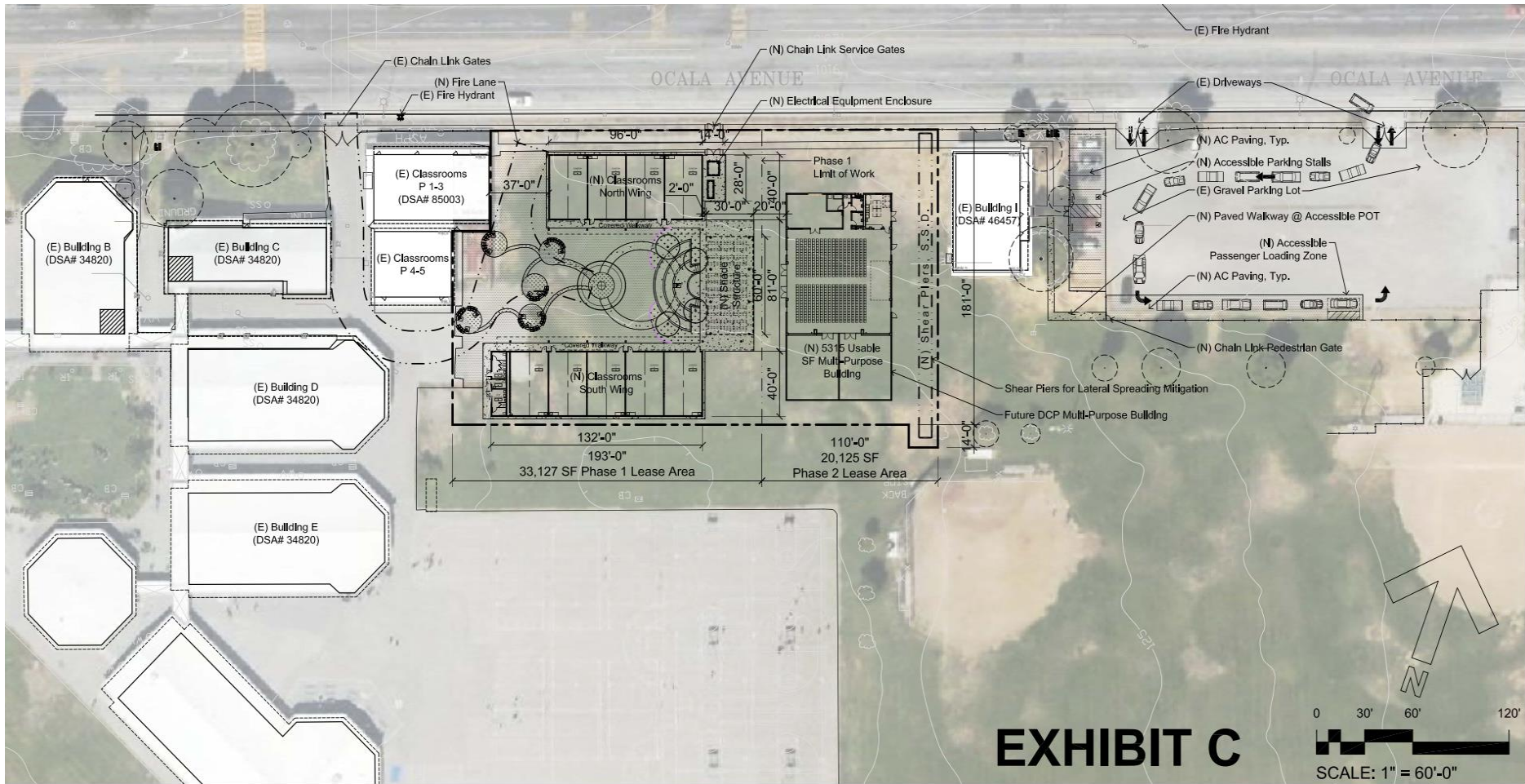
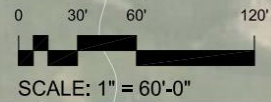


EXHIBIT C



Drawing Title: Alternate Building Design Schematic Site Plan - Scheme B,3 with Parallel Classroom Wings, 8' Covered Walkways at Circulation

	Project Information Downtown College Prep at Ocala Middle School 2800 Ocala Ave., San Jose, CA	Client Downtown College prep 1400 Parkmoor Ave., Suite 206 San Jose, CA 96126	Scale: 1"=60'-0" Status:	Date: 1/28/14 Sheet:
			Project Number: 1324	B.3 1 OF 1

DCP Alum Rock – Aerial View



DCP Alum Rock Campus as Complete



How it works

- **Identify District-owned land that would be suitable for the school's operations.**
 - **Typically happens as a result of on-going conversations with the District regarding the District's Proposition 39 obligation to the school.**
- **Negotiate acceptable lease terms with the District.**
 - **Typically begins with the school preparing a proposal for the District.**
- **Secure facility financing for leasehold development.**

Essential Lease Terms & Considerations

- **Lease must be structured as an in-lieu Proposition 39 agreement in order to avoid surplus procedure.**
- **The lease must have a term of at least 30 years with three 5 year options in order to obtain financing.**
- **The lease must contain a leasehold mortgage provision that allows Lessee to record a deed of trust against Lessee's leasehold interest.**
- **The leasehold mortgage provision should contain all of the provisions expected to be required by a lender.**

Essential Lease Terms & Considerations (con't)

- **To access SB740 lease reimbursement, lease must contain right to assign to an affiliated entity and affiliated entity must have right to sublease to original Lessee**
- **Lease should contain a thorough description of the Lessee's proposed improvements and should provide for permission to build those improvements without further approval from District**
 - **An exhibit showing the improvements should be attached to lease**
- **Lease should provide that District will grant any required easements for utilities, sanitary sewer and storm drains**
 - **Lessee should have the right to connect to existing water, sanitary sewer and storm drain**

Securing Financing

- A primary focus for lenders will be lease terms. Typical lender requirements include (but are not limited to):
 - Long ground lease terms.
 - Term can include extension options
 - Landlord consent to the leasehold mortgage, and language around lender consent for termination or amendment of the lease.
 - Lease must contain sufficient notice, cure, and transferability provisions.

Securing Financing (con't)

- **Other financing considerations:**
 - Lender protection from conflict of interest resulting from the fact that the authorizer and landlord are the same entity
 - Establishment of a reserve that will be used to cover ground lease payments in the event of foreclosure

Other Considerations / Lessons Learned

- **Timing**
 - Lease negotiations can take several months
 - Managing lender lease requirements
- **Politics**
- **Dealing with unexpected soil conditions or seismic requirements**
- **Importance of having knowledgeable team in place early in the process**
 - Attorney, architect, contractor, and other consultants

Questions?

We are happy to answer any questions.

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