

LENDING & Learning

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**ANNUAL PROGRESS REPORT from the
SELF-HELP CHARTER SCHOOL LOAN FUND**



Memphis School Financed by Self-Help Called 'Shining Tribute' to Innovation

In 2003, Memphis Academy of Health Sciences (MAHS) became the first charter school in Tennessee to open its doors. Sponsored by the 100 Black Men of Memphis, a civic organization, MAHS was a new educational option for families in a city whose school system is among the weakest in the nation.

The initial enrollment and staffing at the math and science-focused school were modest — approximately 100 sixth grade students and seven teachers. But plans called for eventual enrollment of 350 students in the middle school. By early 2005, MAHS had seen its student body expand to a point that school leaders knew they needed a larger, permanent facility.

To finance the purchase of a school building, MAHS turned to Self-Help and worked closely with charter school loan officer Jane Ellis to address its needs. The result was a \$1.2 million

loan to acquire a 65,000 square foot facility. MAHS benefited from the involvement of the Hyde Family Foundations as a partial guarantor of its Self-Help loan. The Tennessee-based Hyde Family Foundations is a



MAHS students at the school's masquerade ball.

strong advocate of the charter school movement.

Expectations are that this new building—scheduled for completion in January 2006—will enhance the impact of this high-performing school in its low-income community.

But it's already off to a good start. As U.S. Senate majority leader Bill Frist (R-TN) observed after a visit to MAHS in February 2005: "Education is the cornerstone of our communities and our country. And the Memphis Academy is a shining tribute to the type of innovation that our education system needs if it's to prepare our students to compete in tomorrow's math and science-driven economy."



Based in North Carolina, Self-Help is one of the nation's leading community development financial institutions. Our mission is to create ownership and economic opportunity, with a particular interest in serving minorities, women, rural residents and low-wealth families. Over the past 25 years, Self-Help has provided \$3.9 billion in financing to over 43,000 small businesses, nonprofits and homebuyers.

Self-Help supports high performing charter schools that serve the needs of low-wealth, rural and minority students. To date, we have loaned over \$45 million to 24 charter schools serving more than 14,700 students. To learn more, visit us at www.self-help.org.

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Our lessons learned with school construction point to the power of planning and contingencies.



UNDER CONSTRUCTION: Advice for Schools with Building Projects

After financing dozens of charter school construction and renovation projects over the past seven years, Self-Help's loan officers and construction managers have learned a thing or two about where schools can make big mistakes—and how to avoid those unnecessary problems.

Our lessons learned with school construction point to the power of planning and contingencies. Most notable are the following pieces of advice for schools considering or starting a construction project:

- **Get professional help early.** Without professional resources, a school can get off track. For example, don't fall into the trap of one charter school whose leaders thought they could serve as the project's general contractor instead of hiring someone externally with experience. The school wasted a year going down that path—eventually a dead end.
- **Have good plans (architect, engineering, etc.) and a solid, realistic budget.** Self-Help worked with one school whose loan request was based on a hastily prepared budget by an architect who was a friend of the school. Unfortunately, the project was under-budget by more than 100%. As a result, the school's ability to pay for the necessary improvements was stretched.
- **Have the most realistic timeline you can — and then add six months.** The loan process and construction projects take a lot longer than one might think.
- **See contingencies as your friend.** Budgeting a minimum of 10% of the total construction budget for contingencies is essential. Why? Cost over-runs are common. In addition, building inspectors and fire marshals are known for adding non-negotiable changes to approved construction projects. Don't assume your school will be the exception.



IDEA Academy in Donna, Texas, is expanding its facility with a Self-Help loan.

Lenders Use Tax Credits to Help Low-Income Schools

Across the country, a federal initiative called the New Markets Tax Credit (NMTC) Program is providing community development lenders—including Self-Help—with an infusion of new capital. And that capital is increasing their ability to assist charter schools. Here's how the program works and why.

WHAT IT IS

The New Markets program was enacted in December 2000 by the U.S. Treasury Department as part of the Community Renewal Tax Relief Act. The initial purpose of the NMTC program was to spur private investment in businesses operating in low-income communities. As the NMTC program was developing, Self-Help successfully advocated for the program to be expanded to include nonprofits like charter schools.

Under this program the federal government allocates tax credits to so-called "Community Development Entities," such as for-profit banks and nonprofit lenders like Self-Help. By selling the tax credits to private investors, these entities raise funds that they then turn into financing for businesses and nonprofits in low-income communities.

IMPACT ON CHARTER SCHOOLS

To date, the federal government has made over 170 NMTC allocations, totaling \$8 billion. Self-Help has received two rounds of NMTC allocations, totaling \$170 million. Of note is our second allocation of \$95 million. This was the second largest award in that round—a show of confidence in Self-Help's track record and intended plans for the funds.

We have used over \$33 million on charter school loans already, and expect to make \$50 million or more of our allocations available for school loans over the next several years.

ELIGIBLE PROJECTS

Lenders have mainly used NMTC funds to help borrowers finance the purchase, construction, and renovation of real property. A lender who applies NMTC funds to a borrower's project—such as construction of a school facility—certifies that the project is located in an eligible census tract. In addition to being in an eligible location, projects must meet certain other qualifying tests. An entity that has received NMTC funds can determine if a school meets these tests.

For a single-site charter school, the site may be eligible if it is in a census tract with a poverty rate greater than or equal to 20% or a census tract with a median income of 80% or less of Area Median Income. Other criteria may apply for multiple-site schools.

To learn more about the NMTC program and its potential to help charter schools, contact Self-Help or another Community Development Entity that has received NMTC funds. A list of all awardees can be found at www.newmarketstaxcreditcoalition.org/.

NEW FACES

In the past year, Self-Help's charter school lending team has added new staff and said a few good-byes. Meet our team:



Loan officer **Jane Ellis** came to Self-Help with 17 years of program management experience, primarily overseas in Burkina-Faso, Senegal, Rwanda and Jamaica. Upon returning to this country, she enrolled her youngest daughter in a charter school, and became a passionate advocate for charter schools and education reform.

Hugh Deaner is a loan officer serving a range of commercial borrowers, including charter schools. With 15 years of experience as an entrepreneur in the information industry, Hugh offers skills in start-up business planning, finance, sales and marketing, operations and supplier contracts.



Catherine Godschalk splits her time at Self-Help between serving as a loan officer to borrowers that include charter schools, and recruiting investors to our New Markets Tax Credit program. She has extensive experience in capital markets and financial transactions, having worked for Fannie Mae for six years prior to joining us.

New Construction Manager **Ron Bodkin** is an engineer with years of experience in both real estate development and construction management. He joins Construction Manager Paul Brown in providing invaluable assistance to our loan officers and borrowers as they build and renovate buildings for charter schools.

In the past year we bid a sad farewell to loan officer **Brenna Copeland**, who is now chief financial officer at KIPP DC. We were also sad to say good-bye to **Marc Hunt** after 10 years on staff, most recently as director of our Charter School Loan Fund. Marc is now with the Open Space Institute, but continues his connection to our work as a member of our Charter School Lending Advisory Committee.

A veteran member of our team has taken over as Director of our Charter School Loan Fund: **Laura Benedict**, Vice President in charge of Self-Help's overall commercial lending operation. Laura has worked with charter schools since they first appeared in North Carolina in 1996. Laura was recently appointed to the board of the National Alliance for Public Charter Schools.

Crafting an Inspired and Capable Board of Directors

A board of directors is to a charter school what an owner is to a small business. The board:

- Decides the mission of the organization,
- Makes sure it is working toward that mission, and
- Assumes responsibility for the organization's actions and obligations.

To operate at its best, a school should take inventory of the skills and talents held by its current board members, and identify gaps to fill through new members. This board review should happen routinely, not just once, since the skills a school needs on its board may change as the school grows.

Next Steps

What should a school do if a review of the board shows gaps in its pool of skills? First, prioritize the top three holes that need to be filled. Second, make a plan for recruiting new board members with those key skills to the board. When considering where to look for these board members, explore all current networks of contacts as well as people outside these circles.

Resources to Tap

Many free and low-cost resources are available to help nonprofits improve their governance and administration. A few places to start:

- BoardSource (www.boardsource.org) and Management Assistance Program for Nonprofits (www.map-fornonprofits.org) provide consulting services for a fee, but also have excellent free resources on their web sites.
- The National Charter School Authorizer's Association (www.charterauthorizers.org) published an Issue Brief on effective school governance with tips for charter schools on board management.

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