



# buildinghope

## City-Based Comprehensive Facility Solutions: The Dockmaster

### Overview

City-based strategies for charter school growth and overall systemic impact are showing signs of success for their most immediate intended outcomes. The development of a robust market allows for broader systemic impact and economies of scale and scope. It also draws attention to a city's specific charter school efforts. This strong charter school sector can have broader educational advocacy benefits for a city state. There are numerous synergies that emerge in city-based strategies.

We have seen a dozen or so city-based investments in capacity building for charter schools by the Harbormasters (also in search of a better name). To date, however, we have not seen many Harbormasters venture into providing facility solutions. In some sense, this is understandable. Facility solutions can be fairly complex and usually require a very different skill set than the educational issues facing school leaders, school authorizers, and school support organizations. On the flip side, the facility solutions providers are often very focused on their core business of financing, or design, or construction and are unsure of how to partner with Harbormasters. This is unfortunate as the facility challenges are one of the biggest barriers to a thriving charter school ecosystem.

The charter school industry needs to identify the design of a facility solution to complement the work of Harbormasters. For the purposes of this article, we will call this a Dockmaster, until a better analogy emerges. As these terms suggest, once the Harbormaster brings the boat into the harbor, makes sure they don't bump into each other, and ensures the harbor has many support systems, someone needs to find that boat a place to park. Ideally these two groups would work very closely together.

Investments in the operational and support side of charter school efforts will only go so far absent a commensurate investment in facilities to house the schools. In that sense, investments in facility solutions can provide the biggest and best returns for charter schools and for philanthropic investors.

- City-based investments increase community leverage and can result in access to existing District space.
- City-based investments improve the understanding of real estate markets which opens up new real estate acquisition opportunities.
- City-based investments allow for a better understanding of local real estate prices, construction practices, and entitlement processes, which reduces the project risk.
- City-based investments allow for a better understanding of tenant risk –for both the existing tenant and for replacement tenants if the current tenant ever defaults.

- City-based investments can pool projects and access larger and cheaper sources of private capital for long term positions.
- City-based investments also expand the broad array of facility solution vendors, from brokers, to architects, to project managers, to construction companies and others which increases competition and drives quality.

In the same manner that city-based investments allow for advocacy strategies to garner community and political support for charter schools, they can also garner support for facility solutions.

This focus on a specific city allows for an understanding of local politics and for a better advocacy strategy, both at the city level (macro-advocacy) and at the project level (micro-advocacy). The facility solution providers are always up to date on the local political trends, the array of other economic development efforts, and the pulse of the community.

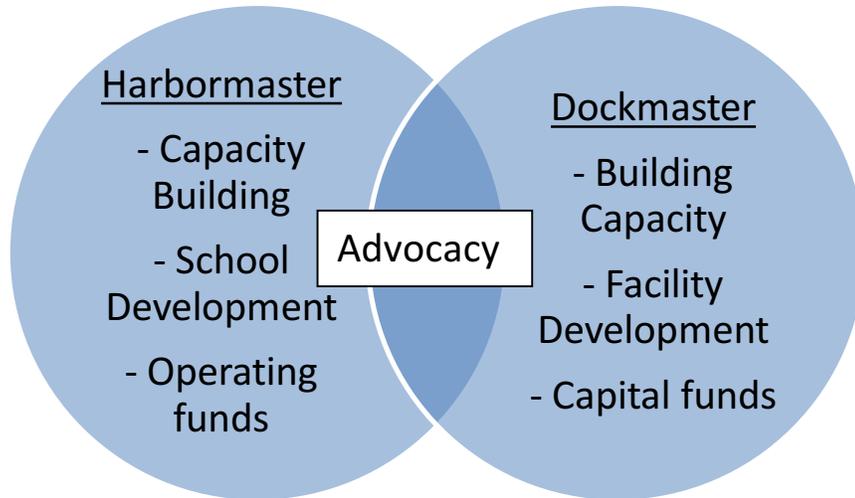
### **Key Elements**

A comprehensive Dockmaster should support the following key elements. This can be done either a) by being the provider of the services, or b) by creating an environment where others provide these services. The latter approach would require the Dockmaster to ensure the services were available by mission-driven providers at mission-driven pricing.

A Dockmaster develops essentially a two-pronged strategy:

1. First, they provide the tangible comprehensive facility products and services to meet all charter school facility needs. Some of these include:
  - a. Technical assistance to help school determine their needs
  - b. Site identification and property acquisition
  - c. Financing, syndicating loans, and financial advisory services
  - d. Real estate turnkey development and project management
  - e. Asset management
2. Second, they support, or even carry out, an agenda to further facility related policy goals.
  - a. Research on the supply, demand, and current use of space to help with master planning.
  - b. Advocacy for equitable treatment for charter schools in facility related issues
  - c. Marketing success stories about charter school facilities in the city and elsewhere

All these key elements complement the capacity building activities of the Harbormaster and can supplement any advocacy work.



**Landscape Review**

There have been a few efforts to develop a Dockmaster approach, although none of them are comprehensive. Some organizations that have emerging models include Building Hope in DC and its other markets, Civic Builders in NYC, Pacific Charter School Development in Los Angeles, and both Charter Schools Development Corporation and IFF in Indiana and Minnesota. The closest to being fully developed is the effort in Washington, DC by Building Hope. There is not much evidence that most of these efforts have been developed in concert with Harbormasters. The Silicon Valley School Fund and Pacific Charter School Development may have the strongest connection.

Other cities may have city-wide facility strategies absent a Dockmaster that are directed by government agencies (for example, NYC and New Orleans) but these efforts are exposed to changes in the vision of the myriad organizations that have created these strategies (for example, a Mayor’s Office or a Governor or FEMA).

Place/Solutions	Technical Assistance	Site Identification	Financing	Development	Asset Management	Research, Advocacy, Marketing
Washington, D.C.	BH	BH	BH	BH	BH	BH
Los Angeles	PCSD			PCSD	PCSD	PCSD
Indianapolis	CSDC/IFF		IFF	CSDC	CSDC	IFF
NYC	Civic			Civic	Civic	Civic

## Detailed Key Elements

### 1. Facility products and services

There are a wide-range of services required to occupy a charter school facility. These are illustrated as the value chain of facility development (diagram below). Not all schools need all services, but a comprehensive solution should be able to provide (directly or indirectly) all these services.



*A. Technical Assistance* - This is one of the most undervalued services. Prospective schools writing their charter school application often have no understanding of facilities. Once approved, they often look to the advice of brokers or other vendors that are seeking fees before the school truly knows its options. Once a school has options, it rarely has the expertise to build a team of vendors to help them pursue an option. Technical assistance, especially pro bono technical assistance, holds a new charter school leader's hand through this process. Not only is it comforting for a school leader who feels all alone, but helps avoid the numerous horror stories of naïve school leaders finding themselves in overwhelming financial commitments. This model can be informal or can even be formalized into a Help Desk. For example, state charter school associations often will bring vendors to a workshop to provide these services. In one case, the State Department of Education used Race to the Top grant funds to hire Building Hope to manage a 1-800 Help Desk.

The Technical Assistance is also valuable for replicating schools that need to think about multiple campuses over multiple years. Currently many of these schools hire firms to help them understand the marketplace including demographics, parent demand, competition, and land availability. This is done with the focus of the one school organization. However, when a second school organization needs to do the same thing, they are charged a full rate to complete the exact same study. And the two studies will never be integrated to form a comprehensive view of the city. Cities should find some means to engage in master planning activities. This is different than creating a Master Plan, which many charter schools would oppose because it limits their freedoms. As Eisenhower famously said, "...plans are useless, but planning is indispensable".

*B. Financing* – Charter school leaders need help navigating the world of real estate finance. There are many different financing options and many players in this space. The most common financial need for charter schools is for low cost debt to act as the equity required by senior lenders. CDFIs are historically

good at providing these loans and have developed many loan products to act as equity and allow for leverage of the senior lender. This assumes that there are senior lenders in the marketplace that are knowledgeable about charter schools and want to invest in them. If there aren't many banks that want to invest in charter schools, the Dockmaster has the job of educating local banks and encouraging them to invest in this space.

Similarly, credit enhancements can be used to act as equity or encourage more senior lenders to make larger loans to charter schools. Credit enhancements are also important for start-up schools that are leasing property and may need credit enhancements for leases or leasehold improvements – areas where banks rarely participate.

As schools become more mature and can access more complex financings (tax exempt bonds and New Market Tax Credits), they will need a financial advisor. The local marketplace may have financial advisors, but the Dockmaster may be able to provide these services at reduced rates.

*3. Real Estate Development* - One of the fastest growing needs of schools is for third party real estate developers to design/build/finance/lease the building for the school. This one stop solution means the school does not need to hire staff to manage the process internally. This is an attractive option for schools that are not financially mature enough to secure their own financing or do not have the capacity to manage this process themselves. Eventually, as the school matures, it can then buy the property from the developer. However, the marketplace of third party developers has proven to be expensive and schools are beginning to realize the high cost of this approach. There is a growing demand for more non-profits to offer this service. Groups such as Charter Schools Development Corporation, Civic Builders, and Pacific Charter School Development are three of the early non-profits to offer this service. IFF and Building Hope have recently entered this market.

School that have the luxury of being able to develop and own their projects still need the help of project managers (or program managers, or owner's representatives). The local marketplace may have project managers, but the Dockmaster may be able to provide these services at reduced rates.

*Asset Management* – The third-party developers own properties for tenant schools. These are typically triple net leases leaving the school responsible for operations and maintenance. While there are property management firms, the school is still responsible for managing this function. An alternative is for a developer to be the asset manager responsible for improving the value of the property. Asset managers can seek to operate the property more efficiently by bringing in multiple tenants. Some asset managers manage a portfolio of properties which can provide benefits to financing through diversification of project risk. This portfolio approach can have citywide impacts on the growth of the charter school sector and should involve public officials and authorizers. This model can begin to look like the Public School Trust, discussed in earlier publications<sup>1</sup>.

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<sup>1</sup> Smith, Nelson, "Whose School Buildings Are They, Anyway?" Education Next, Fall 2012, Vol12. No 4

Each city has its own unique situation that allows for these types of innovative solutions. For example, Washington DC has a dense footprint and has had excess space in former district school buildings. This allowed for an incubator model to be created whereby multiple charter schools can start in the same former district facility and eventually move to another site within relative proximity so as not to lose enrollment. The state provided funds allowed for the creation of a public-private partnership to manage and finance fifteen incubator buildings<sup>2</sup>. Other cities are starting to look at incubator models. Some developers are exploring more mixed-use facilities to bring housing and retail to the school property<sup>3</sup>.

These and other models need a local champion to advance them. The Dockmaster can explore new solutions that extend beyond existing financing and development opportunities. The ability to successfully accomplish these innovative solutions often requires developing relationships with local officials to create an attractive environment for public private partnerships for charter school facility issues.

## *2. Research, Advocacy, and Marketing*

*A. Research* – The best decisions are made with the support of research based evidence. Policy makers and urban planners need to understand the supply and demand of school space, along with historical trends about the use of space. The Dockmaster has information on many previous buildings and should have access to schools' future plans through client relationships. School and developers should have access to a vendor marketplace because a charter school or developer will need numerous services including site selection, zoning and permits, design, management, and construction. The Dockmaster can help the school navigate all the local providers. Investors need to know the true risk involved in charter schools and understand past financial performance of investments. Elected officials need to understand the true costs of facilities and how that relates to any public funding.

*B. Advocacy* - There are numerous programs, rules, regulations, and opportunities efforts to help schools reduce the cost of building a project, or reduce the cost of financing the project. The Dockmaster and/or the Harbormaster can lead the efforts to coordinate all the stakeholders needed to advance new programs. Many of these programs will require the participation of the local or state governments. The skillsets for these types of efforts are often not found in a traditional foundation, financial organization, or real estate company. And many of the programs are rooted not in education circles but rather economic development policies. A multi-facet approach further showcases the need for local understanding of laws and regulations outside of any education department's guidelines.

*C. Marketing* – Decision makers feel more comfortable with new ideas if they know there are success stories elsewhere. Facility professionals are rarely skilled at telling stories. The Dockmaster can

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<sup>2</sup> Charter School Incubator Initiative brochure at [www.bhope.org/](http://www.bhope.org/)

<sup>3</sup> Stein, Perry, "City living is difficult on a teacher's salary. Could this new building change that?" Washington Post, July 27, 2016

coordinate the promotion of previous successes and failures. They can also tell the impact of the portfolio of charter schools and develop impact metrics easily understood by the general public.

### Implementation

While there are relatively few examples of Dockmasters, interest seems to be growing. Some cities are trying to determine how to create a Dockmaster in their city. They face a common 'make-or-buy' decision.

The pros of creating their own Dockmaster is that they have more control of the entity. They are guaranteed that it will focus on their city. City stakeholders are also concerned that if they fund the Dockmaster with their own capital, they would like control over the allocation of capital and taking on risk. The downside is that the administrative costs to start and manage a new organization are overly burdensome, including the lag time to find the right personnel. Single-city Dockmasters lack economies of scale and lack the benefits of knowledge sharing from the lessons learned and ongoing efforts in other cities. For example, one state has been thinking about this idea for 24 months and has yet to help a transaction. They will then have to build an organization before they can start to provide services to schools. They will have missed two school years' worth of providing a benefit to students.

The decision to bring in a proven operator has the opposite pros and cons. This is not dissimilar to the decision Harbormasters face to bring in proven charter school operators from out of town compared to starting home-grown charter schools.

### National efforts and synergies

Ideally, the growth of Dockmasters will lead to national coordination and the sharing of information among all the Dockmasters and even the Harbormasters. There may be a need for a new trade association to bring Dockmasters together. Other groups could coordinate this activity such as the trade association of the Harbormasters. Some of the activities such as research, advocacy, marketing, and innovative financing tools that have national implications could be coordinated in a type of national Charter School Facility Collaborative. This will take time as this emerging model matures.