



# Magnolia Public Schools

13950 Milton Ave. 200B Westminster, CA 92683

P: (714) 892-5066 F: (714) 362-9588

Board Of Directors

Board Agenda Item #	II A
Date:	September 11, 2016
To:	MPS Board of Directors
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Caprice Young, Ed.D., CEO & Superintendent (in the absence of Oswaldo Diaz, Chief Financial Officer)
RE:	Approval of expansion of the Intra Company Cash Flow Loan Fund from \$1.25 million to \$5.0 million

### Proposed Board Recommendation

I move that the Board approve an expansion of the interest free Intra Company Cash Flow Loan Fund from \$1.25 million to \$5.0 million; and, approve a cash flow loan from the Intra Company Cash Flow Loan Fund to MSA Santa Ana of \$3.1 million through June 30, 2017, to be repaid by June 30, 2018.

### Intra-Company Loan Terms

Total loan amount: \$3,100,000

Date of Disbursements: As needed beginning September 12, 2016

Repayment Period: Not to exceed one (1) year from the time of initial disbursement.

Interest Rate: 0.00%

### Background

As of March 31, 2016, MSA-SA had received a total of \$3,192,500 in Intra-Company Loans relating to construction projects and operational expenses. Of the total amount provided to MSA-SA \$2.8 million was been used as interim construction financing of the new MSA - Santa Ana facility. The funds were paid back during FY 2015-16 when the California Prop-1D funds were received.

With regards to operating funds, Santa Ana had been loaned a total of \$1.058 million as of August 31, 2016, in order to maintain operations while the new building was being completed. These loans were approved by previous board actions, the most recent of which was the creation of a \$1.25 million cash flow pool. The primary use of the loan pool will be to ensure MSA Santa Ana has sufficient cash available to manage expenses during 2016-17.

The board adopted budget for MSA Santa Ana anticipated adding a total of \$550,228 in debt to MPS based on an opening budget of 530 students. With the start of school this week, the school reached 649 students and will likely reach capacity next year, one year earlier than planned. This means that anticipated revenues are much higher than planned, although the increased number of students brings higher expenses as well. Because of the increased enrollment, we are now projecting a balanced budget for MSA Santa Ana. The remaining unknown is that construction projects often have odds and ends requiring some operating expense. The site and facilities teams are managing these closely at the same time as we move into construction on the Cafegymatorium. This construction project is included in the budget at \$3 million financed over ten years at 6.5 percent. These project assumptions are at the higher range of what is



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expected; however, since the project has not yet been bid or financed we are being conservative and intentionally masking the construction price (which should be lower than this estimate).

State revenues during the first few months of the year are calculated based on the previous year's enrollment. In addition, on a regular basis, revenues do not flow from the state to the school at the same time as expenses. In our most lean months, our schools can require ten to twenty percent of the annual operating revenue in cash flow reserves to pay expenses.

Attached is the revised budget and cash flow for the school showing the cash needs on a monthly basis during 2016-17. Also, included is a multi-year anticipated budget showing that the school is sustainable on a multi-year basis including facilities payments to begin next year.

### Policy Implications

This board action will allow the transfer of a portion of schools' long-term reserves into a cash flow loan fund to be used by all schools to meet annual cash flow needs. No school's long-term reserve would be allowed to drop below five percent of its annual budget and no school with an active construction program would be called upon to contribute to the fund. Schools with active construction projects include MSA 1, MSA 7, MSA Santa Ana and MSA San Diego. Therefore, the fund will include the following contributions from reserves available as of July 31, 2016:

Existing fund	\$1,250,000
MSA 2	540,000
MSA 4	400,000
MSA 5	650,000
MSA 6	400,000
MSA 7	550,000
MSA 8	1,800,000
Total	\$5,000,000

MSA Santa Ana is anticipated to need a cash flow loan of \$3.1 million.

### Budget Implications

Taking into consideration the specific cash requirements of MSA Santa Ana, and in order to allow MSA-Santa Ana to deliver high-quality education consistent with its charter. These loans will be used to fund legitimate educational and operational expenses in accordance with Generally Accepted Accounting Principles. A potential risk associated with this loan is that the school will be unable to pay due to mitigating circumstances related to one-time unexpected expenses. The non-approval of the Intra-Company Loan will require the organization to secure a short term bridge loan financing that will include a high interest rate ranging from 6.5% to 9.5%.

### Name of Staff Originator:

Caprice Young, CEO & Superintendent (in the absence of Oswaldo Diaz, Chief Financial Officer) and Erdinç Acar, Southern Regional Director and Science/Blended Learning Advisor

### Attachments:

Loan Pool Accounting

School budget, cash flow and five year projection