



Date: August 16, 2019

To: Board Members

From: Kevin Sved, CEO

Subject: WPS Long-Term Facilities, 407 Main Street

### **Recommendation**

It is recommended that the Board consider delegating authority to the CEO to negotiate lease terms with the owner of 407 Main Street within the parameters set by the Board and the final lease subject to Board approval.

### **Background**

The Pajaro Valley Unified School District (PVUSD) is providing Watsonville Prep School seven portable classrooms on the campus of E.A. Hall Middle School in the 2019-20 school year. Due to anticipated challenges with PVUSD providing appropriate facilities in the future, staff has been working with Pacific Charter School Development (PCSD) to identify a viable long-term solution. Efforts have been focused on vetting the potential of 407 Main Street, a two-story former department store building. The plan would be for Watsonville Prep to lease the entire second story of approximately 37,500 square feet to serve the full TK-8 program.

PCSD has supported Navigator with feasibility analyses and provided project management support. PCSD helped bring on an experienced architectural firm, ARTIK, to support the site feasibility process. The support from PCSD has been provided without fees, thanks to philanthropic support PCSD receives. ARTIK has created proposed floor plans and related specifications for building out the space. Additionally, structural analysis work has been completed to determine the modifications necessary to bring the building into compliance with educational occupancy requirements. PCSD has also assisted in developing a financing structure that could complete the transaction.

### **Feasibility Analysis**

*Location feasibility.* The location is feasible. It is less than one-mile from E.A. Hall, so it should be accessible for most WPS families. The lot has sufficient parking and street access. The City is amenable to a conditional use permit. There are community resources nearby, including the Watsonville Library (0.2 mile), Watsonville Youth Center (0.2 mile), and YMCA (0.5 mile).

*Structural feasibility.* The building was evaluated by Duquette Engineering for structural integrity. The building is in good condition and will require minimal structural modifications to be in compliance with educational occupancy. Specifically, the addition of three brace frames will be necessary, with an estimated cost of less than \$100,000.

*Space feasibility.* The floor plans indicate that the space is sufficient to operate a full TK-8 grade program that includes the following:

1. Two classrooms per grade level, K-8, and one TK classroom; classroom size ranges from 820 to 990 square feet
2. A multi-purpose room of 4,980 square feet that will provide indoor playspace, cafeteria space, and full group meeting area
3. A 270 square-foot servery for food refrigeration and warming
4. A 910 square-foot library
5. Administrative space including rooms for special education, counseling and speech
6. First floor secure access points for students and families

*Cost feasibility.* The deal structure proposed has the owner as the developer of the project. Navigator's Director of Business and Finance, working with the CEO and PCSD, has developed a budget scenario that allocates \$1,000 per average daily attendance (ADA) from general operating revenues and \$1,000 per ADA from projected SB 740 revenues (SB740 refers to California Senate Bill 740 which provides reimbursement to eligible facilities expenses). This budget scenario is attached.

Watsonville Prep's funding from Local Control Funding Formula (LCFF), the primary state funding allocation for California public schools, is projected to be at approximately \$11,000 per student, as compared to approximately \$9,800 for HPS and \$9,200 for GPS. These differences are based on the percentages of students who qualify for free or reduced price meals or are designated as English learners. Based on the higher LCFF revenue, WPS would be able to spend approximately \$1,000 per student on long-term facilities and still afford staffing structures that are more robust than HPS or GPS, a necessity to serve a higher-needs population. The attached five-year budget projections show year-end fund balances based on the rent and debt service annual allocation of \$2,000 per ADA.

The cost structure is significantly less than a ground-up construction project analyzed at a vacant lot. Refurbishing existing space can be much more cost effective than new construction as current costs for materials and labor are significantly higher today than 20 years ago when this building was originally built.

### **Background of Owner / Developer**

The owners of the building are William (Bill) and Neva Hansen. Bill serves as chairman of Santa Cruz County Bank. He also owns an insurance company in Watsonville and several office, retail, and high-end housing developments in downtown Watsonville.

### **Further Analysis**

*Outdoor playspace.* The location currently does not have a dedicated outdoor playspace. The space can be programmed to not require outdoor playspace but it is not optimal. One-half block away there is an outdoor field that was used by another charter school several years ago. This field is currently available for lease.

### **Timeline**

The timeline is very tight to have the building ready to occupy in time for the start of the 2019-20 school year. Assuming that we contract with our architects to being developing

construction documents by September 1, at an estimated cost of \$100,000, and we finalize the lease by October 8, occupying the completed building by August 1, 2020 is feasible if permitting is achieved in eight weeks and construction is completed in six-seven months.

**Risk Analysis**

One major risk of the project is SB 740 revenues are not guaranteed and future funding may be unpredictable. Relatedly, the maximum reimbursement for SB 740 is based on the appraised value of the space to be leased and determining appraised values of private school buildings can be challenging. Other risks and ways to mitigate those risks are discussed below.

| <b>Risk Factor</b>   | <b>Mitigation of Risk Factor</b>  |
|--|---|
| SB 740 funding not guaranteed  | While SB 740 has not always fully funded, risk is mitigated in that the projection of \$1,000/year is approximately 85% of funding level.   |
| The long-term budget projections are based on 79% of students qualifying for free or reduced price lunch or English learner status. If these numbers go down, projected revenues will be reduced, making the lease more difficult to afford. | The charter prioritizes enrollment for residents of Watsonville, where the schools average 85%+ FRL. Continuing to push recruitment in the local area would help mitigate this risk.  |
| Owner/developer does not meet the tight construction timeline  | WPS would still apply for 2020-21 Prop 39 facilities as a backup plan. The facilities fees from PVUSD for 2019-20 are approximately \$30,000 so paying a similar amount in 2020-21 for a backup plan would be affordable.       |
| Not meeting enrollment targets   | GPS and HPS both have extensive waiting lists and we anticipate the same will develop for WPS.  |
| City Planning Commission or City Council will not approve project plans  | Navigator and developer will continue to cultivate relationships with local leaders to mitigate political opposition.   |
| Limited play space   | Creating a partnership with the city to access the Youth Center across the street that is underutilized during school days would mitigate this risk. Leasing the outdoor place space across the street should also be explored. |

**Summary**

While the deal to create a permanent solution for WPS is complicated, the benefit of long-term stability afforded by a permanent facility solution for WPS could outweigh the risks. Therefore, it is recommended that the Board discuss a long-term lease for 407 Main Street that includes the necessary capital improvements and direct the CEO to negotiate terms within parameters set by the board and with the final lease subject to board approval.

**Attachments:**

- Timeline
- Five-Year Budget Projections
- Floorplans

**407 Main Preliminary Project Timeline as of August 16, 2019**

| <b>Milestone</b>   | <b>Date</b>            |
|--|------------------------|
| <i>Update Navigator Finance Committee on proposed deal structure</i>   | <i>August 14</i>       |
| <i>PCSD to provide details on investment.</i>  | <i>August 20</i>       |
| <i>Artik to provide final floor plans and specifications</i>   | <i>August 20</i>       |
| <i>Update Navigator Board on deal structure (greenlight to move forward on negotiations and funding for studies and construction documents development as appropriate)</i> | <i>August 20</i>       |
| <i>Provide initial plans and design specifications to the owner with proposed deal terms</i>   | <i>August 21</i>       |
| <i>Meet with City of Watsonville to understand path to submitting for the Conditional Use Permit and studies required</i>  | <i>August 28</i>       |
| <i>Finalize negotiation with Owner / Developer</i>   | <i>August 30</i>       |
| <i>Secure financing from Partners</i>  | <i>August 30</i>       |
| <i>Authorize Architects to Begin Construction Documents</i>  | <i>August 30</i>       |
| <i>Legal agreements are drafted</i>  | <i>September 9</i>     |
| <i>Final board approval for lease and financing</i>  | <i>October 8</i>       |
| <i>Execute lease</i>   | <i>October 9</i>       |
| <i>Owner/developer to submit for planning approval</i>   | <i>October 10</i>      |
| <i>Owner/developer to submit for building approval</i>   | <i>November 1</i>      |
| <i>Planning approval eight weeks</i>   | <i>December 4</i>      |
| <i>Permit approval eight weeks</i>   | <i>January 1, 2020</i> |
| <i>Construction in six months</i>  | <i>June 30, 2020</i>   |

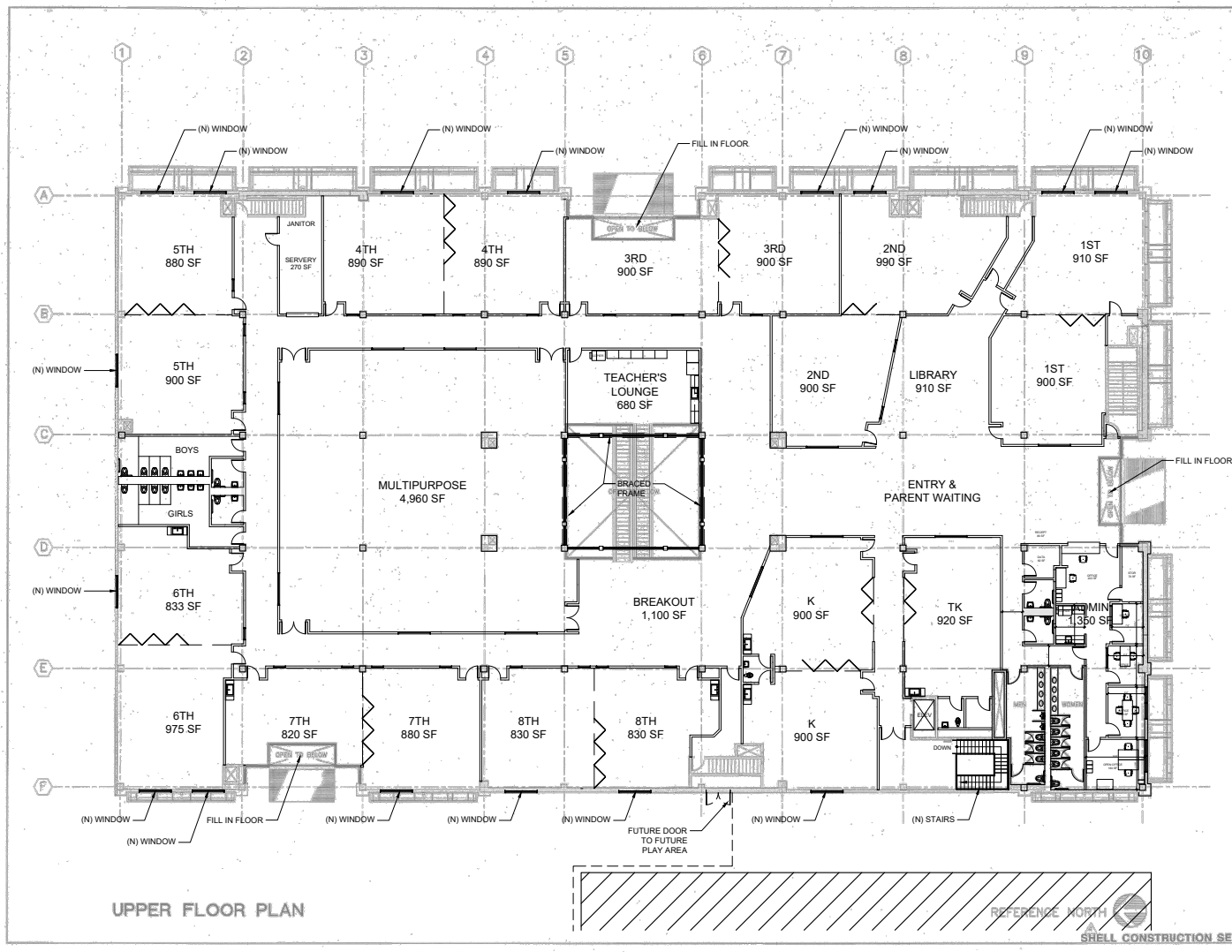
Watsonville Prep School - Projection  
 Five Year Projection  
 2019-20 to 2023-24

|   | Year 1<br>2019-20 | Year 2<br>2020-21 | Year 3<br>2021-22 | Year 4<br>2022-23 | Year 5<br>2023-24 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Enrollment  | 180               | 240               | 300               | 360               | 420               |
| ADA   | 169.20            | 225.60            | 282.00            | 338.40            | 394.80            |
| % Students Unduplicated                                 | 78.75             | 78.75             | 78.75             | 78.75             | 78.75             |
| <b>REVENUE:</b>   |                   |                   |                   |                   |                   |
| <b>8000 · Gnl Purpose Entitlement LCFF</b>              |                   |                   |                   |                   |                   |
| 8011 · Charter Schools General Purpose                  | 1,161,863         | 1,592,593         | 1,995,967         | 2,420,158         | 2,735,514         |
| 8012 · Education Protection Account                     | 33,840            | 45,120            | 56,400            | 67,680            | 78,960            |
| 8096 · Charter Schools in Lieu of Prop                  | 674,940           | 926,918           | 1,193,406         | 1,475,050         | 1,772,519         |
| <b>Total 8000 · Gnl Purpose Entitlement LCFF</b>        | <b>1,870,643</b>  | <b>2,564,631</b>  | <b>3,245,773</b>  | <b>3,962,888</b>  | <b>4,586,993</b>  |
| <b>Total 8100 · 8299 Federal Revenue</b>                | <b>198,442</b>    | <b>298,533</b>    | <b>380,628</b>    | <b>465,889</b>    | <b>554,409</b>    |
| <b>8300 · 8599 State Revenues</b>                       |                   |                   |                   |                   |                   |
| 8570 SB740 Revenue                                      | 0                 | 225,600           | 282,000           | 338,400           | 394,800           |
| <b>Total 8300 · 8599 State Revenues</b>                 | <b>142,464</b>    | <b>419,352</b>    | <b>529,034</b>    | <b>640,768</b>    | <b>754,618</b>    |
| <b>Total 8600 · 8699 Other Local Revenue</b>            | <b>6,428</b>      | <b>8,742</b>      | <b>11,146</b>     | <b>13,642</b>     | <b>16,234</b>     |
| <b>8800-89 · Donations</b>                              |                   |                   |                   |                   |                   |
| 8802 · Donations  | 425,000           | 290,000           | 125,000           | 25,000            |                   |
| <b>Total 8800-89 · Donations</b>                        | <b>425,000</b>    | <b>290,000</b>    | <b>125,000</b>    | <b>25,000</b>     | <b>0</b>          |
| <b>Total Revenue</b>                                    | <b>2,642,977</b>  | <b>3,581,258</b>  | <b>4,291,581</b>  | <b>5,108,187</b>  | <b>5,912,254</b>  |
| <b>EXPENSES:</b>  |                   |                   |                   |                   |                   |
| Certificated Salaries                                   | 801,997           | 930,788           | 1,117,894         | 1,319,839         | 1,528,311         |
| Classified Salaries                                     | 331,252           | 554,016           | 656,387           | 763,621           | 839,765           |
| <b>Salaries</b>   | <b>1,143,249</b>  | <b>1,506,803</b>  | <b>1,799,281</b>  | <b>2,110,460</b>  | <b>2,398,077</b>  |
| <b>Total Taxes &amp; benefits</b>                       | <b>321,200</b>    | <b>420,150</b>    | <b>520,104</b>    | <b>620,345</b>    | <b>732,583</b>    |
| <b>Total 4000 · 4999 Books &amp; Supplies</b>           | <b>478,421</b>    | <b>309,267</b>    | <b>384,660</b>    | <b>462,744</b>    | <b>543,153</b>    |
| 5611 Rent - Facilities (debt service)                   | 23,781            | 451,200           | 564,000           | 676,800           | 789,600           |
| <b>Total 5000 · 5999 Services &amp; Other Oper. Exp</b> | <b>668,807</b>    | <b>1,175,623</b>  | <b>1,431,647</b>  | <b>1,700,389</b>  | <b>1,969,468</b>  |
| <b>Total Expenses</b>                                   | <b>2,611,676</b>  | <b>3,412,453</b>  | <b>4,136,167</b>  | <b>4,894,280</b>  | <b>5,643,489</b>  |
| <b>Net Income - Accrual Basis</b>                       | <b>31,300</b>     | <b>168,805</b>    | <b>155,414</b>    | <b>213,907</b>    | <b>268,765</b>    |
| Beginning of Year Fund Balance                          | 51,673            | 82,973            | 251,778           | 407,192           | 621,099           |
| <b>End of Year Fund Balance</b>                         | <b>82,973</b>     | <b>251,778</b>    | <b>407,192</b>    | <b>621,099</b>    | <b>889,864</b>    |
| Fund Balance as a Percentage of Expenses                | 3.18%             | 7.38%             | 9.84%             | 12.69%            | 15.77%            |
| <b>Cash Flow:</b>                                       |                   |                   |                   |                   |                   |
| Net Income - Accrual Basis                              | 31,300            | 168,805           | 155,414           | 213,907           | 268,765           |
| Proceeds from Revolving Loan                            | 250,000           | 0                 | 0                 | 0                 | 0                 |
| Repayments of Revolving Loan                            |                   | (49,732)          | (49,866)          | (50,000)          | (50,134)          |
| Increase in Accounts Receivable                         | (245,546)         | (137,710)         | (97,852)          | (101,210)         | (104,688)         |
| Increase in Accounts Payable                            | 24,978            | 293               | 5,567             | 5,557             | 5,723             |
| Change in Cash  | 60,732            | (18,343)          | 13,263            | 68,254            | 119,666           |
| Beginning Cash  | 51,673            | 112,405           | 94,062            | 107,325           | 175,579           |
| Ending Cash   | 112,405           | 94,062            | 107,325           | 175,579           | 295,245           |
| <b>Facility Calculations</b>                            |                   |                   |                   |                   |                   |
| Difference (Rent - SB 740)                              |                   | 225,600           | 282,000           | 338,400           | 394,800           |
| Difference (Rent - SB 740) as Percent of LCFF           |                   | 8.8%              | 8.7%              | 8.5%              | 8.6%              |
| Percent Rent/Debt Service of Total State Revenues       |                   | 15.1%             | 14.9%             | 14.7%             | 14.8%             |
| Bldg SF   |                   | 30,500            | 32,500            | 34,500            | 37,500            |
| Cost/SF/Month   |                   | \$ 1.23           | \$ 1.45           | \$ 1.63           | \$ 1.75           |
| Days of Cash in Ending Fund Balance                     | 16                | 10                | 9                 | 13                | 19                |

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WATSONVILLE

UPPER FLOOR PLAN



UPPER FLOOR PLAN

Project Title  
**NAVIGATOR SCHOOL  
AT 407 MAIN ST**  
407 MAIN STREET  
WATSONVILLE CA  
NAVIGATOR SCHOOLS

| No. | Revisions/Submissions | Date |
|-----|-----------------------|------|
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Drawing Title  
**SECOND  
FLOOR  
PLAN**

Drawing No.  
**A3.02**

Project No. XXXXXX

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