



Date: October 25, 2019

To: Board of Directors

From: Kevin Sved, CEO

Subject: WPS Facilities

This memo outlines the key issues and planning related to short and long-term facilities for Watsonville Prep School (WPS). The objectives for this board agenda item are:

- 1) Provide an update on WPS facilities planning for 2020-21
- 2) Propose criteria for deciding long-term facilities
- 3) Analyze the 407 Main Street facility utilizing the proposed criteria
- 4) Frame the steps necessary to secure long-term facilities at 407 Main Street

### **Current Status**

WPS is currently dependent on the Pajaro Valley Unified School District (PVUSD) for facilities on a year-to-year basis through Proposition 39. PVUSD is currently providing WPS with seven portable classrooms on the campus of E.A. Hall Middle School for the 2019-20 school year.

### **Planning for 2020-21**

#### Proposition 39 Request

WPS will submit a Prop 39 request to PVUSD for additional classrooms at the E.A. Hall campus by November 1, 2019. The District is required to provide a preliminary 2020-21 facilities offer by February 1, 2020 and a final facilities offer by April 1, 2020. While we hope that PVUSD will do what is best for WPS families and provide suitable space at E.A. Hall, it is also important to prepare for alternatives as PVUSD is not required to offer additional classrooms at the E.A. Hall location.

Unless and until a long-term solution can be worked out with PVUSD, WPS will be subject to the annual uncertainties of Proposition 39 timelines and processes. There are several factors that make this process more difficult for WPS compared to GPS and HPS, including political dynamics and the fact that the campuses where GPS and HPS are located had larger numbers of available classrooms and related spaces to accommodate Navigator Schools.

### **Criteria for Deciding Long-Term Facilities**

One way to avoid the annual uncertainties of Prop 39 is to locate in a private facility. Table 1 below proposes key criteria to make a long-term facilities decision and rates the 407 Main Street building against those criteria.

**Table 1: Rating 407 Main Against Proposed Criteria**

<p>1) Is the location suitable: Is the location safe? Is it accessible to families?</p>	<ul style="list-style-type: none"> <li>● Traffic and crime are concerns</li> <li>● Area is central to families</li> </ul>
<p>2) Serves educational model: Does it allow us to deliver on our educational model? To what extent? Where are the challenges?</p>	<ul style="list-style-type: none"> <li>● Site fits full TK-8th grade classrooms</li> <li>● Play space limited to indoors</li> </ul>
<p>3) Stakeholder input: Are the parents and staff generally supportive of the site?</p>	<ul style="list-style-type: none"> <li>● Parent feedback is mixed</li> <li>● Staff feedback is mixed</li> </ul>
<p>4) Financial feasibility: Is it financially feasible, short term and long-term, for the school?</p>	<ul style="list-style-type: none"> <li>● Attached budgets show Years 1-4 with low projected net income and could require borrowing for cash flow</li> <li>● Longer-term is feasible</li> </ul>
<p>5) Risk of current situation: How high is the risk of the current situation if we don't do a private facility deal?</p>	<ul style="list-style-type: none"> <li>● Space is limited on current campus</li> <li>● Past engagement with board indicates moderate to high risk</li> </ul>
<p>6) Priority level within portfolio: How do the school's facilities needs compare to the needs of the other schools?</p>	<ul style="list-style-type: none"> <li>● GPS is most secure, then HPS</li> <li>● Watsonville has the highest needs</li> </ul>
<p>7) Organizational financial risk: Is the financial exposure organization-wide acceptable?</p>	<ul style="list-style-type: none"> <li>● Short-term exposure is about \$250k</li> <li>● If financed with New Market Tax Credit, long-term exposure could be limited to \$325k (one year's debt service) or less.</li> </ul>

Based on the criteria above, 407 Main Street is not an ideal solution. However, the potential the property provides as a viable long-term facility merits serious board consideration. In preparation to potentially establish 407 Main Street as a long-term facilities solution for WPS, staff have prepared the following documents for consideration:

- 1) A Letter of Intent with the building owners
- 2) Architectural services contract to develop construction drawings for 407 Main Street
- 3) Project management agreement to secure professional guidance to deliver the project
- 4) A \$250,000 loan agreement to help fund pre-construction costs required to prepare the project for contractor bidding and city approval

**Timeline**

With city approval by March 2020, there is a strong possibility that the school could be ready by December 2020. PCSD has a more aggressive timeline that could allow for August 2020

occupancy, but a December 2020 occupancy seems more feasible. In either case, WPS is applying for Prop 39 space for 2020-21.

**Risk Analysis**

Table 2 below identifies risks associated with 407 Main Street.

**Table 2 Risk Analysis of 407 Main**

<b>Risk Factor</b>	<b>Mitigation of Risk Factor</b>
The attached budgets indicate low number of days of cash on hand for WPS in first five years of lease	Adding an additional class of K-1 students in the early years would increase revenues. WPS could borrow to meet cash flow challenges. Additional fundraising could help provide a cushion.
SB 740 funding, the state’s rent reimbursement program for charter schools, is 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 75% 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.	Current unduplicated numbers are 91%. 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.

**Summary**

Given the uncertainty of the annual Prop 39 process, the Board is asked to consider making a decision on 407 Main Street as a permanent home for Watsonville Prep.

**Attachments**

-Long-term budget projections

Watsonville Prep School - Projection  
 Long-Term Projection  
 2019-20 to 2025-26

	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26
Enrollment	172	240	300	360	420	480	540
ADA	161.68	225.60	283.50	340.20	399.00	458.40	518.40
<b>REVENUE:</b>							
<b>8000 · Gnl Purpose Entitlement LCFF</b>							
8011 · Charter Schools General Purpose	1,061,359	1,572,434	1,964,003	2,389,895	2,853,649	3,215,212	3,636,058
8012 · Education Protection Account	32,336	45,600	56,940	68,280	79,800	91,680	103,680
8096 · Charter Schools in Lieu of Prop	674,940	926,918	1,193,406	1,475,060	1,772,519	2,036,213	2,302,733
<b>Total 8000 · Gnl Purpose Entitlement LCFF</b>	<b>1,768,635</b>	<b>2,544,952</b>	<b>3,214,349</b>	<b>3,933,235</b>	<b>4,705,968</b>	<b>5,343,105</b>	<b>6,042,470</b>
<b>Total 8100 · 8299 Federal Revenue</b>	<b>200,942</b>	<b>303,533</b>	<b>387,654</b>	<b>473,366</b>	<b>570,305</b>	<b>653,719</b>	<b>737,977</b>
<b>Total 8300 · 8599 State Revenues</b>	<b>145,313</b>	<b>418,662</b>	<b>530,421</b>	<b>641,999</b>	<b>759,661</b>	<b>872,471</b>	<b>986,420</b>
<b>Total 8600 · 8699 Other Local Revenue</b>	<b>18,428</b>	<b>18,742</b>	<b>23,705</b>	<b>28,715</b>	<b>33,907</b>	<b>36,350</b>	<b>38,817</b>
<b>Total 8800-89 · Donations</b>	<b>400,000</b>	<b>326,200</b>	<b>126,500</b>	<b>26,700</b>	<b>1,900</b>	<b>2,000</b>	<b>2,100</b>
<b>Total Revenue</b>	<b>2,533,318</b>	<b>3,612,088</b>	<b>4,282,629</b>	<b>5,104,015</b>	<b>6,071,741</b>	<b>6,907,645</b>	<b>7,807,784</b>
<b>EXPENSES:</b>							
<b>Salaries</b>	<b>1,237,309</b>	<b>1,651,286</b>	<b>1,952,116</b>	<b>2,281,539</b>	<b>2,617,175</b>	<b>2,753,938</b>	<b>3,014,992</b>
<b>Total Taxes &amp; benefits</b>	<b>292,689</b>	<b>458,980</b>	<b>570,295</b>	<b>666,018</b>	<b>781,158</b>	<b>826,918</b>	<b>924,733</b>
<b>Total 4000 · 4999 Books &amp; Supplies</b>	<b>443,185</b>	<b>291,869</b>	<b>372,348</b>	<b>446,004</b>	<b>523,451</b>	<b>593,191</b>	<b>652,234</b>
<b>5000 · 5999 Services &amp; Other Oper. Exp</b>							
5611 Rent - (407 Main Building Lease and Debt)	28,781	480,424	559,052	664,594	792,742	929,473	1,076,398
5611 Rent - Play space (middle school off-site)		0	0	0	29,504	45,583	62,601
5701 Tech-Software, R&M, SIS	98,730	53,856	68,666	84,048	100,017	114,305	128,593
5804 · CMO Management fee	303,609	356,293	450,009	550,653	658,836	641,173	664,672
<b>Total 5000 · 5999 Services &amp; Other Oper. Exp</b>	<b>679,382</b>	<b>1,169,534</b>	<b>1,401,336</b>	<b>1,666,722</b>	<b>2,017,481</b>	<b>2,211,513</b>	<b>2,455,136</b>
<b>Interest Expense</b>	<b>0</b>	<b>609</b>	<b>475</b>	<b>342</b>	<b>208</b>	<b>73</b>	<b>1,707</b>
<b>Total Expenses</b>	<b>2,652,565</b>	<b>3,572,278</b>	<b>4,296,569</b>	<b>5,060,624</b>	<b>5,939,472</b>	<b>6,385,633</b>	<b>7,048,802</b>
<b>Net Income - Accrual Basis</b>	<b>(119,247)</b>	<b>39,810</b>	<b>(13,940)</b>	<b>43,391</b>	<b>132,269</b>	<b>522,011</b>	<b>758,982</b>
Beginning of Year Fund Balance	124,995	5,748	45,558	31,618	75,008	207,277	729,289
<b>End of Year Fund Balance</b>	<b>5,748</b>	<b>45,558</b>	<b>31,618</b>	<b>75,008</b>	<b>207,277</b>	<b>729,289</b>	<b>1,488,271</b>
Fund Balance as a Percentage of Expenses	0.22%	1.28%	0.74%	1.48%	3.49%	11.42%	21.11%
<b>Cash Flow:</b>							
Net Income - Accrual Basis	(119,247)	39,810	(13,940)	43,391	132,269	522,011	758,982
Proceeds from Revolving Loan	250,000	0	0	0	0		
Repayments of Revolving Loan		(49,732)	(49,866)	(50,000)	(50,134)	(50,268)	0
Change in Cash	130,753	(9,922)	(63,806)	(6,609)	82,135	471,743	758,982
Beginning Cash	124,996	255,749	245,827	182,021	175,411	257,546	729,290
Ending Cash	255,749	245,827	182,021	175,411	257,546	729,290	1,488,272
Cash per day of operation (expenses/365)	7267	9787	11771	13865	16273	17495	19312
Days of Cash on hand , beginning fund balance	17	1	4	2	5	12	38
Days of Cash on hand , beginning cash balance	17	26	21	13	11	15	38

## Combined Revenue and Expense

	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
<b>CMO</b>						
Donations & Grants	495,000	500,000	500,000	400,000	100,000	100,000
Other Revenue	40,915	50,915	915	915	915	915
CMO Management Fees	1,871,856	1,864,736	2,011,190	2,408,828	2,924,793	3,162,723
<b>TOTAL REVENUE</b>	<b>2,407,771</b>	<b>2,415,651</b>	<b>2,512,105</b>	<b>2,809,743</b>	<b>3,025,708</b>	<b>3,263,638</b>
<b>TOTAL EXPENDITURES</b>	<b>2,396,962</b>	<b>2,397,880</b>	<b>2,499,119</b>	<b>2,791,943</b>	<b>2,931,675</b>	<b>3,010,322</b>
<b>REVENUE LESS EXPENDITURES</b>	<b>10,809</b>	<b>17,771</b>	<b>12,986</b>	<b>17,800</b>	<b>94,033</b>	<b>253,316</b>
<b>Net Income - GAAP Basis 2019-20</b>	<b>10,809</b>	<b>17,771</b>	<b>12,986</b>	<b>17,800</b>	<b>94,033</b>	<b>253,316</b>
Beginning Fund Balance	83,259	94,068	111,839	124,826	142,626	236,659
Ending Fund Balance	94,068	111,839	124,826	142,626	236,659	489,975
<b>GPS</b>						
LCFF Revenue	4,727,826	4,924,036	5,105,413	5,266,912	5,435,295	5,609,249
Federal Revenue	338,839	345,416	352,124	358,967	365,946	373,065
State Revenue	450,219	450,315	459,321	468,507	477,878	487,435
Donations & Grants	108,300	11,800	11,900	12,001	12,103	12,206
Other Revenue	110,670	112,816	115,005	117,238	119,516	121,839
<b>TOTAL REVENUE</b>	<b>5,735,854</b>	<b>5,844,383</b>	<b>6,043,763</b>	<b>6,223,625</b>	<b>6,410,737</b>	<b>6,603,794</b>
<b>TOTAL EXPENDITURES</b>	<b>5,489,251</b>	<b>5,619,693</b>	<b>5,794,905</b>	<b>5,971,681</b>	<b>6,155,080</b>	<b>6,345,117</b>
<b>REVENUE LESS EXPENDITURES</b>	<b>246,603</b>	<b>224,690</b>	<b>248,858</b>	<b>251,944</b>	<b>255,657</b>	<b>258,676</b>
<b>Net Income - GAAP Basis 2019-20</b>	<b>226,603</b>	<b>199,328</b>	<b>232,943</b>	<b>241,900</b>	<b>248,819</b>	<b>251,838</b>
Beginning Fund Balance	1,862,319	2,088,922	2,288,250	2,521,192	2,763,093	3,011,911
Ending Fund Balance	2,088,922	2,288,250	2,521,192	2,763,093	3,011,911	3,263,749
<b>HPS</b>						
LCFF Revenue	5,031,476	5,132,250	5,302,464	5,470,198	5,645,075	5,825,741
Federal Revenue	246,894	201,320	205,347	209,454	213,643	217,916
State Revenue	405,140	404,334	412,421	420,669	429,083	437,664
Donations & Grants	107,500	12,500	12,500	12,500	12,500	12,500
Other Revenue	73,517	74,987	76,487	78,017	79,577	81,169
<b>TOTAL REVENUE</b>	<b>5,864,527</b>	<b>5,825,391</b>	<b>6,009,219</b>	<b>6,190,838</b>	<b>6,379,877</b>	<b>6,574,990</b>
<b>TOTAL EXPENDITURES</b>	<b>5,623,532</b>	<b>5,620,810</b>	<b>5,792,221</b>	<b>5,968,236</b>	<b>6,150,822</b>	<b>6,339,984</b>
<b>REVENUE LESS EXPENDITURES</b>	<b>240,996</b>	<b>204,582</b>	<b>216,998</b>	<b>222,602</b>	<b>229,055</b>	<b>235,006</b>
<b>Net Income - GAAP Basis 2019-20</b>	<b>238,996</b>	<b>179,582</b>	<b>191,998</b>	<b>197,602</b>	<b>204,055</b>	<b>210,006</b>
Beginning Fund Balance	1,767,574	2,006,570	2,186,151	2,378,149	2,575,751	2,779,807
Ending Fund Balance	2,006,570	2,186,151	2,378,149	2,575,751	2,779,807	2,989,812
<b>WPS</b>						
LCFF Revenue	1,768,635	2,544,952	3,214,349	3,933,235	4,705,968	5,343,105
Federal Revenue	200,942	303,533	387,654	473,366	570,305	653,719
State Revenue	145,313	418,662	530,421	641,999	759,661	872,471
Donations & Grants	400,000	326,200	126,500	26,700	1,900	2,000
Other Revenue	18,428	18,742	23,705	28,715	33,907	36,350
<b>TOTAL REVENUE</b>	<b>2,533,318</b>	<b>3,612,088</b>	<b>4,282,629</b>	<b>5,104,015</b>	<b>6,071,741</b>	<b>6,907,645</b>
<b>TOTAL EXPENDITURES</b>	<b>2,652,565</b>	<b>3,536,921</b>	<b>4,248,038</b>	<b>5,045,258</b>	<b>5,952,726</b>	<b>6,436,543</b>
<b>REVENUE LESS EXPENDITURES</b>	<b>(119,247)</b>	<b>75,167</b>	<b>34,591</b>	<b>58,758</b>	<b>119,015</b>	<b>471,102</b>
<b>Net Income - GAAP Basis 2019-20</b>	<b>(119,247)</b>	<b>75,167</b>	<b>34,591</b>	<b>58,758</b>	<b>119,015</b>	<b>471,102</b>
Beginning Fund Balance	124,995	5,748	80,915	115,506	174,263	293,279
Ending Fund Balance	5,748	80,915	115,506	174,263	293,279	764,380
<b>Navigator</b>						
LCFF Revenue	11,527,937	12,601,238	13,622,226	14,670,345	15,786,338	16,778,095
Federal Revenue	786,675	850,269	945,125	1,041,786	1,149,894	1,244,700
State Revenue	1,000,672	1,273,310	1,402,163	1,531,176	1,666,622	1,797,571
Donations & Grants	1,110,800	850,500	650,900	451,201	126,503	126,706
Other Revenue	243,530	257,460	216,112	224,885	233,915	240,272
CMO Management Fees	1,871,856	1,864,736	2,011,190	2,408,828	2,924,793	3,162,723
<b>TOTAL REVENUE</b>	<b>16,541,470</b>	<b>17,697,514</b>	<b>18,847,716</b>	<b>20,328,222</b>	<b>21,888,064</b>	<b>23,350,066</b>
<b>TOTAL EXPENDITURES</b>	<b>16,162,310</b>	<b>17,175,303</b>	<b>18,334,283</b>	<b>19,777,118</b>	<b>21,190,303</b>	<b>22,131,966</b>
<b>REVENUE LESS EXPENDITURES</b>	<b>379,160</b>	<b>522,210</b>	<b>513,434</b>	<b>551,103</b>	<b>697,761</b>	<b>1,218,100</b>
<b>Net Income - GAAP Basis 2019-20</b>	<b>357,160</b>	<b>471,848</b>	<b>472,518</b>	<b>516,060</b>	<b>665,923</b>	<b>1,186,261</b>
Beginning Fund Balance	3,838,147	4,195,307	4,667,155	5,139,673	5,655,733	6,321,656
Ending Fund Balance	4,195,307	4,667,155	5,139,673	5,655,733	6,321,656	7,507,917