



Date: November 5, 2019

To: NS Board

From: Kevin Sved, CEO

Subject: 407 Main Street, Watsonville

During the NS Special Board Meeting on October 28, the board discussed issues relating to the potential development of long-term facilities at 407 Main Street for Watsonville Prep School (WPS). I am providing additional information about the project in this memorandum in hopes we can make decisions regarding the recommendations I put forth at the last meeting.

Neighborhood Safety

As we discussed last week, downtown Watsonville has a higher population density compared to other areas in Watsonville. The higher number of reported crimes in this neighborhood is a reflection of this density. However, other areas in Watsonville, Gilroy, and Hollister have similar social challenges. Table 1 lists the number of registered sex offenders within a .75 mile radius of 407 Main, other schools within Pajaro Valley Unified School District (PVUSD), and Navigator schools.

Table 1. Number of Registered Sex Offenders Within a Radius of .75 Mile

Site	Number of Offenders
407 Main Street	12
Radcliff Elementary	11
E.A. Hall / Mintie White (current WPS location)	9
Linscott Charter School (K-8)	16
MacQuiddy Elementary	7
Ceiba Public Charter (6-12)	11
Gilroy Prep School	24
Hollister Prep School	13

By this measure the challenges facing the neighborhood surrounding 407 Main do not seem to be extreme compared to other schools. With added safety measures, we can responsibly choose 407 Main as a permanent site for WPS.

To help address concerns regarding safety, WPS will hire a security guard from 6:30 am to 6:30 pm. The security guard will be stationed at the school's entrance to ensure safety. This proactive measure will reinforce Navigator's commitment to providing a safe environment for children. Security guard services have been incorporated into the budget.

Overly-optimistic Construction Budget

The construction budget presented in the previous meeting packet was estimated at \$100 per square foot of construction costs for a construction estimate of \$4 million. When adding an additional \$1 million for architectural fees, permitting fees, traffic studies, transactional costs of securing financing, debt service during the period of construction, and a contingency fee, the total project costs were estimated at \$5 million. Guided by board member feedback, additional information was obtained. A more realistic construction estimate is \$150-\$160 per square foot, for an estimated \$6m construction budget and projected project cost of \$7.1m, including contingency.

The project is still feasible in light of the higher project costs based on updated financing opportunities we are applying for with the support of Pacific Charter School Development (PCSD). The financing package we are pursuing includes a New Market Tax Credit for \$5.82m at an interest rate of 5.28%. Under this financing 20% of the loan amount will be forgiven after five years. In order to cover project costs of \$7.1m, PCSD will provide a loan for the difference at 3% interest for a five-year period. (Please see details in the attached revised budget.)

Financial Risk Analysis

As the attached long-term WPS projections indicate, WPS anticipates an annual net income in excess of \$300k beginning in its fifth year of occupancy at 407 Main Street. This level of projected income demonstrates the long term feasibility of the project. However, in its first four years, net income is projected to go as low as \$7k for one year, while also carrying \$250k of debt from the revolving loan from the California Department of Education (CDE). Furthermore, due to the need to repay the CDE revolving loan in installments of \$50k per year, the current projections indicate an ending cash balance as low as 72k in 2021-22. These low cash reserves indicate that there is very little room for error without going negative and that there are times during the year when cash flow goes below negative.

To mitigate these risks, we will continue to pursue additional fundraising. Another way to mitigate the risks would be to identify a funding source to provide a low-interest bridge loan to WPS until the school is more financially stable. Adding additional students while the building is not fully utilized can also significantly improve the financial outlook.

Immediate Financial Needs and Capacity

In order to continue moving the project forward, the most immediate needs are for architectural work and continued project management support from PCSD. A surplus in Support Office fundraising for 2019-20 provides a financial resource to support these essential, time-sensitive

components of the project. With the recent award of \$250,000 from the Schwab Foundation, we have exceeded our 2019-20 target by \$330,000 with more than half of the year remaining.

Table 2. Budgeted and Secured Donations 2019-20

	Donations		
	Budgeted	Secured	Difference
CMO	495,000	825,000	330,000
GPS	105,000	50,000	(55,000)
HPS	105,000	50,000	(55,000)
WPS	425,000	400,000	(25,000)
TOTAL	1,130,000	1,325,000	195,000

Based on the availability of resources, Navigator is in a financial position to invest in continuing the architectural and project management work associated with 407 Main Street.

Summary

The building at 407 Main Street provides a suitable permanent facility for WPS. The downtown neighborhood has social challenges, but these challenges are not unique to school neighborhoods in Watsonville, the region as a whole, and communities in which we hope to expand to serve children in need regardless of their circumstances. Projections demonstrate financial feasibility over the long term when supported by careful fiscal management and continued fundraising efforts in the short term. I recommend that we proceed with the project and work diligently to raise additional financial support for WPS. I recommend that the Board approves the following items that are in the board packet:

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

Thank you for your thoughtful consideration on this important matter.

Attachment

-Revised WPS Long-Term Budget

Watsonville Prep School - Projection
Five Year Projection
2018-19 to 2025-26

	Year 1 <u>2019-20</u>	Year 2 <u>2020-21</u>	Year 3 <u>2021-22</u>	Year 4 <u>2022-23</u>	Year 5 <u>2023-24</u>	Year 6 <u>2024-25</u>	Year 7 <u>2025-26</u>
Enrollment	172	240	300	360	420	480	540
ADA	161.68	225.60	283.50	340.20	399.00	458.40	518.40

REVENUE:							
Total 8000 · Gnl Purpose Entitlement LCFF	1,768,635	2,544,952	3,214,349	3,933,235	4,705,968	5,343,105	6,042,470
Total 8100 · 8299 Federal Revenue	208,442	301,382	385,929	470,915	561,530	644,439	728,110
8570 SB740 Revenue	0	225,600	283,500	340,200	399,000	458,400	518,400
Total 8300 · 8599 State Revenues	145,313	418,662	530,421	641,999	759,661	872,471	986,420
Total 8600 · 8699 Other Local Revenue	18,428	18,742	23,705	28,715	33,907	36,350	38,817
Total 8800-89 · Donations	400,000	326,200	226,500	126,700	1,900	2,000	2,100
Total Revenue	2,540,818	3,609,937	4,380,904	5,201,564	6,062,966	6,898,365	7,797,917
EXPENSES:							
Salaries	1,237,309	1,653,001	1,955,907	2,242,209	2,580,679	2,851,660	3,177,657
Total Taxes & benefits	292,689	459,131	570,628	656,980	772,202	844,231	954,420
Total 4000 · 4999 Books & Supplies	443,185	240,761	362,348	446,004	523,451	593,191	652,234
5611 Rent (WPS LLC: 407 Lease, NNN, Debt Service)	28,781	497,018	610,646	716,188	844,336	981,067	1,220,205
Total 5000 · 5999 Services & Other Oper. Exp	679,382	1,167,612	1,483,876	1,749,881	2,099,305	2,292,909	2,628,267
Interest Expense	0	609	475	342	208	73	1,707
Total Expenses	2,652,565	3,521,115	4,373,234	5,095,416	5,975,844	6,582,065	7,414,285
Net Income - Accrual Basis	(111,747)	88,823	7,670	106,148	87,122	316,300	383,633
Balance Sheet							
Cash	208,211	150,426	72,404	96,556	102,636	334,024	683,456
Accounts Receivable	90,412	211,865	267,797	317,962	370,618	421,685	476,673
Prepaid Expense	38,454	38,454	38,454	38,454	38,454	38,454	38,454
Total Current Assets	337,077	400,745	378,654	452,972	511,708	794,162	1,198,583
Total Assets	337,077	400,745	378,654	452,972	511,708	794,162	1,198,583
Accounts Payable and Accrued Liabilities	26,582	35,286	43,825	51,062	59,885	65,960	74,300
Accrued PTO	47,246	63,119	74,686	85,618	98,542	108,889	121,338
Total Current Liabilities	73,828	98,405	118,510	136,680	158,427	174,849	195,637
CDE Revolving Loan	250,000	200,268	150,402	100,402	50,268	-	-
Total Liabilities	323,828	298,673	268,912	237,082	208,695	174,849	195,637
Beginning Fund Balance	124,996	13,249	102,072	109,742	215,890	303,012	619,313
Net Income	(111,747)	88,823	7,670	106,148	87,122	316,300	383,633
Ending Fund Balance	13,249	102,072	109,742	215,890	303,012	619,313	1,002,945
Total Liabilities & Fund Balance	337,077	400,745	378,654	452,972	511,708	794,162	1,198,583