



Navigator Schools Finance Committee Meeting - Watsonville Facility Update

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Agenda

- Project Affordability
- Site Search Update
- Next Steps

Review from October 2nd Board Meeting: School Facility Development

- Site Selection & Control
- Governmental Approvals
- **Financing**
 - Challenge of small initial enrollment
- Construction

Financial challenge of small initial enrollment and adding one grade per year

Navigator's growth model starts with grades K-2 and adds one grade each year to reach full enrollment in Year 7, serving grades K-8

- This slow, but steady, growth has shown proven academic success in Navigator's other schools
- Year 1 enrollment = 180 students
- Year 7 enrollment = 540 students

The amount the school can afford to pay for facilities changes dramatically as the school grows (but it is not practical to revisit the facility situation every year)

- PCSD considers a project to be affordable if the ongoing annual facility costs are in the range of \$1,200-1,500/ADA (or less!) and the school is receiving SB740 rent revenue
 - Facility costs include lease payments and/or debt service
 - Generally, lenders like to see that facility costs (including utilities) are less than 15% of regularly recurring revenue (federal, state, and local)
- In Year 1, with 180 students, WPS could afford a \$1.7 million loan *
- In Year 7, with 540 students, WPS could afford a \$8.9 million loan *

* Assumes \$1,500/ADA; Ground lease = \$12,000/month; Loan terms = 5.5% interest rate, 25-year amortization; See appendix for more detail.

Case Study: Assessing a Site for Affordability

Navigator has identified a 1.5 acre parcel of land that is available for a long-term ground lease

- Ground lease rate = \$12,000/month
- PCSD will be able to invest up to \$2 million to a long-term facility solution
- PCSD developed a project budget based on a construction cost estimate for a TK-8 facility:

PROJECT USES		PROJECT SOURCES	
Hard Costs	\$12,000,000	PCSD Capital	\$2,000,000
Soft Costs	\$1,400,000	NS Equity Contribution	\$4,246,000
Finance Costs	\$360,000	Loan	\$8,934,000
Contingencies	\$1,380,000		
Total Project Cost	\$15,180,000	Total Sources	\$15,180,000

This scenario requires a significant equity contribution from Navigator Schools (>\$4 million), and the loan payments are only affordable to the school at full enrollment.

- An interim solution must be found for the school's initial years
- Any long-term solution will likely involve significant fundraising by Navigator

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Sites Under Consideration



545 Ohlone Parkway, Watsonville



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Short-term and Long-term

- 2.1 Acres
- Industrial Zone (City is in process of changing to Residential)
- Vacant, Former Distribution Center
- 9,000 sf total, 6,000 office + 3,000 warehouse
- Asking Price is \$9,000/month; renovation costs unknown
- Risks: Timing, renovation expense
- Next Steps:
 - Architectural feasibility (visiting site today)
 - Follow up meeting with city

505 San Juan Road, Pajaro



505 San Juan Road, Pajaro

Short-term (Years 1 and 2) Long-term, possible but would require adjacent land.)

- 1.25 Acres
- Agricultural (County provided Conditional Use Permit for Current Use)
- Currently used as a Retreat Center, primarily Friday-Sunday, 9 weekends a year
- Approx 22,000 sf total, 8 classroom-sized rooms, large hall, kitchen
- Asking Price: negotiable, Renovation costs unknown
- Risks: Shared space and related logistics, renovation expense
- Next Steps:
 - Meeting with representative today regarding their Board's interest
 - If still interested, meet with planning department

Other Potential Sites

Short-Term

- 3 different churches at various stages of exploration
- 1 private high school that has surplus space
- Cabrillo College available classrooms (shared space, used mostly in evenings)

Long-Term

- Vacant 1.5 acre lot

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Next Steps

- Determine feasibility for short-term options
- Plan special board meeting for January after SBE meeting to approve facility deal.

APPENDIX

Affordability – Operational Sources: SB740 Rent Revenue

- Has been up to \$750/ADA or 75% of lease expense, whichever is less for a number of years
- This increased to \$1,117/ADA in FY17-18, but charter school partners have recommended a 20% discount
 - $\$1,117/\text{ADA} * 0.8$ (discounted rate) = **\$854/ADA**
- The Governor's January Proposed Budget for FY18-19 has SB740 rate proposed with 2.51% increase, or \$1,145
 - With a 20% discount: $\$1,145/\text{ADA} * 0.8 =$ **\$916/ADA**
- **PCSD does not advise on which SB740 calculation to use; only that the program has a long stable history and some assumption of SB740 rent revenue should be included in school's projections**

Affordability – Operational Uses: Facility Costs

- Debt Service calculation
 - To determine the size of loan that is affordable to the school, we need to know how much debt service is affordable
 - $(\$1,500/\text{ADA} * \text{ADA}) - \text{ground lease payments} = \text{affordable DS}$
 - Year 1:
 - $\$1,500/\text{ADA} * 180 * .95 = \$270,00 - \$144,000 = \$126,000$ annual loan payment
 - $\text{PV}(5.5\%, 25, 126000) = \$1,690,000$ loan
 - Year 7:
 - $\$1,500/\text{ADA} * 540 * .95 = \$810,000 - \$144,000 = \$666,000$ annual loan payment
 - $\text{PV}(5.5\%, 25, 666000) = \$8,933,000$ loan

Case Study: Cash Flow Calculations

	7/1/19	7/1/20	7/1/21	7/1/22	7/1/23	7/1/24	7/1/25
	6/30/20	6/30/21	6/30/22	6/30/23	6/30/24	6/30/25	6/30/26
Enrollment	180	240	300	360	420	480	540
ADA %	95%	95%	95%	95%	95%	95%	95%
ADA (95%) (PCSD estimate)	171	228	285	342	399	456	513
Difference to Max Capacity	360	300	240	180	120	60	0
Lease Payment per Enrollment	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Annual Lease Payment from Lease	270,000	360,000	450,000	540,000	630,000	720,000	810,000
CASH INFLOW							
Lease Income	270,000.00	360,000.00	450,000.00	540,000.00	630,000.00	720,000.00	810,000.00
Other Income							
Subtotal - Cash Inflow	270,000.00	360,000.00	450,000.00	540,000.00	630,000.00	720,000.00	810,000.00
CASH OUTFLOW							
Debt Service - Interest Expense	487,095.71	477,435.57	467,230.52	456,449.83	445,061.02	433,029.80	420,319.92
Debt Service - Principal Amortization	171,255.21	180,915.35	191,120.39	201,901.09	213,289.89	225,321.12	238,031.00
Ground Lease Payment	144,000.00	144,000.00	144,000.00	144,000.00	144,000.00	144,000.00	144,000.00
Subtotal - Cash Outflow	802,350.92	802,350.92	802,350.92	802,350.92	802,350.92	802,350.92	802,350.92
Net Cashflow avail for DS	(532,350.92)	(442,350.92)	(352,350.92)	(262,350.92)	(172,350.92)	(82,350.92)	7,649.08