2012 National Interagency
Community Reinvestment Conference
National Community Development Lending School

Community Facilities Financing

March 26-27, 2012 - 1:30 – 5:00 pm

Instructors:
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INTRODUCTION

Community facilities provide fuel for broad-based revitalization in low-income neighborhoods. Providing space for essential services and amenities helps stabilize communities, build human capital and create jobs. However, financing community facilities can be complex due to their unique structure. They have complicated revenue and expense streams which are highly dependent on government contracts, and are usually underwritten based on operations rather than real estate.

Using case studies of a charter school and a health care center, you will be introduced to a range of issues and solutions to help these facilities expand. By the end of the session, you will have a greater understanding of how to structure loans for community facilities, what to look for in their income statement and balance sheets, and how to evaluate program quality and management decisions.

OBJECTIVES:

As a result of this course, you will be able to:

- Underwrite a community facility such as a charter school or health care center
- Understand loan structures for community facilities
- Understand general underwriting guidelines
- Understand borrower characteristics
- Evaluate their unique revenue and cash flow streams
- Identify pitfalls and challenges to financing community facilities
- Better understand charter school & health care center financing needs

AGENDA

1. Welcome, Introductions and Participant Objectives (1:30 p.m. - 2:00 p.m.)

2. Overview of Underwriting Community Facilities (2:00 p.m. – 3:00 p.m.)
- Program Quality
- Evaluating the Borrower and Tenant
- Analyzing Revenues and Expenses
- Development Issues
- Collateral
- Analyzing Refinancing Risk

3. Break (3:00 p.m. – 3:15 p.m.)

4. Charter Schools: Key Considerations & Case Study (3:15 p.m. – 4: 00 p.m.)

5. Community Health Clinics: Key Considerations (4:00 p.m. – 4:30 p.m.)

6. Questions, Synthesis, Conclusion (4:30 p.m. – 5:00 p.m.)

NCDLS 2012
Community Facilities Financing
Glossary of Terms

Acronyms

ACA:	Affordable Care Act
API:	Academic Performance Index
AYP:	Annual Yearly Progress
BPS:	Basis Points
BSC:	Building Sustainable Communities
CHC:	Community Health Clinics
CMO:	Charter Management Organization
CUP:	Conditional Use Permit
DSCR:	Debt Service Coverage Ratio
GC:	General Contractor
LCR:	Lease Coverage Ratio
LISC:	Local Initiatives Support Corporation
NOI:	Net Operating Income
SPE:	Special Purpose Entity

Term Definitions

Academic Performance Index - is a measurement of academic performance and progress of individual schools in California. A numeric API score ranges from a low of 200 to a high of 1000. The interim statewide API performance target for all schools is 800. A school's growth is measured by how well it is moving toward or past that goal. An API score is calculated for all students in a school as well as numerous API scores for each subgroup at the school (such as by race, English Learner Status, students with disabilities, and socioeconomically disadvantaged pupils).

Adequate Yearly Progress – An individual state's measure of yearly progress toward achieving state academic standards. Adequate Yearly Progress is the minimum level of improvement that states, school districts and schools must achieve each year.

Affordable Care Act – The Patient Protection and Affordable Care Act (PPACA) is a United States federal statute signed into law by President Barack Obama on March 23, 2010. The law (along with the Health Care and Education Reconciliation Act of 2010) is the principal health care reform legislation of the 111th United States Congress. PPACA reforms certain aspects of the private health insurance industry and public health insurance programs, increases insurance coverage of pre-existing conditions, expands access to insurance to over 30 million Americans, and increases projected national medical spending while lowering projected Medicare spending.

Basis Points – is a unit equal to 1/100 of a percentage point. It is frequently, but not exclusively, used to express differences in interest rates of less than 1% per year. For example, a difference of 0.10% is equivalent to a change of 10 basis points (e.g. a 4.67% rate increases by 10 basis points to 4.77%). 1bp = 0.01%

Building Sustainable Communities – Launched in 2007, LISC's *Building Sustainable Communities* strategy has proven to be a promising agent of change, one that is flexible, innovative and responsive to local conditions. It reaches into every corner of a community's life with a comprehensive approach utilizing five program goals that, taken together, define this larger vision of Sustainable Communities:

- Expanding Investment in Housing and Other Real Estate
- Increasing Family Income and Wealth
- Stimulating Economic Development
- Improving Access to Quality Education
- Supporting Healthy Environments and Lifestyles

Charter Management Organization (CMO) – nonprofit entities that directly manage public charter schools. The CMO model is meant to meld the benefits of school districts—including economies of scale, collaboration among similar schools, and support structures—with the autonomies and entrepreneurial drive of the charter sector.

Community Development Intermediary – entities that channel funding from public and private sources to community development organizations, often in the form of loan, grants and equity.

Community Healthcare Centers – Community Health Centers serve the primary health care needs of more than 20 million patients in over 8,000 locations across the United States. Health centers play a crucial role during tough economic times, providing affordable health services for millions of uninsured and newly jobless Americans. Health centers provide a unique and comprehensive approach to health care that saves money, improves patient health, and creates good local jobs in the communities that they serve.

Community Facilities – Are resources intended for public use and usually supported/operated by local governments or not-for profit entities. i.e. charter schools, community clinics, soup kitchens, performance spaces, etc.

Conditional Use Permit – allows a specific exception to the zoning regulations from a list of acceptable exceptions for a particular parcel of land in a district of a particular zoning character. The local zoning authority reviews and grants special use permits.

Contingent Liabilities – are liabilities that may or may not be incurred by an entity depending on the outcome of a future event. These liabilities are recorded in a company's accounts and shown in the balance sheet when both probable and reasonably estimable. A footnote to the balance sheet describes the nature and extent of the contingent liabilities. The likelihood of loss is described as probable, reasonably possible, or remote. The ability to estimate a loss is described as known, reasonably estimable, or not reasonably estimable.

Debt Service/Debt Payments – Amount of monthly payment that includes principle and interest

Debt Service Coverage Ratio (DSCR) – also known as "debt coverage ratio," is the ratio of cash available for debt servicing to interest, principal and lease payments. It is a popular benchmark used in the measurement of an entity's (person or corporation) ability to produce enough cash to cover its debt (including lease) payments. The higher this ratio is, the easier it is to obtain a loan.

Debt to Equity Ratio (D/E) – is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets.

Entitlements – In land development, the entitlement process is the legal method of obtaining approvals for the right to develop property for a desired use (e.g. rezoning)

General Contractor – is responsible for the day-to-day oversight of a construction site, management of vendors and trades, and communication of information to involved parties throughout the course of a building project

Lease Coverage Ratio – useful in measuring payment capacity, it is the ratio of cash available to monthly lease payment amount

Lease Service/Lease Payments – monthly amount due for repayment for a use of good or service

Liquidity – refers both to a business's ability to meet its payment obligations, in terms of possessing sufficient liquid assets, and to such assets themselves. Market liquidity is an asset's ability to be sold without causing a significant movement in the price and with minimum loss of value. Money, or cash, is the most liquid asset, and can be used immediately to perform economic actions like buying, selling, or paying debt, meeting immediate wants and needs

Mortgage – is a loan secured by real property through the use of a mortgage note which evidences the existence of the loan and the encumbrance of that realty through the granting of a mortgage which secures the loan. Features of mortgage loans such as the size of the loan, maturity of the loan, interest rate, method of paying off the loan, and other characteristics can vary considerably.

Net Assets – sometimes referred to as net worth, is what residual value left for company owners after deduction all liabilities from all assets. Calculated as the shareholders' equity = assets minus liabilities

Net Operating Income – A company's operating income after operating expenses are deducted, but before income taxes and interest are deducted. If this is a positive value, it is referred to as net operating income, while a negative value is called a net operating loss (NOL).

Operating Cash Flow - refers to the amount of cash a company generates from the revenues it brings in, excluding costs associated with long-term investment on capital items or investment in securities. To calculate cash generated from operations, one must calculate cash generated from customers and cash paid to suppliers. The difference between the two reflects cash generated from operations.

Operating Entity – When using holding and operating companies in a multiple-entity business structure, your operating entity is your primary business entity. All business functions occur within that company. Likewise, all of the risks to the business will occur within that entity as well.

Special Purpose Entity – is a legal entity (usually a limited company of some type or, sometimes, a limited partnership) created to fulfill narrow, specific or temporary objectives. Normally a company will transfer assets to the SPE for management or use the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. SPEs are also commonly used in complex financings to separate different layers of equity infusion. In addition, they are commonly used to own a single asset and associated permits and contract rights to allow for easier transfer of that asset.

Trust Deed – or **deed of trust** is a deed wherein *legal* title in real property is transferred to a trustee, which holds it as security for a loan (debt) between a borrower and lender. The borrower is referred to as the trustor, while the lender is referred to as the beneficiary of the trust deed. Trust deeds are normally structured so that the lender gives the borrower/trustor the money to buy the property, the seller executes a grant deed giving the property to the trustor, and the borrower/trustor immediately executes a trust deed giving the property to the trustee to be held in trust for the lender/beneficiary. Trust deeds differ from mortgages in that trust deeds always involve at least three parties, where the third party holds the legal title, while in the context of mortgages, the mortgagor gives legal title directly to the mortgagee. In either case, *equitable* title remains with the borrower.

Evaluating Community Facility Deals

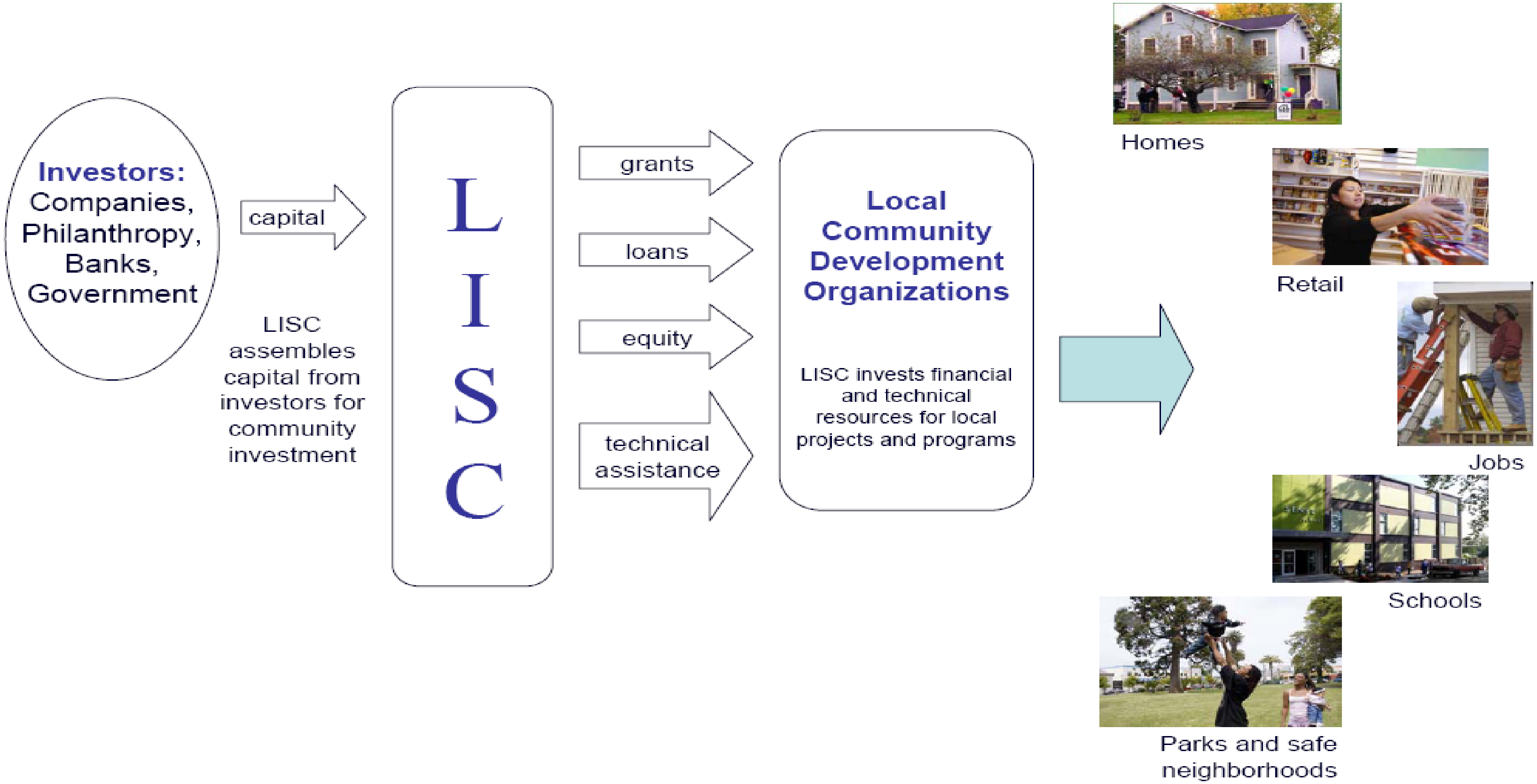
Beth Marcus and Claudia Lima

National Community Development Lending School

March 27-28, 2012

Local Initiatives Support Corporation

- Largest Community Development Intermediary in the Country
- LISC uniquely leverages national resources to help resident-led, community-based development transform distressed communities into healthy ones.
- Comprehensive strategies through Building Sustainable Communities Initiative



Building Sustainable Communities Initiative

Five program goals define *Building Sustainable Communities*

1. Expanding investment in housing and other real estate

2. Increasing family income and wealth

3. Stimulating economic activity, locally and regionally

Building Sustainable Communities

5. Fostering livable, safe and healthy environments

4. Improving access to quality education

30 Years of Community Improvement

Since 1980:

- $11.1 billion which has leveraged $33.9 billion in total development
- 44 million sq ft of retail and community space including:
  - 139 schools for 50,200 students
  - 164 child care facilities for 17,600 children
  - 38 health care centers for
- 277,000 affordable homes
- 241 playing fields renovated for 450,000 kids

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Community Facilities Lending - Why

- **Poverty Alleviation** Strategy
- **Stabilization** of Communities
- **Job Creation**
- **Community** Redevelopment
- **Real Estate** Revitalization
- **Builds Human Capital**
- **Place Based** Strategy

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Community Facilities Characteristics

General Characteristics

- Operate with thin cash flows
- Revenues mostly generated from government contracts
- Have a need to expand facilities or acquire new sites
- Complicated revenue and expense structure
- Underwriting is primarily based on the operating business (vs. real estate)
- Strong management team is key so entity remains viable
- Federal and state budget cutbacks creates challenges
- Political shifts influence the revenue sources

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Community Facilities – Loan Structure

- **Loan Structure**
  - Special Purpose Entity (SPE) as Borrower
    - If an SPE, site is leased to the tenant facility
  - Parent entity/Sponsor as guarantor
- **Lease payments must be sufficient** to cover debt service on loan from SPE (therefore underwrite business cash flow)
- **Revenue sources and expenses** are key to understanding the best structure

Community Facilities – Loan Structure

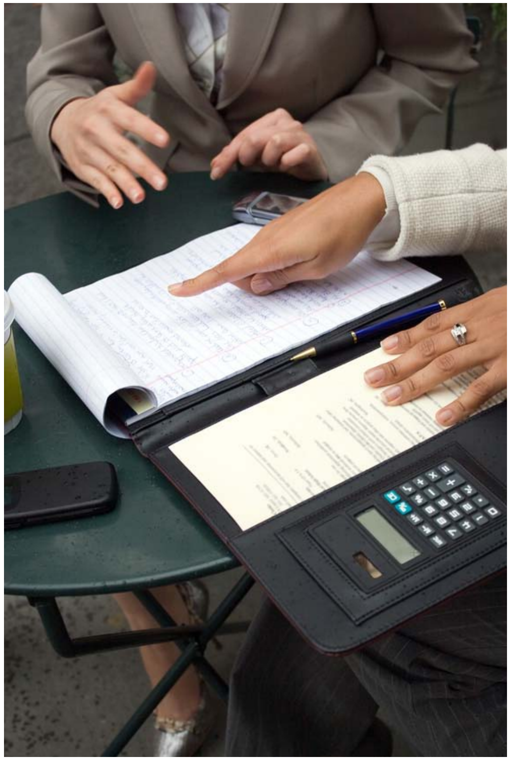
- **Collateral includes**
  - Trust deed/mortgage on subject property (real estate)
  - Assignment of leases/rents
  - Assignment of other accounts (i.e. reserves)
- **Loans are full recourse to borrowers**

Community Facilities – Loan Structure

- **Repayment Source** – operating cash flow
  - Income: Stability, eligibility, timing
  - Expenses: Growth trend, ramp-up costs
  - Historical trends and patterns – Do they match projections?
- **Take-out sources**
  - What is the refinance risk
- **Debt coverage ratio** depends on structure
  - If borrower is the operating entity then measured at the operating entity level (i.e. charter school/child care center/health care center)
  - If borrower is SPE, then measured at the real estate cash flow level
  - But must still include a lease coverage ratio at the school level based on operating cash flow

General Underwriting Guidelines

- **What is source for debt service**?
- **What is takeout source**?
- **5 C's of Credit**
  - Character
  - Capacity
  - Capital
  - Collateral
  - Conditions



General Underwriting Guidelines

- **Assess the real estate**
  - What is the current zoning
  - What entitlements are needed
  - Prior use and condition
  - Age, size of facility, and degree of renovations required
  - Is the location desirable
  - Other users if tenant is replaced
  - What is the second highest and best use (if there is one)
  - Does the value support the uses
- **Accessibility**
  - Is it accessible to the targeted population and existing population
  - Is it located close to public transportation

General Underwriting Guidelines

- **Are parameters adequate** per proposed center description
  - Meets minimal space needs for projected enrollment
  - Meets current program needs (per charter or health center program description)
  - Complies with building and fire codes
  - Staff experience meets program needs
  - Do expenses reflect the programmatic description
  - Are the proposed programs being offered in line with the proposed project site

General Underwriting Guidelines

- **Does the timeline make sense**
  - Construction
  - Entitlements (i.e. need a conditional use permit)
  - Is there enough community and political support
- **Understand the Ramp-Up Period**
- **Other items** to look out for in Development Budget
  - Are the costs in sync with the proposed timeline / are carrying costs based on proposed timeline
  - Are there sufficient contingencies
  - Are there contingency plans to cover delays
- **Contingencies, contingencies, contingencies**!

Borrower Characteristics: Management

- **What to look out for**
  - Lack of facility development expertise
  - Key person/founder risk
  - Tension between board & management
  - Insufficient resources to handle growth
- **Important factor** in borrower's ability to maintain and increase cash flow (primary source of repayment)
- **Look for experience**:
  - Management capacity
  - Board capacity
  - School principals / child care administrators
  - Center decision makers
  - Teachers/child care staff

Borrower Characteristics: Development Capacity

- **Key questions**:
  - Has the Borrower ever purchased a property?
  - Has the Borrower ever developed a building?
  - Check references
  - Is the development team appropriate?

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Borrower Characteristics: Program Quality

- **Program Quality Metrics**:
  - Charter Schools: API, AYP
  - Child Care: ECERS, R&Rs
  - Health Care Centers: HRSA, BPHC
- **Measures of quality and accountability**
  - Achievement data (schools)
  - Accreditation (child care)
  - Certification/licensing (health care)
  - Funder requirements
- **Quality influenced by parent company**
- **What is their competitive advantage**
- **Response to community needs**

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Borrower Characteristics: Program Quality

- **What to evaluate**:
  - Strength of Board
  - Strength of Parent Organization
  - Mission
  - Curriculum
  - Program Staff Quality
  - Assessment
  - Special Revenue Sources

Borrower Characteristics: Program Quality

- **What to look out for**:
  - Difficulty of retaining quality staff
  - Program experience/knowledge may be centralized
  - Renewal of licenses or other special operating documents such as charter renewal, child care licensing
  - For expansion: Is there sufficient community and political support?

Borrower Characteristics: Financial Capacity

- **Balance Sheet**
  - Examine ratio of Debt to Equity
  - Look at trends in Net Assets
  - Analyze liquidity
- **Contingent liabilities**
  - How many other guaranties is the Guarantor providing?
  - Is the guaranty meaningful?

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Revenue and Cash Flow

- **Public Funding**:
  - Federal
  - State
  - Local
- **Private**:
  - Grants, Fundraising
  - Private pay (child care and health care centers)

Revenue and Cash Flow

- **Revenues vary**:
  - By region
  - Some of the funds vary by:
    - Eligibility (Free and Reduced Lunch, Special Needs, Head Start, Child Care Vouchers, income)
  - Availability (limited funding, application/income based)
- **What to Evaluate**
  - Public and private sources
    - Stability, frequency, eligibility, timing
    - Fundraising track record, pipeline, funding conditions
  - Trends and growth patterns
    - Per student, child, or patient encounter
    - Changes in payer

Revenue and Cash Flow

- **What to Evaluate**:
  - Age and type of population served
  - Demand in community
  - Retention/turnover
  - Timing of ramp-up
  - Location
  - Labor and facility costs

Revenue and Cash Flow

- **What to look out for**:
  - – Ramp-up: enrollment/attendance/patient count often not discounted in projections
  - – Waiting lists may not match open spaces
  - – Restrictions on funding sources
    - Eligibility, disbursement conditions, track record, future risks, contingency plans
  - – Seasonality

Revenue and Cash Flow

- **Compare projected enrollment with actual enrollment**
  - Shifts in enrollment will directly impact staffing, space, and budget requirements
- **Projections vs. Historical**
  - Variance between Historical and Projections (understand the differences)
  - Use result to identify red flags with budget rationales/funding flows
- **Cash Flow Projection**
  - Will they have sufficient cash on hand during the ramp up period

Expenses

- **Personnel**
  - Teachers/Child Care/Medical staff salaries, benefits
  - Staff/Population served ratios (i.e. student teacher ratios, Staff Child ratios, Patient ratios)
  - Other costs: staff development, substitutes, food service staff
- **Operating**
  - Supplies (i.e. Medical supplies, books)
  - Utilities, equipment, printing & copying
  - Assessment and testing
  - Business services
  - Insurance
  - Legal

Expenses

- **Facilities expenses include:**
  - Mortgage payments
  - Lease payments
  - Expenses associated with operating the property (maintenance & taxes)
  - This cost should not be above 20% of total budget

Expenses

- **Rules of Thumb**
  – Occupancy cost should not exceed 20% of the total non-foundation revenue sources (this should include all costs i.e. taxes)
  – Compensation should be around 55%.
  – Total development costs range between $12,000 - $20,000.
    - Depends on how many persons are served
    - Depends on number of shifts
    - Patient/child/student count to support debt service

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Real Estate

- **Valuation complicated**
  - Limited market of true comparables
  - Location in undervalued low-income communities
  - High costs in urban areas
  - Use of temporary or leased facilities often only option for many providers

Refinance

- **Minimum 200-350 bps cushion** above estimated market rate at refinance (if rate is unsubsidized).
- **Minimum 300-500+ bps cushion** (if rate is subsidized)
- **Calculate difference** between mini-permanent rate after construction completion and (b) maximum rate cash flow can handle at maturity based on conventional products
- **Use the following parameters**:
  – Final year of Net Operating Income
  – Outstanding loan balance at Maturity
  – Assumed Lease Service Coverage of no less than 1.20x
  – Assumed amortization of no more than 25 years
- **Rule of Thumb**: test at 1.4x coverage should yield a rate in excess of 8.5%

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In-Depth Application to Charter School Projects

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Underwriting Charter Schools
Niche Expertise

- **LISC has built a strong expertise** in underwriting charter school credits:
  - Strength of charter school authorizers
  - Academic performance
  - Money flows to charters in different ways, specific to state
  - Schools’ cash flow and budget projections vary depending on technical expertise of school operators
  - School operator experience
- **LISC provides technical assistance** to charter schools during underwriting process, including grant funds

Charter School Basics

- **Charter Schools**
  - Independent public schools
  - Make an autonomy-accountability exchange – promise to provide a high quality education more efficiently
  - Governed by a board of trustees which oversees the school's finances, management, and day to day operations

Charter School Basics

- **Charter Management Organizations** (CMO) vs. Single Operators
  - CMOs are nonprofit organizations that oversee a network of charter schools linked by a common educational mission, instructional design or a specific geographic location
  - Provide significant ongoing support to their campuses
  - Expansion plans include 13-15 schools – considered breakeven
  - Some CMOs keep all schools under a single 501(c)(3) umbrella, whereas others start individual 501(c)(3) organizations for each school
  - The CMO structure will determine where the per pupil revenues flow
  - Take a 6-8% network/management fee from each school to support the CMO overhead expenses

Charter School Basics

- **Charter School Size**
  - Typical school size ranges from 300-500 students, can be larger if there are several schools co-located
  - Over 70% of CMOs serve between 1,000 and 5,000 students in total
- **School's educational philosophy**
  - Important that principals and teachers share the philosophy of the CMO
    - There may be tension between quantity vs. quality
  - Important to build leadership capacity at school sites
  - "Growth for what purpose", very important to understand
- **Importance of board and management**
  - Board oversees the school's finances, management and day to day operations
  - Management executes on the day to day decisions
  - Important to build leadership – There is no good school without a good principal

Underwriting Guidelines

- **Understand the programs**
  - Is there a reliable measure of accountability
  - Academic Quality/Program Quality
  - Institutional and Financial Health
  - What is the target population
  - Assess the academic program/quality
    - Charter Schools – Academic Performance Index and Academic Yearly Progress
    - Assess the mission, curriculum, teacher/staff quality

Underwriting Charter School Sustainability

- **Charter school renewal**
  - How likely is it to remain in good standing
  - Have they met the charter objectives/requirements
  - Have they met the quality performance objectives

High-Quality Charter School

Academic Data	Demographic Data	Financial Data
• Title I status • Adequate Yearly Progress (AYP) status • Percentage of students proficient in math and English language arts • Charter school authorizer assessments and reports • Annual school report card	• Grade levels served • Enrollment trends • Percentage of special education students • Percentage of low-income students • Percentage of students by ethnicity • Percentage of English language learners	• Annual audited financial statements • Quarterly unaudited financial statements • Annual budgets • Project loan and guaranty documents for fund financings

Charter School Revenue Risks

- **Typical revocation provisions**:
  - "Material violations" of charter
  - Failure to meet or pursue pupil outcomes identified in charter
  - Gross fiscal mismanagement
  - Violations of any provision of law
- **Important to assess local experience**

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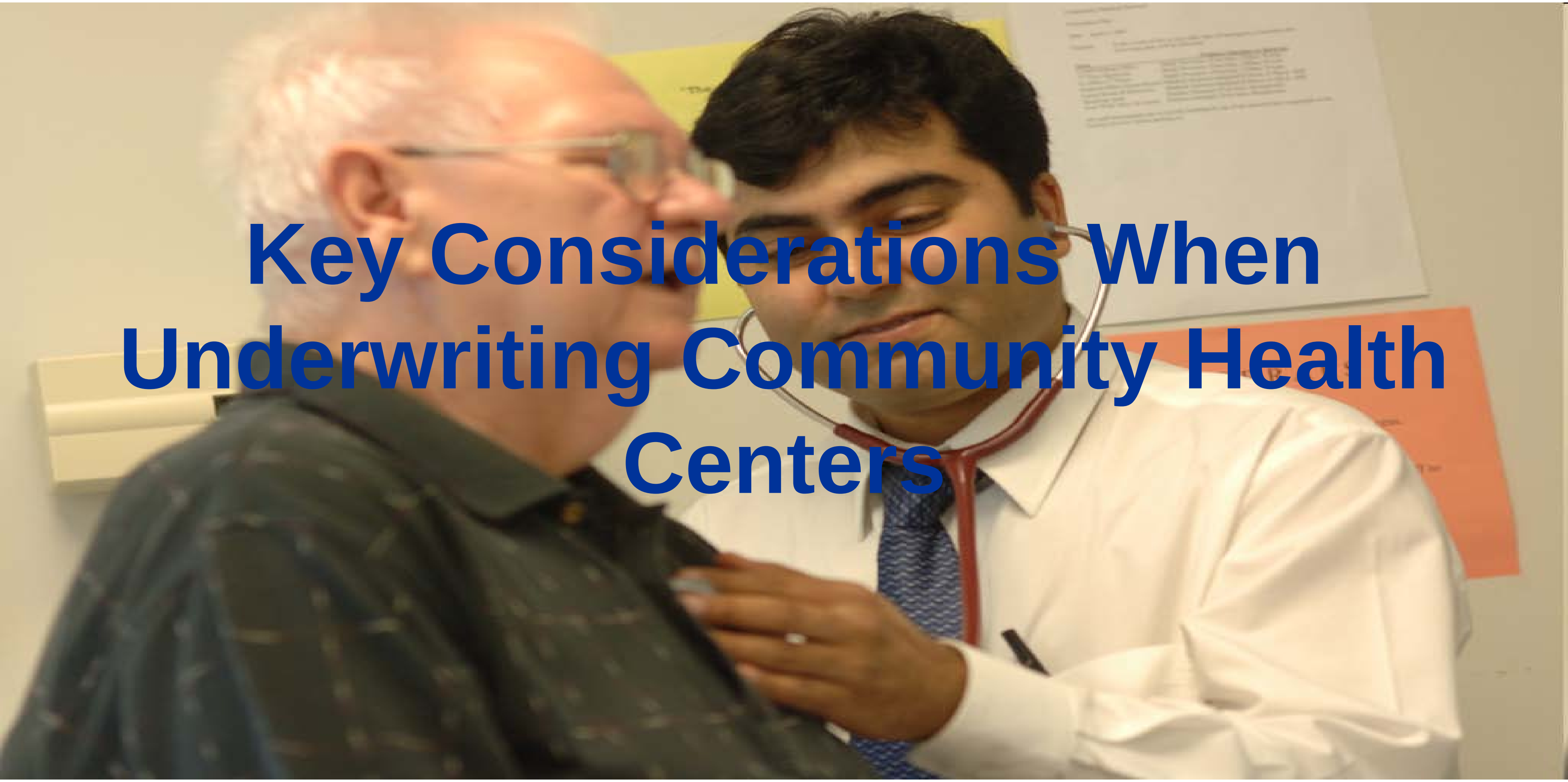
Charter School Case Study



Key Considerations When Underwriting Community Health Centers

Health Care Financing Basics

Community health centers (CHC) are becoming engines of economic development

- **Employers**
- **Goods and services**
- **Community space** and related programs
- **Related tenants**

Funding Environment

- **Affordable Care Act** (ACA) Overview
- **Project Financing**:
  - Mix of equity and debt
  - Capital campaigns
  - CHC financing is usually a 50/50 equity/debt split
- **Capital Needs** include:
  - Predevelopment funds
  - Construction and bridge financing
  - Mini Perm or Perm Financing
  - Lines of Credit

Underwriting: Key Concepts

- **Provider**
- **Productivity**
- **Payor-mix**

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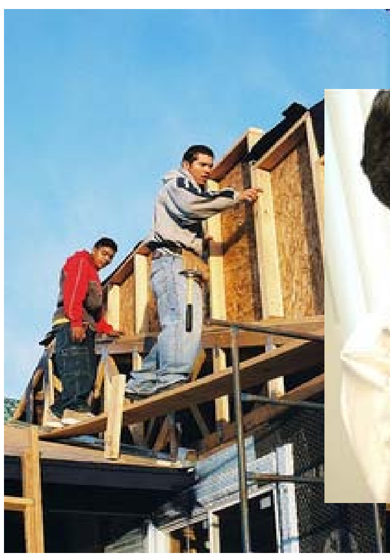
Revenue

- **Payor Mix**:
  - Insured
  - Uninsured
  - Medicare
  - Medicaid
- **Income Mix**: Patient – Derived Revenue (60%); Grants (40%) & Contracts; Other - Fundraising (10%)
- **Are the projections based on historical mix**
  - If the mix is changing, market scan or study, ability to realize projections
  - Mix of services

Expense Analysis

- **Staff & Contract** Expenses (75 to 77%)
- **Space** Expense (Debt or Lease payments)
- **Ramp-up** to utilize all new space



Evaluating the Team

- **Ability to manage expansion** (financial staff, expanded fundraising, expanded physical plant)
- **Ability to recruit** and retain staff
- **Relationships** with local hospital
- **Consultants** (GC, Architect, Development Consultant with CHC experience)

Program Underwriting

- **Design maximizes efficiencies and quality** (Encounters)
- **Linguistically and culturally appropriate** for clients
- **Understanding local competition** and insurance

Resources – Charter Schools

- Center for Education Reform
  - www.edreform.com
- U.S. Department of Education
  - www.uscharterschools.org
- Charter Schools Development Center
  - www.cacharterschools.org
- State trade associations and resource centers

Resources – Health Care Centers

- National Association of Community Health Centers – http://www.nachc.com

- Capital Link: http://www.caplink.org

Thank You!

For Additional Information:

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ATTACHMENT 1
DEVELOPMENT BUDGET

Highly Achieving Middle School

	Estimated Cost	per Square Foot	per Student	% of Total
		24,000	**450**	
Site Acquisition Costs				
Acquisition: Property	3,740,000	155.83	8,311.11	37.59%
Escrow Closing Costs	6,800	0.28	15.11	0.07%
Title Insurance	3,000	0.13	6.67	0.03%
Subtotal: Acquisition Costs	**$ 3,749,800**	**$ 156**	**$ 8,333**	**37.68%**
Hard Construction Costs				
Construction Contract	3,014,000	125.58	6,697.78	30.29%
Sitework	790,903	32.95	1,757.56	7.95%
Demolition	93,600	3.90	208.00	0.94%
Payment and Performance Bond	58,598	2.44	130.22	0.59%
Utilities Installation	8,000	0.33	17.78	0.08%
Construction Contingency @ 10%	396,510	16.52	881.13	3.98%
Subtotal: Hard Costs	**$ 4,361,611**	**$ 182**	**$ 9,692**	**43.83%**
Soft Costs				
Appraisal	6,000	0.25	13.33	0.06%
Insurance: Builder's Risk	7,535	0.31	16.74	0.08%
Legal Costs	25,000	1.04	55.56	0.25%
Architecture and Engineering	276,864	11.54	615.25	2.78%
Entitlements	17,200	0.72	38.22	0.17%
Environmental	46,440	1.94	103.20	0.47%
Municipal Fees	70,000	2.92	155.56	0.70%
Permits and Plan Check	22,000	0.92	48.89	0.22%
Alta/Topographic	4,000	0.17	8.89	0.04%
Property Condition Report	2,200	0.09	4.89	0.02%
Seismic Study	1,500	0.06	3.33	0.02%
Site Security	36,000	1.50	80.00	0.36%
Development Fee	425,000	17.71	944.44	4.27%
Real Estate Taxes	47,633	1.98	105.85	0.48%

ATTACHMENT 2
SCHOOL PROJECTIONS

Highly Achieving Middle School
Cash Flow Projection/Budget

	MS Year 1	MS Year 2	MS Year 3	MS Year 4
	FY 2013-14	**FY 2014-15**	**FY 2015-16**	**FY 2016-17**
Key Assumptions				
General Purpose Inflation Rate	1.00%	1.50%	1.50%	1.50%
General Inflation Rate	2.0%	2.0%	2.0%	2.0%
Apportionment Funding Growth Rate	0.0%	0.0%	0.0%	0.0%
Enrollment				
Grade 6	150	150	150	150
Grade 7-8	0	150	300	300
Grade 9-12	0	0	0	0
Attendence Rate	95%	95%	95%	95%
Minimum student teacher ratio (x:1)	25	25	25	25
Number of Teachers	6	12	18	18
Number of Other Employees	7	9	11	12
Per Pupil Revenues				
General Purpose - net of in lieu tax revenue				
Grade 6	3,479.92	3,532.12	3,585.11	3,638.88
Grade 7-8	3,627.38	3,681.80	3,737.02	3,793.08
Grade 9-12	4,480.83	4,548.05	4,616.27	4,685.51
Categorical Block	404.00	410.06	416.21	422.45
Economic Impact Aid	133.32	135.32	137.35	139.41
Special Ed (IDEA)	-	138.37	140.45	142.56
Special Ed (AB602)	446.59	453.29	460.09	466.99
Child Nutrition (federal) - Assuming 91% participation	707.01	717.62	728.38	739.31
Child Nutrition (state) - Assuming 91% participation	68.97	70.01	71.06	72.12
Title 1	467.40	467.40	467.40	467.40
State Lottery	-	128.14	130.06	132.01
In lieu of Property Taxes	1,368.08	1,388.60	1,409.43	1,430.57
Revenue				
Private Grants and Contributions				
Private grants and contributions	250,000	-	-	-
Private Grants and Contributions	250,000	-	-	-
Federal Revenue				
Title I	66,605	133,209	199,814	199,814
Replication Grant	340,000	300,000	-	-
Child Nutrition	100,749	204,520	311,382	316,053
Special Education (IDEA)	-	39,436	60,042	60,942
E-Rate	-	-	-	-
Federal Revenue	507,353	677,166	571,238	576,809
State Revenue				
General Purpose Apportionment	495,889	1,027,983	1,575,929	1,599,568
Categorical Block	57,570	116,867	177,930	180,599
Economic Impact Aid	18,998	38,566	58,717	59,598
Child Nutrition	9,829	19,952	30,377	30,833
State Lottery Revenue	-	36,520	55,602	56,436
SB 740	112,500	225,000	337,500	337,500
Special Education (AB602)	63,639	129,188	196,688	199,639
State Revenue	758,425	1,594,077	2,432,743	2,464,172
Local and Other Revenue				
In lieu of Property Taxes	194,951	395,750	602,529	611,567
Other Income	-	-	-	-
Local Revenue	194,951	395,750	602,529	611,567
Total Revenue	**1,710,729**	**2,666,992**	**3,606,510**	**3,652,548**

ATTACHMENT 2
SCHOOL PROJECTIONS

Cash Flow Projection/Budget

	MS Year 1	MS Year 2	MS Year 3	MS Year 4
	FY 2013-14	**FY 2014-15**	**FY 2015-16**	**FY 2016-17**
Expenses				
Salaries				
Certified: Teachers	346,080	706,003	1,080,185	1,101,789
Certified: School Admin	105,000	183,600	183,600	187,272
Certified: Other	-	-	-	-
Classified: Instructional Aides	23,484	23,954	48,866	49,843
Classified: Support	27,851	42,612	57,953	59,112
Classified: Supervisor and Administrator	41,200	42,024	42,864	43,722
Classified: Clerical, Technical, Office Staff	51,418	52,446	53,495	54,565
Classified: Other Classified	30,900	31,518	51,695	52,728
Salaries	625,933	1,082,157	1,518,657	1,549,030
Benefits				
State Teachers' Retirement System, certificated positions	37,214	73,392	104,262	106,347
Public Employees' Retirement System, classified positions	18,727	20,623	27,297	27,843
OASDI, classified positions	10,841	11,938	15,802	16,118
Medicare certificated positions	6,541	12,899	18,325	18,691
Medicare classified positions	2,535	2,792	3,696	3,770
Health and Welfare Benefits, certificated positions	45,108	88,960	126,378	128,906
Health and Welfare Benefits, classified positions	17,485	19,255	25,487	25,997
State Unemployment Insurance, certificated positions	4,511	8,896	12,638	12,891
State Unemployment Insurance, classified positions	1,749	1,926	2,549	2,600
Benefits	144,710	240,682	336,434	343,163
	23%	22%	22%	22%
Books and Supplies				
Text Books	33,150	33,813	34,489	10,824
Student software	3,090	6,304	9,645	9,837
Licensing fee	-	-	-	-
Instructional Material	5,408	11,031	16,878	17,215
Testing Material (NWEA assessment)	3,296	3,362	3,429	3,498
College Prep	-	-	-	-
Non-capitalized Equipment	3,863	6,304	8,841	9,018
School Supplies /Uniforms	17,510	27,316	37,506	38,257
Special Activities/Field Trips	2,318	4,728	7,233	7,378
Food Services	116,106	235,696	358,847	364,230
Books and Supplies	184,740	328,553	476,869	460,257
Pupil Services				
Special Ed	56,639	150,076	228,490	231,917
Substitute Teacher	9,270	18,911	28,934	29,512
Pupil Services	65,909	168,986	257,423	261,430
Other Professional Services				
IT	33,990	34,670	35,363	36,070
Accounting	10,300	10,506	10,716	10,930
Consulting	-	-	-	-
Payroll Service	1,623	2,559	3,621	3,745
LAUSD Charter School Oversight Fee	7,674	15,792	24,151	24,513
LACOE Fees	6,500	9,000	11,500	11,500
Fair Share Contr. Special Ed Cost	7,000	18,549	28,240	28,664
Other Professional Services	67,087	91,076	113,591	115,424

Cash Flow Projection/Budget

		MS Year 1 FY 2013-14	MS Year 2 FY 2014-15	MS Year 3 FY 2015-16	MS Year 4 FY 2016-17
Facilities					
Utilities: Water and Electric		26,780	33,619	40,721	41,536
Utilities: Gas		1,803	2,627	3,483	3,552
Janitorial/Trash Removal		16,738	21,012	25,451	25,960
Equipment Leases		3,000	6,122	9,184	9,184
Repairs and Maintenance		12,103	16,284	20,629	21,041
Personnel Services - Security		41,991	42,831	43,687	44,561
Taxes & Permits - Real/Personal Property		15,450	15,759	16,074	16,396
Facilities		117,864	138,254	159,229	162,229
Administrative					
Travel and Conferences		335	538	754	796
Auto Expense		134	215	311	328
Professional Development		3,348	5,384	7,769	8,198
Business Meals		536	861	1,243	1,312
Dues & Memberships		3,090	3,152	3,215	3,279
Insurance		32,513	50,150	67,511	67,936
Office Expense		12,875	17,860	23,040	23,500
Postage and Shipping		2,575	4,202	5,894	6,012
Printing		3,863	6,304	8,841	9,018
Noncapitalizable Equipment		2,009	3,231	4,662	4,919
Noncapitalizable Equipment - Software		6,026	9,692	13,985	14,756
Communication - Telephone Expense		18,386	26,265	33,813	34,489
Administrative		85,687	127,855	171,037	174,543
Total Expenses		**1,291,930**	**2,177,563**	**3,033,240**	**3,066,075**
Total Surplus (Deficit) Before Lease and Management Fee		**$ 418,799**	**$ 489,429**	**$ 573,270**	**$ 586,473**
Lease Service		$495,116	$495,116	$495,116	$495,116
Total Surplus (Deficit) Before Management Fee		**(76,317)**	**(5,687)**	**78,154**	**91,356**
Lease Coverage Ratio		**0.85**	**0.99**	**1.16**	**1.18**
LEASE SERVICE					
Rent/Shared Costs Paid by School		165,000	330,000	$495,116	$495,116
Rent/Shared Costs Paid by Debt Reserve		330,116	165,116		
Total Facility Lease Expense		$495,116	$495,116	$495,116	$495,116
Surplus/Deficit after Lease Payment before Management Fee		253,799	159,429	78,154	91,356
Lease Coverage Ratio		2.54	1.48	1.16	1.18
Management Fees		119,751	186,689	252,456	255,678
Surplus/Deficit - All Expenses		134,048	(27,260)	(174,302)	(164,322)
EFFC FINANCIAL RATIOS					
Facilities Expense as % of Total Revenues	12% - 15%	33.2%	21.9%	16.7%	16.5%
Instructional Expenses as % of Total Revenues	50% - 65%	59.7%	68.3%	71.8%	71.6%
Net Income as % of Total Revenues	3% - 5%	14.8%	6.0%	2.2%	2.5%
Administrative Expenses as % of Total Revenues	10% - 12%	12.0%	11.8%	11.7%	11.8%
Other Student Services as % of Revenue	3% - 5%	3.9%	3.4%	3.1%	3.2%

ATTACHMENT 3
SENSITIVITY ANALYSIS

Highly Achieving Middle School

[1]	**Year 1** **FY 2013-14**	**Year 2** **FY 2014-15**	**Year 3** **FY 2015-16**	**Year 4** **FY 2016-17**
Projected Average Daily Attendance (ADA) (a)	143	285	428	428
Net Income (before lease payments and management fee) (b) [2]	418,799	489,429	573,270	586,473
Total Lease Payments to PCSD (c)	165,000	330,000	495,116	495,116
115% of TTL Lease Payments (d = 1.15 x c)	189,750	379,500	569,384	569,384
Excess Income, after allowing for 1.10x LCR cushion (e = b - d)	**229,049**	**109,929**	**3,886**	**17,089**
Revenue/Per ADA (f)	12,005	9,358	8,436	8,544
Number of students represented by excess income (g = e / f)	19	12	0	2
Minimum ADA required for 1.10 LCR (h = a - g)	**123**	**273**	**427**	**425**
Minimum ADA (%) [3]	82%	91%	95%	95%

1. This analysis indicates the ADA break-even point needed to maintain a 1.15x LCR.
2. Should revenue actually decline, there would likely be a corresponding effect on expenses, however, this analysis assumes that expenses remain constant despite a decline in ADA.
3. Projected ADA on school proforma is 95%.

ATTACHMENT 4
REFINANCE ANALYSIS

Highly Achieving Middle School

Refinance Assumptions:							
Original LISC Loan	5,000,000						
Outstanding LISC Loan Balance at Maturity	**4,134,225**						
Total Debt to be Refinanced	**4,134,225**						
Appraised Value of Property (At Loan Closing)	8,500,000						
Target Lease Coverage Ratio (LCR)	1.20						
Assumed Amortization Term on New Loan	20						
Loan To Value at Maturity	**Est. Value**	**LTV**					
Assuming no appreciation in value	8,500,000	49%					
Assuming 1% appreciation in value	9,113,150	45%					
Assuming 1% deppreciation in value	8,494,052	49%					
Rate on Refinanced (New) Loan		8.00%	8.50%	9.00%	9.50%	10.00%	10.25%
Annual Payment on Refinanced (New) Loan		421,080	436,868	452,890	469,138	485,605	493,917
Estimated Net Income at Maturity (not incl mgt fee)	**586,473**						
Lease Coverage Ratio (LCR)		1.39	1.34	1.29	1.25	1.21	1.19
Excess Cash Flow After 1.20 Lease Service Cushion		81,177	62,232	43,005	23,507	3,747	(6,227)
Calculated Rate to Hit 1.20x LCR	**10.09%**						
Estimated Mini-Permanent Interest Rate	**7.00%**						
Cushion Between Current and Refinance Rate	**3.09%**						