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.)
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 theautonomies 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.
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
4. Improving access to quality education
5. Fostering livable, safe and healthy environments
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
Community Facilities Lending - Why

- Poverty Alleviation Strategy
- Stabilization of Communities
- Job Creation
- Community Redevelopment
- Real Estate Revitalization
- Builds Human Capital
- Place Based Strategy
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
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
• **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?
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**
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?
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
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%
In-Depth Application to Charter School Projects
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
- 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

#### Demographic Data
- 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

#### Financial Data
- 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**
Charter School Case Study
Key Considerations When Underwriting Community Health Centers
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
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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212-455-9398

Claudia Lima  
Senior Program Officer, LISC Los Angeles  
213-240-3118
## Highly Achieving Middle School

### Estimated Cost per Square Foot per Student % of Total

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### 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**

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### 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%
- **Utilities Installation**: 8,000 0.33 17.78 0.08%
- **Construction Contingency @ 10%**: 396,510 16.52 881.13 3.98%

**Subtotal: Hard Costs**

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### 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**

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**Subtotal: Soft Costs**

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**Real Estate Taxes**

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**Total Estimated Cost**

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<tr>
<td></td>
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</tbody>
</table>
## Highly Achieving Middle School

### Cash Flow Projection/Budget

<table>
<thead>
<tr>
<th></th>
<th>MS 2013-14</th>
<th>MS 2014-15</th>
<th>MS 2015-16</th>
<th>MS 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY 2013-14</td>
<td>FY 2014-15</td>
<td>FY 2015-16</td>
<td>FY 2016-17</td>
</tr>
<tr>
<td><strong>Key Assumptions</strong></td>
<td></td>
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<tr>
<td>General Purpose Inflation Rate</td>
<td>1.00%</td>
<td>1.50%</td>
<td>1.50%</td>
<td>1.50%</td>
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<tr>
<td>General Inflation Rate</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
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<tr>
<td>Apportionment Funding Growth Rate</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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<tr>
<td><strong>Enrollment</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Grade 6</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Grade 7-8</td>
<td>0</td>
<td>150</td>
<td>300</td>
<td>300</td>
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<tr>
<td>Grade 9-12</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Attendance Rate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
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<tr>
<td>Minimum student teacher ratio (x:1)</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
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<tr>
<td>Number of Teachers</td>
<td>6</td>
<td>12</td>
<td>18</td>
<td>18</td>
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<tr>
<td>Number of Other Employees</td>
<td>7</td>
<td>9</td>
<td>11</td>
<td>12</td>
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</table>

### 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

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
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<tbody>
<tr>
<td>Economic Impact Aid</td>
<td>133.32</td>
<td>135.32</td>
<td>137.35</td>
<td>139.41</td>
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<tr>
<td>Special Ed (IDEA)</td>
<td>-</td>
<td>138.37</td>
<td>140.45</td>
<td>142.56</td>
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<tr>
<td>Special Ed (AB602)</td>
<td>446.59</td>
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<td>466.99</td>
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<tr>
<td>Child Nutrition (federal) - Assuming 91% participation</td>
<td>707.01</td>
<td>717.62</td>
<td>728.38</td>
<td>739.31</td>
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<tr>
<td>Child Nutrition (state) - Assuming 91% participation</td>
<td>68.97</td>
<td>70.01</td>
<td>71.06</td>
<td>72.12</td>
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<tr>
<td>Title 1</td>
<td>467.40</td>
<td>467.40</td>
<td>467.40</td>
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<tr>
<td>State Lottery</td>
<td>-</td>
<td>128.14</td>
<td>130.06</td>
<td>132.01</td>
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<tr>
<td>In lieu of Property Taxes</td>
<td>1,368.08</td>
<td>1,388.60</td>
<td>1,409.43</td>
<td>1,430.57</td>
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### Revenue

#### Private Grants and Contributions

<table>
<thead>
<tr>
<th>Category</th>
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<th>FY 2014-15</th>
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<th>FY 2016-17</th>
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<tr>
<td>Private Grants and contributions</td>
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<td>-</td>
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<td>Private Grants and Contributions</td>
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</table>

#### Federal Revenue

<table>
<thead>
<tr>
<th>Category</th>
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<th>FY 2014-15</th>
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<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title I</td>
<td>66,605</td>
<td>133,209</td>
<td>199,814</td>
<td>199,814</td>
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<tr>
<td>Replication Grant</td>
<td>340,000</td>
<td>300,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Child Nutrition</td>
<td>100,749</td>
<td>204,520</td>
<td>311,382</td>
<td>316,053</td>
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<tr>
<td>Special Education (IDEA)</td>
<td>-</td>
<td>39,436</td>
<td>60,042</td>
<td>60,942</td>
</tr>
<tr>
<td>E-Rate</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Federal Revenue</td>
<td>507,353</td>
<td>677,166</td>
<td>571,238</td>
<td>576,809</td>
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#### State Revenue

<table>
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<tr>
<th>Category</th>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Purpose Apportionment</td>
<td>495,889</td>
<td>1,027,983</td>
<td>1,575,929</td>
<td>1,599,568</td>
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<tr>
<td>Categorical Block</td>
<td>57,570</td>
<td>116,867</td>
<td>177,930</td>
<td>180,599</td>
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<tr>
<td>Economic Impact Aid</td>
<td>18,998</td>
<td>38,566</td>
<td>58,717</td>
<td>59,598</td>
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<td>Child Nutrition</td>
<td>9,829</td>
<td>19,952</td>
<td>30,377</td>
<td>30,833</td>
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<tr>
<td>State Lottery Revenue</td>
<td>-</td>
<td>36,520</td>
<td>55,602</td>
<td>56,436</td>
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<tr>
<td>SB 740</td>
<td>112,500</td>
<td>225,000</td>
<td>337,500</td>
<td>337,500</td>
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<tr>
<td>Special Education (AB602)</td>
<td>63,639</td>
<td>129,188</td>
<td>196,688</td>
<td>199,639</td>
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<td>State Revenue</td>
<td>758,425</td>
<td>1,594,577</td>
<td>2,432,743</td>
<td>2,464,172</td>
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#### Local and Other Revenue

<table>
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<tr>
<th>Category</th>
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<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>In lieu of Property Taxes</td>
<td>194,951</td>
<td>395,750</td>
<td>602,529</td>
<td>611,567</td>
</tr>
<tr>
<td>Other Income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Local Revenue</td>
<td>194,951</td>
<td>395,750</td>
<td>602,529</td>
<td>611,567</td>
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</tbody>
</table>

### Total Revenue

<table>
<thead>
<tr>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,710,729</td>
<td>2,666,992</td>
<td>3,606,510</td>
<td>3,652,548</td>
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</table>
## Cash Flow Projection/Budget

<table>
<thead>
<tr>
<th></th>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Salaries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certified: Teachers</td>
<td>346,080</td>
<td>706,003</td>
<td>1,080,185</td>
<td>1,101,789</td>
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<tr>
<td>Certified: School Admin</td>
<td>105,000</td>
<td>183,600</td>
<td>183,600</td>
<td>187,272</td>
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<tr>
<td>Certified: Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Classified: Instructional Aides</td>
<td>23,484</td>
<td>23,954</td>
<td>48,866</td>
<td>49,843</td>
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<td>Classified: Support</td>
<td>27,851</td>
<td>42,612</td>
<td>57,953</td>
<td>59,112</td>
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<tr>
<td>Classified: Supervisor and Administrator</td>
<td>41,200</td>
<td>42,024</td>
<td>42,864</td>
<td>43,722</td>
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<tr>
<td>Classified: Clerical, Technical, Office Staff</td>
<td>51,418</td>
<td>52,446</td>
<td>53,495</td>
<td>54,565</td>
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<tr>
<td>Classified: Other Classified</td>
<td>30,900</td>
<td>31,518</td>
<td>51,695</td>
<td>52,728</td>
</tr>
<tr>
<td>Salaries</td>
<td>625,933</td>
<td>1,082,157</td>
<td>1,518,657</td>
<td>1,549,030</td>
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<tr>
<td><strong>Benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Teachers’ Retirement System, certificated positions</td>
<td>37,214</td>
<td>73,392</td>
<td>104,262</td>
<td>106,347</td>
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<tr>
<td>Public Employees’ Retirement System, classified positions</td>
<td>18,727</td>
<td>20,623</td>
<td>27,297</td>
<td>27,843</td>
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<td>OASDI, classified positions</td>
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<td>11,938</td>
<td>15,802</td>
<td>16,118</td>
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<td>Medicare certificated positions</td>
<td>6,541</td>
<td>12,899</td>
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<td>18,691</td>
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<td>Medicare classified positions</td>
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<td>2,792</td>
<td>3,696</td>
<td>3,770</td>
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<td>Health and Welfare Benefits, certificated positions</td>
<td>45,108</td>
<td>88,960</td>
<td>126,378</td>
<td>128,906</td>
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<td>Health and Welfare Benefits, classified positions</td>
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<td>19,255</td>
<td>25,487</td>
<td>25,997</td>
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<tr>
<td>State Unemployment Insurance, certificated positions</td>
<td>4,511</td>
<td>8,896</td>
<td>12,638</td>
<td>12,891</td>
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<td>State Unemployment Insurance, classified positions</td>
<td>1,749</td>
<td>1,926</td>
<td>2,549</td>
<td>2,600</td>
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<tr>
<td>Benefits</td>
<td>144,710</td>
<td>240,682</td>
<td>336,434</td>
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<td>Books and Supplies</td>
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<td>Text Books</td>
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<td>33,813</td>
<td>34,489</td>
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<td>Student software</td>
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<td>6,304</td>
<td>9,645</td>
<td>9,837</td>
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<td>Licensing fee</td>
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<td>Instructional Material</td>
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<td>16,878</td>
<td>17,215</td>
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<td>Testing Material (NWEA assessment)</td>
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<td>3,362</td>
<td>3,429</td>
<td>3,498</td>
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<tr>
<td>College Prep</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Non-capitalized Equipment</td>
<td>3,863</td>
<td>6,304</td>
<td>8,841</td>
<td>9,018</td>
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<td>School Supplies/Uniforms</td>
<td>17,510</td>
<td>27,316</td>
<td>37,506</td>
<td>38,215</td>
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<td>Special Activities/Field Trips</td>
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<td>4,729</td>
<td>7,233</td>
<td>7,378</td>
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<td>Food Services</td>
<td>116,106</td>
<td>235,696</td>
<td>358,847</td>
<td>364,230</td>
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<td>Books and Supplies</td>
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<td>328,553</td>
<td>476,869</td>
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<td>Pupil Services</td>
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<td>Special Ed</td>
<td>56,639</td>
<td>150,076</td>
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<td>231,917</td>
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<td>Substitute Teacher</td>
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<td>Other Professional Services</td>
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<td>34,670</td>
<td>35,363</td>
<td>36,070</td>
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<td>Accounting</td>
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<td>10,506</td>
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<td>10,930</td>
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<td>Consulting</td>
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<td>1,623</td>
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<td>3,745</td>
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<td>LAUSD Charter School Oversight Fee</td>
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<td>LACOE Fees</td>
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<td>9,000</td>
<td>11,500</td>
<td>11,500</td>
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<td>Fair Share Contr. Special Ed Cost</td>
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<td>18,549</td>
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<td>67,087</td>
<td>91,076</td>
<td>113,591</td>
<td>115,424</td>
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</table>
## Cash Flow Projection/Budget

<table>
<thead>
<tr>
<th></th>
<th>MS Year 1</th>
<th>MS Year 2</th>
<th>MS Year 3</th>
<th>MS Year 4</th>
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<tbody>
<tr>
<td></td>
<td>FY 2013-14</td>
<td>FY 2014-15</td>
<td>FY 2015-16</td>
<td>FY 2016-17</td>
</tr>
<tr>
<td><strong>Facilities</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Utilities: Water and Electric</td>
<td>26,780</td>
<td>33,619</td>
<td>40,721</td>
<td>41,536</td>
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<td>Utilities: Gas</td>
<td>1,803</td>
<td>2,627</td>
<td>3,483</td>
<td>3,552</td>
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<tr>
<td>Equipment Leases</td>
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<td>6,122</td>
<td>9,184</td>
<td>9,184</td>
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<td>Repairs and Maintenance</td>
<td>12,103</td>
<td>16,284</td>
<td>20,629</td>
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<td>Personnel Services - Security</td>
<td>41,991</td>
<td>42,831</td>
<td>43,687</td>
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<td>Taxes &amp; Permits - Real/Personal Property</td>
<td>15,450</td>
<td>15,759</td>
<td>16,074</td>
<td>16,396</td>
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<tr>
<td><strong>Facilities</strong></td>
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<td>138,254</td>
<td>159,229</td>
<td>162,229</td>
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<tr>
<td><strong>Administrative</strong></td>
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</tr>
<tr>
<td>Travel and Conferences</td>
<td>335</td>
<td>538</td>
<td>754</td>
<td>796</td>
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<td>Auto Expense</td>
<td>134</td>
<td>215</td>
<td>311</td>
<td>328</td>
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<td>Professional Development</td>
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<td>7,769</td>
<td>8,198</td>
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<td>Business Meals</td>
<td>536</td>
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<td>1,312</td>
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<td>Dues &amp; Memberships</td>
<td>3,090</td>
<td>3,152</td>
<td>3,215</td>
<td>3,279</td>
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<td>Insurance</td>
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<td>23,500</td>
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<td>Postage and Shipping</td>
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<td>4,202</td>
<td>5,894</td>
<td>6,012</td>
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<tr>
<td>Printing</td>
<td>3,863</td>
<td>6,304</td>
<td>8,841</td>
<td>9,018</td>
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<tr>
<td>Noncapitalizable Equipment</td>
<td>2,009</td>
<td>3,231</td>
<td>4,662</td>
<td>4,919</td>
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<td>Noncapitalizable Equipment - Software</td>
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<td>9,692</td>
<td>13,985</td>
<td>14,756</td>
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<tr>
<td>Communication - Telephone Expense</td>
<td>18,386</td>
<td>26,265</td>
<td>33,813</td>
<td>34,489</td>
</tr>
<tr>
<td>Administrative</td>
<td>85,687</td>
<td>127,855</td>
<td>171,037</td>
<td>174,543</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>1,291,930</td>
<td>2,177,563</td>
<td>3,033,240</td>
<td>3,066,075</td>
</tr>
</tbody>
</table>

### Total Surplus (Deficit) Before Lease and Management Fee

|                         | $418,799  | $498,429  | $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

<table>
<thead>
<tr>
<th></th>
<th>Rent/Shared Costs Paid by School</th>
<th>Rent/Shared Costs Paid by Debt Reserve</th>
<th>Total Facility Lease Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>165,000</td>
<td>330,116</td>
<td>$495,116</td>
</tr>
<tr>
<td></td>
<td>330,116</td>
<td>165,116</td>
<td>$495,116</td>
</tr>
<tr>
<td><strong>Surplus/Deficit after Lease Payment before Management Fee</strong></td>
<td>253,799</td>
<td>159,429</td>
<td>78,154</td>
</tr>
</tbody>
</table>

### 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

<table>
<thead>
<tr>
<th></th>
<th>Facilities Expense as % of Total Revenues</th>
<th>Instructional Expenses as % of Total Revenues</th>
<th>Net Income as % of Total Revenues</th>
<th>Administrative Expenses as % of Total Revenues</th>
<th>Other Student Services as % of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12% - 15%</td>
<td>50% - 65%</td>
<td>3% - 5%</td>
<td>10% - 12%</td>
<td>3% - 5%</td>
</tr>
<tr>
<td></td>
<td>33.2%</td>
<td>59.7%</td>
<td>14.8%</td>
<td>12.0%</td>
<td>3.9%</td>
</tr>
<tr>
<td></td>
<td>21.9%</td>
<td>68.3%</td>
<td>6.0%</td>
<td>11.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td></td>
<td>16.7%</td>
<td>71.8%</td>
<td>2.2%</td>
<td>11.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td></td>
<td>16.5%</td>
<td>71.6%</td>
<td>2.5%</td>
<td>11.8%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>
# ATTACHMENT 3
## SENSITIVITY ANALYSIS

### Highly Achieving Middle School

<table>
<thead>
<tr>
<th></th>
<th>Year 1 FY 2013-14</th>
<th>Year 2 FY 2014-15</th>
<th>Year 3 FY 2015-16</th>
<th>Year 4 FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected ADA (a)</td>
<td>143</td>
<td>285</td>
<td>428</td>
<td>428</td>
</tr>
<tr>
<td>Net Income (b)</td>
<td>418,799</td>
<td>489,429</td>
<td>573,270</td>
<td>586,473</td>
</tr>
<tr>
<td>Lease Payments (c)</td>
<td>165,000</td>
<td>330,000</td>
<td>495,116</td>
<td>495,116</td>
</tr>
<tr>
<td>Excess Income (e = b - d)</td>
<td>229,049</td>
<td>109,929</td>
<td>3,886</td>
<td>17,089</td>
</tr>
<tr>
<td>Revenue/ADA (f)</td>
<td>12,005</td>
<td>9,358</td>
<td>8,436</td>
<td>8,544</td>
</tr>
<tr>
<td>Students represented (g = e / f)</td>
<td>19</td>
<td>12</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Minimum ADA (h = a - g)</td>
<td>123</td>
<td>273</td>
<td>427</td>
<td>425</td>
</tr>
<tr>
<td>Minimum ADA (%) [3]</td>
<td>82%</td>
<td>91%</td>
<td>95%</td>
<td>95%</td>
</tr>
</tbody>
</table>

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%.
## Refinance Analysis

### Highly Achieving Middle School

<table>
<thead>
<tr>
<th>Refinance Assumptions:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Original LISC Loan</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Outstanding LISC Loan Balance at Maturity</td>
<td>4,134,225</td>
</tr>
<tr>
<td>Total Debt to be Refinanced</td>
<td>4,134,225</td>
</tr>
<tr>
<td>Appraised Value of Property (At Loan Closing)</td>
<td>8,500,000</td>
</tr>
<tr>
<td>Target Lease Coverage Ratio (LCR)</td>
<td>1.20</td>
</tr>
<tr>
<td>Assumed Amortization Term on New Loan</td>
<td>20</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan To Value at Maturity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assuming no appreciation in value</td>
<td></td>
</tr>
<tr>
<td>Est. Value</td>
<td>8,500,000</td>
</tr>
<tr>
<td>LTV</td>
<td>49%</td>
</tr>
<tr>
<td>Assuming 1% appreciation in value</td>
<td></td>
</tr>
<tr>
<td>Est. Value</td>
<td>9,113,150</td>
</tr>
<tr>
<td>LTV</td>
<td>45%</td>
</tr>
<tr>
<td>Assuming 1% depreciation in value</td>
<td></td>
</tr>
<tr>
<td>Est. Value</td>
<td>8,494,052</td>
</tr>
<tr>
<td>LTV</td>
<td>49%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rate on Refinanced (New) Loan</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan To Value at Maturity</td>
<td>8.00% 8.50% 9.00% 9.50% 10.00% 10.25%</td>
</tr>
<tr>
<td>Annual Payment on Refinanced (New) Loan</td>
<td>421,080 436,868 452,890 469,138 485,605 493,917</td>
</tr>
<tr>
<td>Estimated Net Income at Maturity (not incl mgt fee)</td>
<td>586,473</td>
</tr>
<tr>
<td>Lease Coverage Ratio (LCR)</td>
<td>1.39 1.34 1.29 1.25 1.21 1.19</td>
</tr>
<tr>
<td>Excess Cash Flow After 1.20 Lease Service Cushion</td>
<td>81,177 62,232 43,005 23,507 3,747 (6,227)</td>
</tr>
</tbody>
</table>

| Calculated Rate to Hit 1.20x LCR           | 10.09% |
| Estimated Mini-Permanent Interest Rate     | 7.00%  |
| Cushion Between Current and Refinance Rate | 3.09%  |