Valor Collegiate Academy

Proposed FY 2016 Budget

Business and Development Specialists for Charter Schools

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Budget Process Summary

- Highly iterative process; scenarios have been in development since March 2015
  - Period discussions with the finance committee
  - Multiple staff stakeholder input meetings
- EdTec modeled several version of the proposed budget, adjusting major assumptions as new and final information was available
  - Two scenarios: “Lease” and “Build” with the “Lease” option being recommended for approval
  - Difference between the scenarios in FY 2016 really around fundraising goals and approach to longer term facility needs of VCASE and VCAHS
- Budget developed with the following goals:
  - Minimally balanced, but with eye for building reserve
  - Meet programmatic and educational needs
  - Meet debt repayment requirements

Proposed FY 2016 Budget – Overview & Snapshot of Revenue Outlook

	FY 2015 Forecast	FY 2016 Proposed Budget
Total Revenues	3,373,195	7,072,949
Total Expenses	2,666,082	6,693,914
Total Operating Income	707,113	379,035
Beginning Fund Balance	134,956	842,069
Ending Fund Balance	842,069	1,221,104
Recurring Public Funding	1,585,997	5,180,923
One-time & Private Funding*	1,629,544	1,121,270
Revenue Per Student*	$21,437	$12,004
Recurring Public Funding Per Student	$10,337	$9,868
One-time & Private Funding per Student*	$10,767	$2,109
Spending per Student*	$16,723	$11,282

*filters out impact of CMO revenue for central office and expense to individual schools; also filters chargeback of rent from VCA to VCASE

- $6.69M operating budget; 2 schools with total enrollment of 525 students
- $5.18M or 73% of projected revenues recurring
  - Includes BEP, BEP Capital Outlay, Title I, NSLP, and IDEA
- $1.1M or 17% either one time or private commitments
  - Includes $600K from CSGF from original, expiring commitment, $100K from CSGF for VCASE, $200K in institutional asks, $160K in school fundraising, and balance in school activities
- CMO Fee and Rent from VCASE to VCA makes up remaining 10%, but a wash with expenses
- Operating income of $379K through end of FY 2016
  - This is before depreciation treatment

Proposed FY 2016 Budget – Snapshot of Expense Outlook

	FY 2015 Forecast	FY 2016 Proposed Budget
Total Expenses	**2,666,082**	**6,693,914**
Total Spending Per Student*	$16,723	$11,282
Salaries	1,116,180	2,575,990
Employee Benefits & Taxes	287,519	808,355
Contracted Services	611,300	1,623,707
Supplies & Materials	356,460	872,049
Other Charges	190,310	630,640
Debt Service	104,314	183,174

*filters out impact of CMO revenue for central office and expense to individual schools; also filters chargeback of rent from VCA to VCASE

- 45 Staff
  - 6 Central Office, 25 Teachers, 2 Apprentice Teachers (not including 11 contracted apprentice teachers), 2 Principals, 2 Assistant Principals, 1 Ops Associate, 1 Office Manager, 2 COMPAS Coaches, and 4 SPED staff
- Standard assumptions around taxes and benefits including health insurance and retirement
- Budget reflects assumptions around major areas of services like food service and transportation
- Also includes assumptions around required expenses to launch VCASE this summer
- VCA to charge VCASE rent equal to half of debt service for year and incurred facility costs

Proposed FY 2016 Budget – Key Drivers Assumptions, & Other Indicators to Keep In Mind

Driver	Assumptions
Enrollment	525
FRL Count	277
SPED Count	42
BEP	$9,000
Total Staff	45
Teachers	25*
Central Office	6
Benefit %	~31% of total compensation

*Does not include apprentice teacher count

Salary Indicator	Average
Total Compensation	$2,575,990
Average Compensation per Employee	$57,244
Average Teacher Compensation	$51,903

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Private Dollars Outlook – "Lease" Scenario
Need to secure ~$3M through FY 2019

- In order to determine the total funding gap in a given year, the financial outlook was evaluated with the following criteria:
  1. Operating income is positive
  2. DSCR minimally met a 1.2 in FY 2016 (for borrowing purposes)
  3. Cash as of June 30th was positive
  4. Enough cash to meet existing interest obligations and loan principal repayment with 1st Facility Loan
- Additional criteria that was considered but not factored into the base case scenario:
  - Available cash as of June 30th equal to 30 days Cash on Hand
  - Fund balance reserve shows upward increase each year

	FY 2016	FY 2017	FY 2018	FY 2019
Secured Grants	$700,000	$0	$0	$0
Unsecured Grants	$200,000	$900,000	$200,000	$550,000
Unsecured School Fundraising	$160,000	$285,000	$360,000	$360,000
Total	**$1.06M**	**$1.185 M**	**$560,000**	**$910,000**

Sensitivity Analysis:

If all other revenue and expense assumptions pan out in FY 2016, Valor only needs to secure $108K of the unsecured $360K to hit the DSCR of 1.2.

If Valor wanted to meet the 30 days cash on hand requirement each month each year through FY 2019, it would need an additional $150K in FY 2016 and $530K in FY 2017

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What Would the Financial Picture Look Like Taking A "Build" Approach?

	School #2	School #3
Enrollment at capacity	500	750+
Total Square Footage	37,500	75,000+
Land/Building Purchase	$1.5M	$2.5M
Soft & Hard Project Costs	$4.5M	$7.5M
Equity Contribution	$1.2M	$2M
Amount to borrow	$4.8M	$8M
Interest Rate	4.45%	4.45%
Amortization	Interest only during construction; 25 years	Interest only during construction; 25 years
Debt Service Reserve	$120K	$200K
Capital Repair Reserve	$30K	$50K
Closing Costs	$54K	$90K
Construction Start	January 2016; 6 months construction	January 2018; 6 months construction

- Using similar borrowing conditions and considerations to the 1st loan, we have calculated what the impact of some sort of acquisition and construction strategy would look like relative to the base scenario and what that would mean for fundraising needs
- Facility acquisition and construction costs will vary depending on site, but the estimates being used have been floated in discussions to date

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Private Dollars Outlook – "Build" Scenario

Need to secure $5.96M through FY 2019

- In order to determine the total funding gap in a given year, the financial outlook was evaluated with the following criteria:
    1. Operating income is positive
    2. DSCR minimally met a 1.2 in all years to have debt service reserves returned
    3. Cash as of June 30th was positive
    4. Enough cash to meet equity contributions, interest obligations, ongoing principal payments, and other borrowing considerations
- Additional criteria that was considered but not factored into the base scenario:
    - Available cash as of June 30th equal to 30 days Cash on Hand
    - Fund balance reserve shows upward increase each year

	FY 2016	FY 2017	FY 2018	FY 2019
Secured Grants	$700,000	$0	$0	$0
Unsecured Grants	$1.1M	$700,000	$1.85M	$450,000
School Fundraising	$160,000	$285,000	$360,000	$360,000
Total Need	**$1.96M**	**$985,000**	**$2.21M**	**$810,000**

Sensitivity Analysis:

No scenario around barely meeting a 1.2 DSCR, as the amounts of equity required trump any goal seek of a minimum DSCR.

If Valor wanted to meet the 30 days cash on hand requirement each month each year through FY 2019, it would need an additional $640K in FY 2016, $100K in FY 2017, $130K in FY 2018, and $370 in FY 2019.

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“Build” vs. “Lease”

Building is cash-intensive and doubles the fundraising need, but ultimately cash is being “invested” in facilities and creating equity for future leveraging

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Base Revenues	3,373,195	7,072,949	9,992,226	12,073,692	15,235,765
Base Expenses	2,666,082	6,693,914	9,709,327	11,819,166	14,961,207
Base Operating Income	707,113	379,035	282,898	254,526	274,557
Additional Fundraising Required	-	1,100,000	(200,000)	1,650,000	(100,000)
Facility Lease Savings	-	-	585,000	750,000	1,190,000
Additional Interest and Borrowing Costs	-	(160,800)	(211,433)	(474,569)	(553,873)
Build Operating Income	707,113	1,118,235	456,465	2,179,957	810,684
Build Beginning Fund Balance	134,956	842,069	1,960,304	2,416,769	4,596,726
Build Ending Fund Balance	842,069	1,960,304	2,416,769	4,596,726	5,407,410
Build Fund Balance as % of Expenses	32%	29%	26%	40%	38%
Build Ending Cash Balance	428,570	241,887	598,107	438,705	752,013

Even though the operating income is higher relative to the base case, the gulf between fund balance and cash balance widens because the cash being generated from the operating income is being used to fund the equity contributions and ongoing principal payments

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Greenlighting Criteria to Pivot to "Build" Approach

- EdTec is recommending adoption of the "Lease" option for FY 2016 and having very clear greenlighting criteria to switch budgets
- Under the "Build" scenario, Valor needs to secure $700K of the $1.26M unsecured private dollars to be in a position to execute on a substantial equity payment in January 2016
- However, underwriting likely should begin in October 2015 to account for additional diligence given the financial complexity; and in all likelihood, most lenders will want to see credible evidence of ability to meet the equity contribution during underwriting
  - In the absence of firm commitment letters or grant agreements specifying funding will be received by December or earlier, Valor needs to plan to start its underwriting with at least $500K of the $700K secured
- Facility options need to then be narrowed probably no later than September 2015, along with vetted project budgets
  - The parameters for a new building for VCASE are built around an all-in $6M project