

# CAPITAL COLLEGE AND CAREER ACADEMY COUNTYWIDE CHARTER PRE-OPENING STATUS UPDATE – MAY 16, 2023

## FISCAL ANALYSIS

On March 30, 2023, SCOE notified Capital College and Career Academy (CCCA) of its concern that CCCA had borrowed \$13.9 million related to the purchase of its school facility, which was \$4.3 million more than what CCCA had budgeted for in its charter petition. Based upon SCOE's concerns that the \$4.3 million in additional debt obligations would increase CCCA's debt service/lease payment obligations and materially affect CCCA's budget and its ability to successfully operate its charter school program, SCOE requested a revised budget and cashflow projections.

CCCA's revised budget for 2023-24 projects a budget surplus of \$293,808 and an ending fund balance of \$542,236. Both the surplus and the ending fund balance are higher than projected at the time the charter petition was conditionally approved by the Board. This is primarily due to a projected \$1.2 million increase in revenues from unspecified one-time donations and grants, and a Public Charter School Grant Program (PCSGP) grant. In addition, as of April 21, 2023, CCCA had \$496,590 in cash on hand which exceeds the \$400,000 cash the Board required CCCA to have as a condition of opening.

Nevertheless, there remain several significant areas of risk primarily related to the revenue projections that are cause for concern. Following receipt of CCCA's revised budget, the SCOE oversight team met with CCCA to discuss its budget, understand its plan, and explore CCCA's strategies for mitigating any unexpected circumstances or changes in assumptions that may arise. Based on the information shared by CCCA at this meeting and on potential variables provided after the meeting, CCCA appears to have some flexibility to delay or reduce certain expenditures (e.g., staffing, CTE equipment) to mitigate these risks.

### **Risks**

As explained in SCOE's financial analysis of CCCA's charter petition, CCCA's financial condition depends on its ability to meet enrollment and attendance projections. Enrollment and attendance are the driving factors underlying the charter's largest single source of funding, the Local Control Funding Formula (LCFF) revenue. CCCA's LCFF revenue projections and the viability of its budget are based on enrollment of 80 students in 2023-2024. Accordingly, as a condition of opening, the Board required that CCCA have enrollment commitments from at least 72 students (90% of projected first year enrollment) by May 1, 2023.

As of May 1, 2023, CCCA has 63 students enrolled, which is below the threshold of 72 enrollments set by the Board. While CCCA expressed optimism that it will secure additional enrollments before the start of the school year, there is currently no certainty

of this. Also, some students that have already committed may not actually enroll and attend the school. If enrollments continue to lag below projections, LCFF revenue may be up to \$200,000 lower than projected.

In addition, CCCA's budget is heavily reliant on one-time fundraising and grants. The budget assumes \$600,000 in donor contributions during 2023-2024, which is \$400,000 higher than assumed at the time the charter petition was approved. This increase in contributions is not currently supported by written agreements or pledges and, as a result, is a significant source of risk to CCCA's budget. Furthermore, the revised budget includes a \$192,000 increase in revenue for unspecified state grants which it may not receive.

As noted above, CCCA has borrowed \$4.3 million more than the amount it proposed to borrow for its facilities in the charter petition. Additionally, the payback term of this debt is longer by 4 years and the interest rate is 3 percentage points higher than included in the charter petition. These changes result in higher debt service costs (\$619,000 in year 1; and \$828,000 in year 2), which will constrain CCCA's ability to reduce expenditures if enrollments, fundraising, and/or grants fall below projections.

### **Summary**

CCCA's revised budget projects a larger surplus and ending fund balance primarily due to \$1.2 million in increased revenue projections. However, almost \$800,000 of this additional revenue is based upon uncertain one-time donations and grants. CCCA has identified over \$300,000 in expenditures on staffing and CTE equipment that it believes can be delayed or reduced which, along with its projected \$542,236 ending fund balance, could mitigate this risk. CCCA has very little room to accommodate any unforeseen costs or revenue losses beyond the \$800,000 in uncertain revenue assumptions.

Below is the CCCA's revised budget:

#### **Revenue**

LCFF	1,025,513
PCSGP	500,000
Other Grants	425,478
Donor Contributions	600,000
Total	2,550,991

#### **Expenditures**

Employee Compensation	858,221
Equipment	384,470
Other	1,014,492
Total	2,257,183

<b>Surplus/(Deficit)</b>	<u>293,808</u>
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Beginning Fund Balance	248,428
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<b>Ending Fund Balance</b>	<b>542,236</b>
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If approximately \$800,000 in uncertain revenue assumptions do not materialize, CCCA would be insolvent in its first year of operation, as follows:

**Revenue**

LCFF	825,513
PCSGP	500,000
Other Grants	233,478
Donor Contributions	200,000
<b>Total</b>	<u>1,758,991</u>

**Expenditures**

Employee Compensation	858,221
Equipment	384,470
Other	1,014,492
<b>Total</b>	<u>2,257,183</u>

<b>Surplus/(Deficit)</b>	<u>(498,192)</u>
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Beginning Fund Balance	248,428
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<b>Ending Fund Balance</b>	<b>(249,764)</b>
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If CCCA is able to reduce or delay staffing and equipment expenses to mitigate the loss of \$800,000 in revenue while still delivering the program promised by the charter petition, CCCA's budget would be as follows:

**Revenue**

LCFF	825,513
PCSGP	500,000
Other Grants	233,478

Donor Contributions	200,000
Total	<u>1,758,991</u>

**Expenditures**

Employee Compensation	682,917
Equipment	284,470
Other	990,431
Total	<u>1,957,818</u>

<b>Surplus/(Deficit)</b>	<u><u>(198,827)</u></u>
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Beginning Fund Balance	248,428
<b>Ending Fund Balance</b>	<b>49,601</b>