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# Confluence Academies Strategic Business Planning

## Board of Directors Presentation



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

# Background

The Confluence Charter Schools Board of Directors hired CLA to perform a financial assessment and help prepare an accompanying financial plan to feed into its strategic planning work. More specifically, this project's goals were to bring clarity to the following questions.

- **Revenues:** Is the organization maximizing federal, state, local, and private funding streams? How can the organization's assets be used to generate additional funding?
- **Cost Efficiency:** Are funds being spent in the most efficient and effective manner? What financial metrics and industry standards should be used as benchmarks?
- **Resource Office:** Is the Resource Office staffed adequately to fulfill the needs of the schools? Can the Resource Office be leveraged to create additional revenue by providing services to other charter schools?
- **LEA and Organizational Structure:** What organizational structure would most benefit all the schools in the network? How can the network best resolve the existing loan balances between LEAs?
- **Facilities Financing:** How can the creation of a short and long-term facilities finance plan best guide the organization through the process of fundraising, financing, and building purchases? What alternatives could be considered to best support Confluence's facility needs?

# Approach and Scope



Our approach was designed to provide Confluence with a set of findings, recommendations, and suggested financial plans of action that instill confidence to key stakeholders that the organization and its finances are structured and deployed in a manner that maximizes revenue and cost efficiencies.

Given that approach, our work was organized into five lines inquiry.

- **Revenue Analysis** to understand existing and potential sources of public, private, and earned revenues.
- **Cost Analysis** to understand efficiency and benchmark key financial metrics against like organizations.
- **Resource Office Assessment** to consider current resource office structure and capacity and ability to expand service provision outside of the Confluence network.
- **Organizational Structure and LEA Loan Balances** to model scenarios that would resolve LEA to LEA loans and understand potential implications.
- **Facilities Financing Analysis** to help Confluence better understand the short and long term impacts of facility and financing decisions.

# Research Methodology

**Research for each line included the following activities:**

1. Background document and information review
2. Interviews with resource office staff, school leadership, and board members
3. Scenario development and analysis
4. Benchmarking
5. Long term financial modeling
6. Recommendation development

# Presentation Order

While our work followed five distinct lines, they need to be considered as a whole because of interdependence and related impacts at the school and enterprise level. We therefore present our findings and recommendations as follows:

- **Resource Office Assessment**
- **Organizational Structure and LEA Loan Balances**
- **Facilities Financing Analysis**
- **Revenue and Cost Analysis**

# Resource Office Assessment

## Staff Capacity and Leveragability

- Is the Resource Office staffed adequate to fulfill the needs of the schools?
- Can the Resource Office be leveraged to create additional revenue by providing services to other charter schools?

# Key Findings Informing Our Recommendations



## Current staffing does not have excess capacity.

- Interviewees reported that staff is “maxed out” from a workforce perspective and it would be imperative to increase the human capital in order to provide the same level of services to external schools.
- Interviewees had a fear that growing services to include non-Confluence schools could result in Confluence schools not receive the attention they need.

## The overall costs of the Resource Office (i.e., network administrative costs) are low when benchmarked against similar size networks.

- Benchmarked against 28 networks ranging from 415 to 11,985 students and 9 to 149 RO staff
- Confluence has 22 RO staff  for 3,695 students; a ratio of 168 students per 1 RO staff
- In comparison, the average ratio of the benchmarked organizations was much lower at 70 students per 1 RO staff
- Of all organizations, ratios ranged from 40:1 to 143:1 vs. CA’s ratio of 168:1

## The assumption that there is a market for outsourced “back-office” services is reasonable given the local charter landscape however, market pricing and demand for these services was not explored given the acknowledge existing capacity constraints.

# Recommendations

1. Do not pursue outsourcing Resource Office services at this time.
2. Fully allocate costs associated with Resource Office to each of the schools to better understand what the true school operating costs are.
3. Continue to assess need for further investment in Resource Office capacity given low cost structure and related ratios.

**Further Considerations:**

- Would the current mission—to provide the highest quality public education for our Confluence Academy students—have to change?
- Could this revenue bring scrutiny to the tax exempt status of the organization? Would this revenue require CA to set up a separate LLC?

# Organizational Structure and LEA Loans

## Ideal Structure and Loan Resolution

- What organizational structure would most benefit all the schools in the network?
- How can the network best resolve the existing loan balances between LEAs?

# Options Considered



Analyzed four options regarding the structure and resolution of the LEA to LEA loans:

1. Status Quo – Continue with 2 LEAs and 2 sponsoring organizations.
2. Consolidation – Consolidate into one LEA with one sponsor.
3. Consider adding additional school to GCAA LEA – more evenly splitting the schools between the two existing LEAs.
4. Add more LEAs – Look at adding additional sponsors (e.g., 1 for GCAA, 1 for CPA, 1 for elementary schools)

# Key Findings Informing Our Recommendations



**Ruled out options 3 and 4**

- Splitting evenly (option 3) was ruled out due to lack of interest from SLU in sponsoring other CA schools.
- Adding additional LEAs (option 4) was ruled out because benefits did not justify the increased sponsor costs and reporting.

**Auditor has noted a "going concern" on GCAA's historical audits related to the loans and GCAA's ability to pay them off.**

- "Going Concern" statement on FY2014 audit report leads us to believe that the auditor will most likely require CA to recognize some portion of the loan balance as an allowance for doubtful accounts in the near future.
- Bond covenants do not allow for CA to write-off any portion of the loan to resolve the Going Concern.

**Financial modeling did not show a realistic scenario where GCAA would be able to pay off the loans according to the current terms.**

# Benefits and Drawbacks of Consolidation

**Reserves will be significantly lower as a consolidated entity.**

| | 2014 Fund Balance $ | 2014 Fund Balance % |
|---|---|---|
| CA Fund Balance | $8,750,855 | 23.86% |
| GCAA Fund Balance | $189,792 | 3.40% |
| **Consolidated Fund Balance** | **$6,802,214** | **15.0%** |

- As a consolidated entity the loans are not written-off but rather resolved by the consolidation.

**GCAA is more fully integrated into the portfolio of schools.**

- GCAA's scores will be included with the rest of the CA schools on state reports and publicly facing reports.
- GCAA's subsidies could get "lost" if the organization does not monitor financial performance by school.

# Recommendations

1. Consolidate into one entity.
2. Reconfigure monthly financial management reports to better monitor organization-wide and school-level financial performance.

# Facilities Financing

## Maximizing Funding Streams and Minimizing Costs

- How can the creation of a short and long-term facilities finance plan best lead the organization through the process of fundraising, financing, and building purchases?
- What alternatives could be considered to best support Confluence's facility needs?

# Options Considered



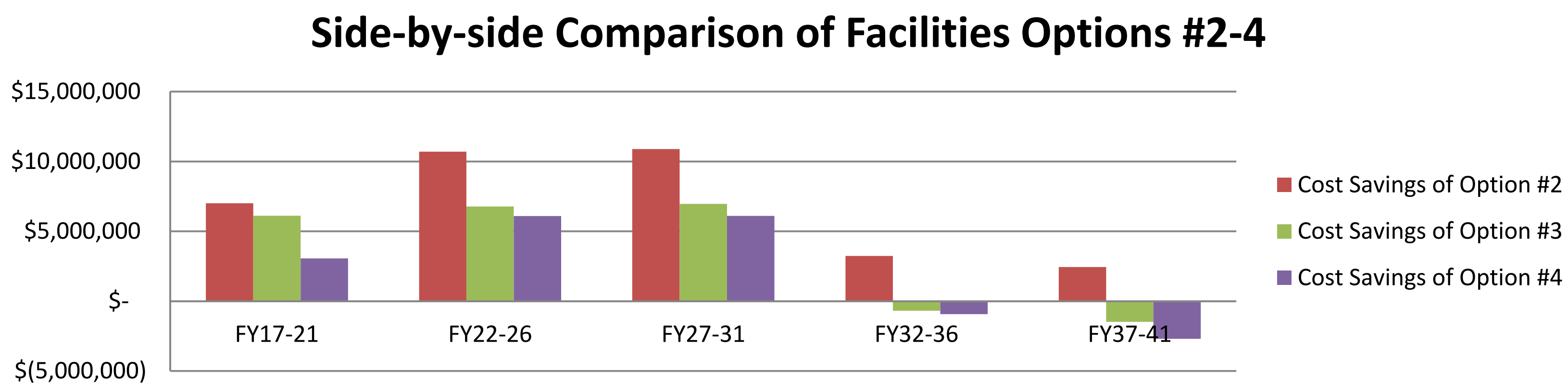
Analyzed four options for future facilities-related financial changes.

1. Purchase no buildings.
2. Purchase CPA, Sun Theater and Beaux Arts buildings.
3. Purchase CPA and continue to lease other buildings.
4. Purchase Sun Theater and Beaux Arts Building.

# Key Findings Informing Our Recommendations



## Analysis shows estimated annual cost savings in each purchase scenario.




## Annual cost savings assume ability to refinance existing debt.

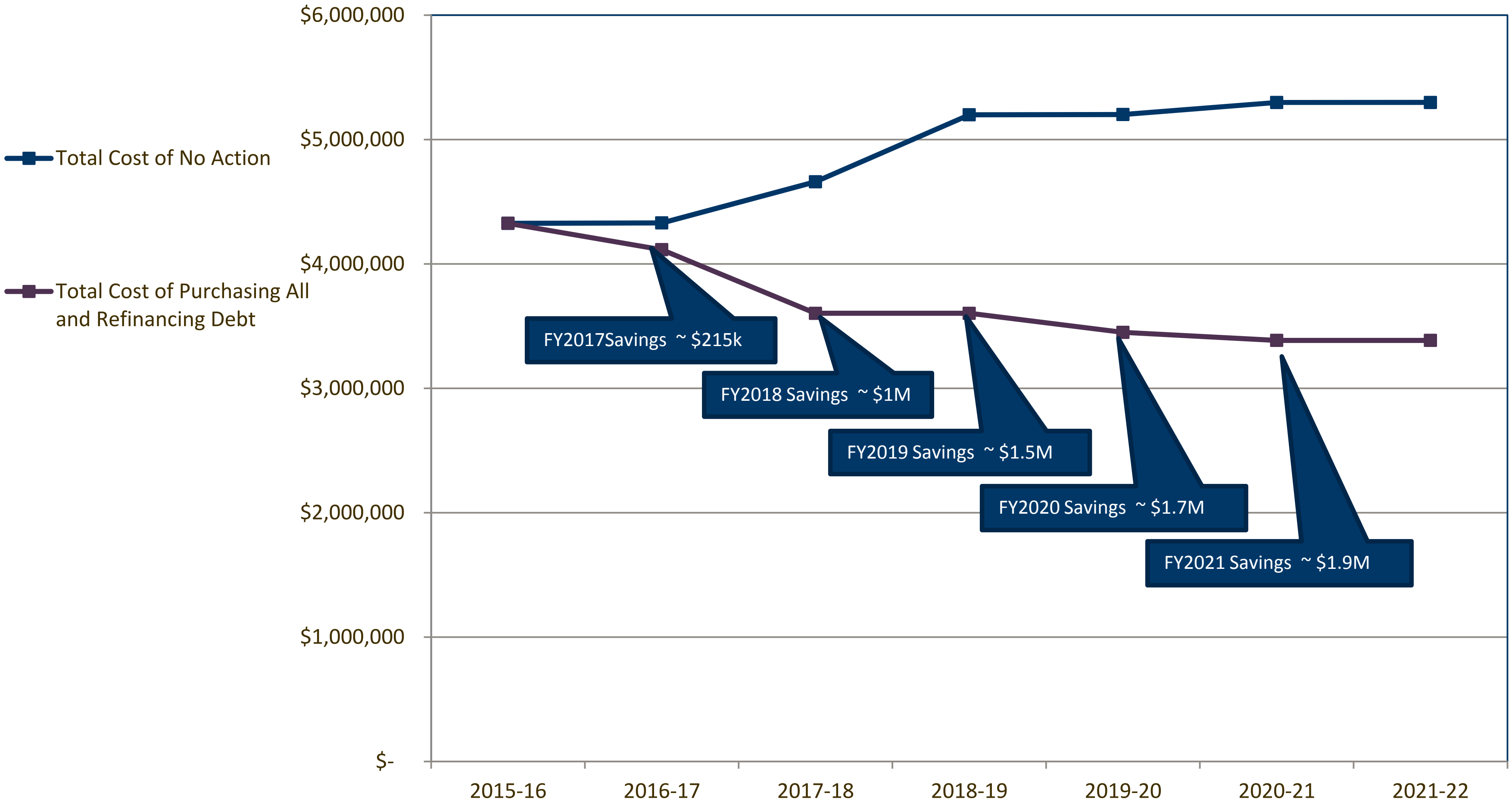
## Maintenance and operations costs related to ownership need to be included in Confluence's long-term financial model.

## Organization's FY2015 Debt to Asset Ratio is 94%

- Option 2 increases Debt to Asset Ratio to 99%
- Option 3 Debt to Asset Ratio is same as current
- Option 4 reduces Debt to Asset Ratio to 85%

# Estimated Annual Savings of Option #2 In Detail





# Recommendation



## Option 2: Purchase CPA, Sun Theater, and Beaux Arts at beginning of purchase window.

**Key Assumptions:**

- Organization will refinance existing loans when taking on new facilities-related debt.
- There will be carrying costs while waiting for purchase windows to open.
  - Earliest eligible building for purchase is CPA in FY17.
  - Beaux Arts eligible for purchase in FY18.
  - Sun Theater eligible for purchase in FY21.
- For modeling purposes – assumed that new debt is at 5% over 25 years and buildings are depreciated over 30 years

# Revenues and Cost Efficiency

## Maximizing Funding Streams and Minimizing Costs

- Is the organization maximizing federal, state, local, and private funding streams?
- How can the organization’s assets be used to generate additional funding?
- Are funds being spent in the most efficient and effective manner? What financial metrics and industry standards should be used as benchmarks?

# Key Drivers of Financial Performance



The following represents key drivers and assumptions identified:

- **WADA:** Target and average enrollment, attrition rates, attendance rates, grade level, student population, etc.
- **Enrollment Strategy:** Plan to maximize enrollment by school
- **Building Capacity:** Total capacity, goal utilization rates
- **Pre-K Funding Impact:** Impact of a state funding of Pre-K
- **Staffing:** Number of staff, salaries, etc.
- **Inflation:** Revenue, Salary, and operating expense
- **Facilities:** Impact of purchase vs lease scenarios

# Financial Plans and Tools

The long-term financial model is a culmination of our work. The model tests the financial implications of our findings and recommendations. Features of this financial model include:

- 7 years of revenue and expense projections.
- 25 years of facilities analysis of purchase vs. lease scenarios.
- Financial implications related to consolidation and Resource Office recommendations.
- Adaptive to changes in key assumptions and drivers.
- Financial plans made at each individual school level.
- Ability to view long-term financial model for each school, as well as the full network.
- Dashboard that summarizes and consolidates key metrics and impacts of key assumptions.

# Key Findings Informing Our Recommendations

**Excess building capacity presents among the greatest opportunities for increased revenue.**

- Current peak enrollment levels at the beginning of the year fill just 90% of total building capacity.
- After factoring in attrition, average enrollment levels projected for the current year fill just 83% of enrollment.
- High School building capacity can be filled by continuing the pilot programs already running with 7-8 graders at CPA (JA Elite). Elementary capacity can be filled by adding Pre-K classes if the state passes funding for Pre-K programming or by increasing K-6 class size if Pre-K funding does not pass.
- If successful, this could add $2.0-2.5 million of additional revenue to the network; specifically reducing the deficit at CPA. Model shows strategy to grow capacity to 88% by 2018-19 resulting in approximately $2.5 million in additional revenue.

# Key Findings Informing Our Recommendations

## Increasing high school attendance can further reduce CPA subsidies

- CPA 2014-15 CPA attendance averaged 84.3% vs. 92.9% city-wide. Increasing attendance to 90% could result in another $250K in revenue at CPA.

| | Confluence | Grand Central Arts Academy | Webster Groves | University City | Clayton | St. Louis City |
|---|---|---|---|---|---|---|
| **Attendance Rates %** | | | | | | |
| **Total Attendance Rate** | 91.8 | 93.9 | 95.8 | 93.6 | 96.3 | 93.9 |
| **Attendance Rate K-8** | 93.4 | 93.8 | 96.2 | 94.3 | 96.7 | 94.3 |
| **Attendance Rate 9-12** | 84.3 | 93.9 | 94.9 | 91.5 | 95.6 | 92.9 |

## Decreasing attrition rates from peak enrollment directly increase overall revenue.

- While some attrition is natural and expected, decreasing attrition rates at CPA, Old North, Walnut Park, and South City from 10% to 8% can generate an estimated additional $600,000 in revenue.

# Recommendations



1. Increase CPA enrollment through a combination of higher target levels, reduced attrition, and growing JA Elite to maximize building capacity utilization.
2. Maintain elementary schools capacity through Pre-K program (if state-funded) or increased K-6 class sizes.
3. Increase attendance rates, particularly at CPA.
4. Continue to manage staff expense in alignment with revenues and areas of need.
5. Purchase facilities – full recommendations are included in the facilities financing section.

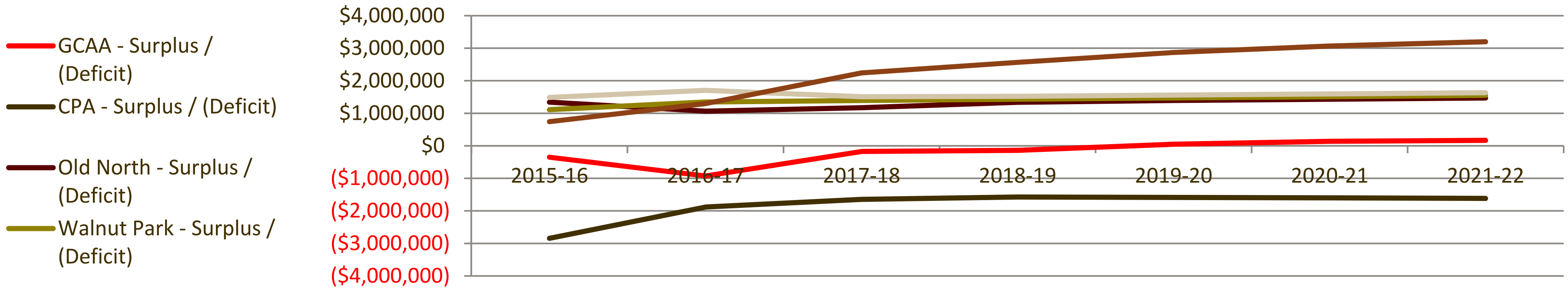
**Further Considerations:**

- Consider more robust fundraising activities. Fundraising activity is not modeled, although any amount can provide direct opportunity to support specific needs and/or strengthen financial health.

# Bottom Line Surplus / Deficit by School



- CPA has an opportunity to improve performance through a combination of purchasing facilities and adding enrollment, although expected to continue operating at a significant deficit.
- GCAA has opportunity to become increasingly financially sustainable and self-sufficient given the elimination of loan balances via consolidation.
- Steady surpluses at elementary schools expected to provide overall CA surpluses, assuming ability to replace enrollment shifted to CPA.



# Summary – Total Long-Term Performance

- Long-term financial projections modeled show an **opportunity** for steadily improving overall financial situation.
- While this scenario is based off realistic assumptions generally provided by CA management, it requires effective execution of the multiple interdependent recommendations described.

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Total Base State Revenue | $ 32,933,343 | $ 34,696,382 | $ 36,111,057 | $ 36,996,172 | $ 37,736,095 | $ 38,490,817 | $ 39,260,633 |
| Total Additional State Revenue | $ 4,488,628 | $ 4,522,746 | $ 4,764,766 | $ 4,950,277 | $ 5,068,785 | $ 5,170,161 | $ 5,273,564 |
| Total Local Revenue | $ 31,800 | $ 42,750 | $ 55,080 | $ 68,891 | $ 79,021 | $ 84,490 | $ 90,234 |
| Total Federal Revenue | $ 6,529,442 | $ 6,844,564 | $ 7,132,105 | $ 7,307,857 | $ 7,454,014 | $ 7,603,095 | $ 7,755,156 |
| **Total Revenue** | **$ 43,983,213** | **$ 46,106,443** | **$ 48,063,008** | **$ 49,323,197** | **$ 50,337,915** | **$ 51,348,563** | **$ 52,379,587** |
| | | | | | | | |
| **Expense** | | | | | | | |
| Total Compensation Expenses | $ 24,872,378 | $ 26,345,682 | $ 27,520,390 | $ 28,145,613 | $ 28,708,526 | $ 29,282,696 | $ 29,868,350 |
| Total Non-Personnel | $ 15,599,158 | $ 15,612,937 | $ 15,330,997 | $ 15,565,571 | $ 15,651,836 | $ 15,831,288 | $ 16,080,219 |
| Total Resource Office | $ 3,298,741 | $ 3,457,983 | $ 3,604,726 | $ 3,699,240 | $ 3,775,344 | $ 3,851,142 | $ 3,928,469 |
| **Total Expense** | **$ 43,770,277** | **$ 45,416,602** | **$ 46,456,113** | **$ 47,410,424** | **$ 48,135,705** | **$ 48,965,126** | **$ 49,877,038** |
| | | | | | | | |
| **Surplus (Deficit)** | **$ 212,935** | **$ 689,841** | **$ 1,606,895** | **$ 1,912,773** | **$ 2,202,210** | **$ 2,383,436** | **$ 2,502,549** |

# Disclaimer



The analyses included herein are not intended to be a complete analysis of all factors impacting the projected future financial performance of Confluence Academies. If Confluence Academies chooses to expand these analyses to a more detailed review, additional due diligence on all specifications would be required to assess the reasonableness of the assumptions included in herein. We have not compiled or examined any projections provided by management and express no assurances of any kind on them. The analysis is based on assumptions concerning the impact of key assumptions on future financial performance. The assumptions disclosed herein, while not all-inclusive, are those that management believes are significant to projections and are key factors upon which the future financial results depend. Furthermore, even if the assumptions disclosed herein were to materialize, there will be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

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