

EXECUTIVE SUMMARY AGENDA ITEM: Application for Replication Charter

Request

BASIS Schools, Inc., Entity ID 6361 (“Charter Holder”) submitted a replication charter application on October 11, 2017. The Charter Holder seeks to replicate BASIS Tucson Primary and BASIS Scottsdale, the Replication Model Schools, for the purpose of operating a new school in Scottsdale. The proposed school will be named BASIS Scottsdale North and will serve students in grades K-12 with a targeted start date of August 6, 2018.

Eligibility

Academic Performance

The Replication Model School is eligible to replicate based on 3 years of academic performance meeting the Board’s standard, based on the Board’s academic framework in effect at that time. The Charter Holder’s academic dashboard is included in Appendix A. Application and Support Materials.

As part of the replication eligibility, the academic performance of associated schools is reviewed, as summarized in the table below.

School	Opened	Grades Served	FY 2014 Overall Rating	FY 2017 AzMERIT Passing (State Average)	
				ELA (39%)	Math (40%)
BASIS Ahwatukee	August 2013	4–12	94.49	81%	89%
BASIS Chandler	August 2011	5–12	92.65	86%	96%
BASIS Chandler Primary — North Campus	August 2016	K–4		78%	85%
BASIS Chandler Primary — South Campus	August 2015	K–4		86%	96%
BASIS Flagstaff	August 2011	3–12	88.6	82%	84%
BASIS Goodyear	August 2015	5–8		72%	78%
BASIS Goodyear Primary	August 2015	K–4		65%	75%
BASIS Mesa	August 2013	3–12	74.26	79%	82%
BASIS Oro Valley	August 2010	5–12	93.75	93%	96%
BASIS Oro Valley Primary	August 2014	K–5		87%	87%
BASIS Peoria	August 2011	5–12	85.66	88%	94%
BASIS Peoria Primary	August 2017	K–4			
BASIS Phoenix	August 2012	5–12	92.65	86%	90%
BASIS Phoenix Central	August 2014	K–7		74%	79%
BASIS Phoenix South Primary	August 2017	K–2			
BASIS Prescott	August 2014	K–11		78%	82%
BASIS Scottsdale	August 2003	4–12	91.25	90%	93%
BASIS Scottsdale Primary	August 2015	K–3		87%	82%
BASIS Tucson North	August 2012	5–12	90.31	85%	91%
BASIS Tucson Primary	August 1998	K–4	91.25	79%	86%

Operational Compliance

As stated in Board policy, prior to a replication application being considered by the Board, staff conducts a compliance check. The Charter Holder and associated schools do not have any compliance issues.

Financial Performance

The Charter Holder was required to submit a Financial Performance Response (“FPR”) because it did not meet the Board’s Financial Performance Expectations. The table¹ below includes the Charter Holder’s financial data and financial performance for the last three audited fiscal years and reflects the charter contracts the Board had with BASIS Schools, Inc., as well as schools operated in Texas and the District of Columbia (collectively, “BASIS”).²

Financial Data				
Statement of Financial Position	2016	2015	2014	2013
Cash	\$38,922,945	\$25,700,089	\$26,604,956	\$25,800,497
Unrestricted Cash	\$11,268,324	\$8,375,333	\$8,686,836	
Other Liquidity	-	-	-	
Total Assets	\$226,912,863	\$178,580,822	\$158,418,536	
Total Liabilities	\$249,902,287	\$191,893,048	\$164,225,890	
Current Portion of Long-Term Debt & Capital Leases	\$3,042,858	\$1,003,276	\$775,000	
Net Assets	(\$22,989,424)	(\$13,312,226)	(\$5,807,354)	
Statement of Activities	2016	2015	2014	
Revenue	\$93,422,513	\$84,472,972	\$61,818,112	
Expenses	\$103,099,711	\$92,076,281	\$66,108,317	
Net Income	(\$9,677,198)	(\$7,603,309)	(\$4,290,205)	
Change in Net Assets	(\$9,677,198)	(\$7,603,309)	(\$4,290,205)	
Financial Statements or Notes	2016	2015	2014	
Depreciation & Amortization Expense	\$5,172,169	\$6,688,551	\$5,047,901	
Interest Expense	\$9,774,140	\$10,979,720	\$8,456,244	
Lease Expense	-	-	-	
Financial Performance				
	2016	2015	2014	3-yr Cumulative
Near-Term Indicators				
Going Concern	No	No	No	N/A
Unrestricted Days Liquidity	39.89	33.20	47.96	N/A
Default	No	No	No	N/A
Sustainability Indicators				
Net Income	(\$9,677,198)	(\$7,603,309)	(\$4,290,205)	N/A
Cash Flow	\$13,222,856	(\$904,867)	\$804,459	\$13,122,448
Fixed Charge Coverage Ratio	0.41	0.84	1.00	N/A

Staff’s final evaluation of the FPR resulted in two “Acceptable” and zero “Not Acceptable” determinations.³ The FPR and staff evaluation are provided in Appendix A. Application and Support Materials. A “Not Acceptable” means the measure’s response did not sufficiently address one or more of the questions identified in Appendix C of the Financial Performance Framework. An analysis of BASIS’ financial performance, focusing on those measures where BASIS failed to meet the Board’s target and using information from the Charter Holder’s FPR and related documents, is provided below.

¹ BASIS’ beginning net assets were restated in the fiscal year 2015 audit.

² For fiscal years 2015 and 2016, the Board had 13 and 17 charter contracts with BASIS, respectively.

³ On October 18, 2017, Board staff emailed a copy of staff’s initial evaluation and provided a deadline by which the Charter Holder could supplement its financial performance response to address areas evaluated as “Not Acceptable”. By the deadline, the Charter Holder submitted supplemental information.



Net Income

BASIS continues efforts to refinance its existing, higher interest debt. The FY 2016 refinancing activities resulted in approximately \$9.9 million in loan issuance costs and prepayment penalties, which would have been spread out over the life of the original bonds, having to be recorded in one year (FY 2016) to comply with Generally Accepted Accounting Principles (GAAP). Prior to factoring in these expenses, which were paid using the Series 2016A bond proceeds, BASIS had net income of \$244,681 for FY 2016. Documentation submitted with the response shows the debt refinancing yielded cash flow savings and net present value savings of nearly \$2 million and \$7.6 million, respectively. According to BASIS, "As noted in previous submissions to the Board, BASIS expects the net surplus to run negative due to capital restructuring activities until all BASIS charter schools have been refinanced." For FY 2017, BASIS projects net income of approximately \$2.7 million before factoring in loan issuance costs and prepayment penalties for the 2017A bond series.

Fixed Charge Coverage Ratio

The magnitude of the net loss affected BASIS' performance in FY 2016. According to BASIS, "We continue to remain focused on trimming administrative costs and capital restructuring to bring increased cash flow and improvement in the FCC ratio over time." For FY 2017, BASIS projects improved performance.

Replication Request

According to the start-up budget submitted with the replication application package, BASIS Scottsdale North will rely on BASIS to cover its start-up expenses of approximately \$199,719. The projected start-up expenses represent less than 1 day of the Charter Holder's FY 2016 unrestricted days liquidity (see table above).

Additional Information

The Charter Holder was granted a renewal charter in 2012.

Governance

Corporate Board Members
Craig Barrett
Donald Budinger
Shelly Esque
John Morton
Mittida Raksanaves
Terry Sarvas
Steve Twist

School Governing Board
Michael Beaulieu
Shashi Jasthi
Hanqing Jiang
Kristen Jordison
Carolyn McGarvey
Anthony Pitucco
Mittida Raksanaves
Deanna Rowe
Rizwan Safdar

Replication Model School Profiles

School Name	FY 2014 Letter Grade	Date Opened	Location	Grade Levels Served	FY 2017 AzMERIT Passing (State Average)	
					ELA (39%)	Math (40%)
Basis Tucson Primary	A	August 1998	Tucson	K-4	79%	86%
BASIS Scottsdale	A	August 2001	Scottsdale	5-12	90%	93%

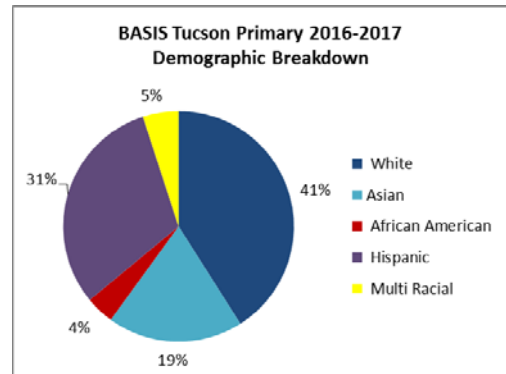
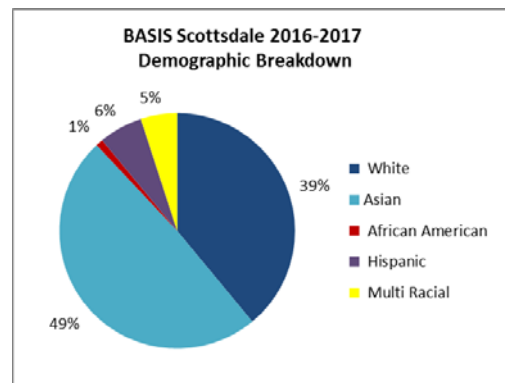
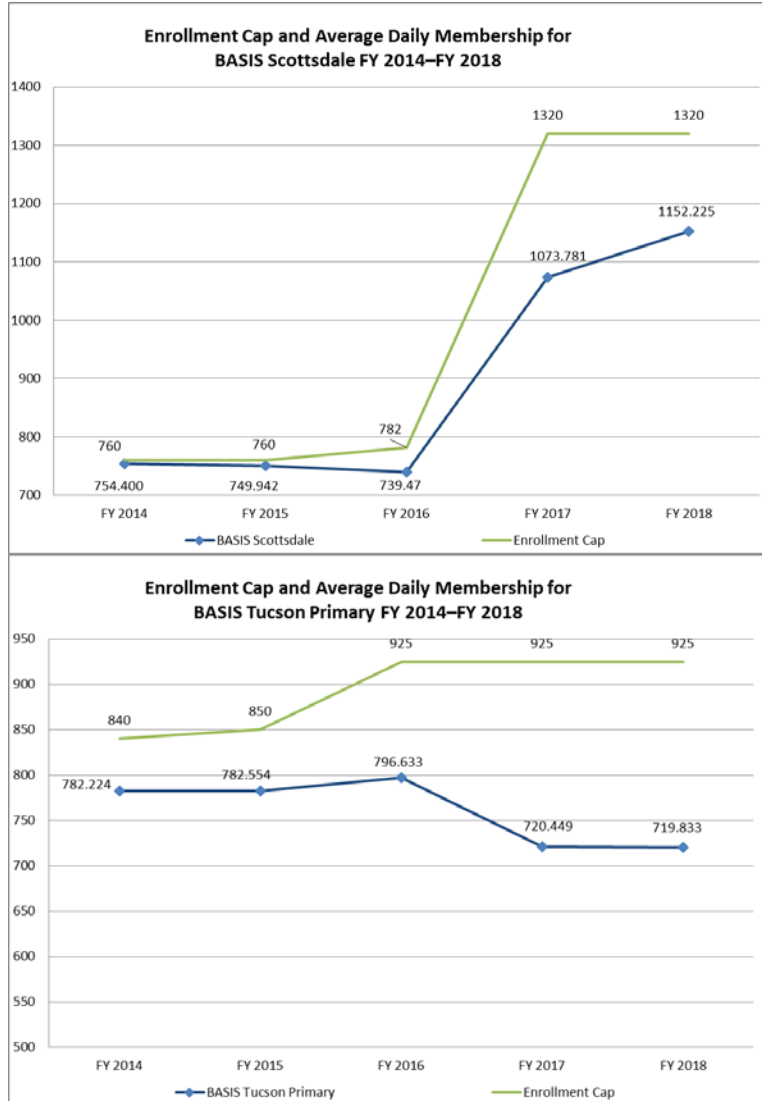
Additional Schools Serving Grades K-12 within 5 Miles of New School Location

Total Schools	FY 2014 Letter Grade	Number of Charter Schools	FY 2017 AzMERIT Greater than State Average		Subgroups within (±5%) of Charter Holder's Subgroup Data		
			ELA (>39%)	Math (>40%)	FRL	ELL	SPED
7	A	2	7	6	*	*	0
1	B	0	1	1	*	*	0

*Because the percentage of FRL AND ELL students is not available for the Charter Holder, comparison to nearby schools is not possible.

Enrollment and Demographic Data

100th day ADM for FY 2014 – FY 2017, and FY 2018 ADM as of October 4, 2017.



BASIS Tucson Primary 2016-2017 Subgroup Data ⁴	
Free and Reduced Lunch	*
English Language Learners	*
Special Education	5%

*If the percentage of students is 0% or 100% or the group includes less than 10 students, the percentage for that group is redacted

⁴ 2016-2017 subgroup data for BASIS Scottsdale is not included in this table because the percentage of students is 0% or 100% or the group is less than 10 students, and therefore the percentage for each group is redacted.



Replication Application Summary

The following information has been summarized and is based on information from the Charter Holder (see Appendix A. Application and Support Materials).

Educational Plan

The Charter Holder has affirmed that the Educational Plan of the proposed school will be consistent with the Educational Plan of the Replication Model Schools. The Charter Holder's mission is to "provide an accelerated liberal arts education at internationally competitive levels for all students, including economically disadvantaged students for the competitive admissions process, helps them become eligible for scholarships, prepares them to prosper at top colleges, and enriches their lives."

The Charter Holder states that the curriculum is designed to help students develop autonomy and organizational skills, as well as a deep knowledge base and passion for learning. The philosophy rests on the key tenets of creating and reinforcing a belief that learning is exciting, rewarding, and worthwhile, teaching personal responsibility, teaching good study habits and providing support, and mastery of the basics.

The Charter Holder has identified a target location near Pima Road and Happy Valley Road in Scottsdale. According to the Charter Holder the first Replication Model School, BASIS Tucson Primary, serves a student population that is 56% Caucasian, 17% Asian, 17% Hispanic, and 4% African-American. The Charter Holder has stated the second Replication Model School, BASIS Scottsdale serves a student population that is 5% Hispanic, 41% Caucasian, and 48% Asian. The Charter Holder indicates that the proposed school's target population is somewhat different from BASIS Tucson Primary, but similar to BASIS Scottsdale.

Proposed Growth Plan for the New School

FY	Grades Served	# of Students
2019	4-8	570
2020	5-9	522
2021	5-10	622

Operational Plan

The Charter Holder has affirmed that the governance structure of replication charter will be consistent with the organizational and governance structure of the existing charter.

The replication charter will be held by BASIS School, Inc. The corporate board of BASIS School, Inc. and the governing body of the proposed school are identical to the Charter Holder and the Replication Model School governing body.

In the Operational Plan narrative, the Charter Holder described an organizational development plan that indicates a five-year growth to replicate throughout Arizona. BASIS Schools, Inc. described a plan to operate 20 schools in FY 2018, 22 Schools in FY 2019, and 25 schools in FY 2020 through 2023.

Facility Information

Proposed School Name:	BASIS Scottsdale North
Proposed Location	Pima Road and Happy Valley Road
Proposed Facility	The school will be constructed in two phases. Phase 1 is to build a 54,000 square foot to house grades 5-12. The facility includes 22 classrooms, seven science labs, two music rooms, two art rooms, a multi-purpose room, a gymnasium, a black box theater, a teacher's lounge, a conference room and 10 faculty and administrative offices to accommodate 900 students. Phase 2 is planned by the fourth year. This will be an approximately 42,000 square foot facility to serve grades K-4 and will contain 13 classrooms, five science labs, two music rooms, two art rooms, a multi-purpose room, a gymnasium, a teacher's lounge, a conference room, an indoor play room, outdoor playground facilities and nine faculty and administrative offices to accommodate approximately 600 students.