Business Plan

C.5 Three Year Operational Budget

- **Three Year Operational Budget Form:**
  - MS Excel file is enclosed.

- **Revenue Worksheets:**
  - MS Excel files for Years 1-3 are enclosed;
  - Revenue Work Sheets are based on 2013-2014 Cycle New Charter Application template.

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- **Three Year Operational Budget Assumptions:**

REVENUE:

- Funding from Arizona Department of Education (Arizona State Equalization Assistance) is based on enrollment projections and student count/ADM used for revenue projections, as follows:

K-6 estimates used for revenue projections:

	KG		1	2	3	4	5	6	Total	
	#	ADM	#						#	ADM
Year 1	90	45	60	50	50	50	25	25	350	305
Year 2	120	60	90	75	75	75	50	25	510	450
Year 3	150	75	120	75	75	75	50	25	570	495

K-3 estimates - Ad-Ons included in revenue projections:

	KG		1	2	3	Total K-3	
	#	ADM	#			#	ADM
Year 1	90	45	60	50	50	250	205
Year 2	120	60	90	75	75	360	300
Year 3	150	75	120	75	75	420	345

- Work Sheet template for the calculation of equalization funds for Years 1-3, as provided in the New Charter Application package by ASBCS for the cycle 2013-2014.

- Equalization funds are calculated based on 180 days of instruction.

- Equalization funds are calculated based on 100% estimate of the school enrollment. Based on previous experience with sister schools (Happy Valley School and Burke Basic School) and developed professional capacity and skills, the founders of John Hancock Academy are confident that they will reach the target enrollment based on the following facts:

- The method of instruction at John Hancock Academy is based on the time-tested Gaddie Educational Model and we anticipate strong demand and a strong waiting list, as experienced at sister schools (Happy Valley School and Burke Basic School).

- Enrollment estimates are based on careful research and study of the target market area, including community and school demographics, social characteristics and trends, population and enrollment trends, schools' academic performance and demand for school choice.

- The school is designed as a small school (max 600 students) and small class size (30-25 students), which is an attractive alternative to the big district schools.

- The school will have a very attractive brand new facility in Gilbert designed and built specifically to address the requirements of the Gaddie Educational Model.

- John Hancock Academy has designed a strong marketing and advertising campaign that reflects closely the target market.

- In addition, the design of the school program includes a separate pre-school program located on the same site, which ultimately function as a strong feeder for the K-6 program.

❖ The John Hancock Academy projected revenues are viable, adequate, conservative projections because:

- The budget is conservative in its revenue base – it assumes no increase in base and/or additional level support, besides the K-3 student count add-on.

- Enrollment is realistically projected - the 8-mile target area study shows that the school is expected to enroll a considerable percentage of low-income students (average for the area is within the rage of 24-40%), special education students (average for the area is in the range of 11-12%) and ELL students (average for the area is 6%). Based on those projections, the school is eligible to receive additional funds to the base level equalization support. Those funds are considered to be accounted once the schools becomes operations and exact measurements are in place, however, the are not included in this revenue projection.

- Federal funding sources will be sought to supplement the school programs. Based on the demographic projections, the school is eligible to receive federal support under Title I, IDEA, and other title funds, which are not included in the revenue projections.

Administration, Instruction, & Support (AIS) EXPENDITURES

Salaries:

❖ John Hancock Academy's non-instructional employee salaries (12% required employer contributions +8% benefits is added on). They are projected as follows:

- Executive Director (.25 FTE at $60,000 for Year 1 and 1.0 FTE thereafter);
- Principal (1.0 FTE at $55,000 for Year 1 and thereafter);
- Assistant Principal/Curriculum Director (1.0 FTE at $45,000 in Year 1 and thereafter),;

- Before/After School Program Coordinator (.25 FTE at $25,000 for Year 1, 0.5FTE for Year 2, and 1.0 FTE for Year 3);
- Business Manager (1.0 FTE at $50,000 in Year 1, and 1.0 FTE thereafter);
- Office Manager (0.5 FTE at $28,000 for Year 1 and 1.0 FTE thereafter);
- Registrar /Attendance Clerk (0.5 FTE at $25,000 for Year 1 and 1.0 FTE thereafter);
- School Busing Coordinator (0.5 FTE at $30,000 starting from Year 3);
- School Facility Maintenance (0.5 FTE at $30,000 starting from Year 3);

❖ Salaries for the regular education teachers, which include the specialty teachers for Arts/Music (14.0 FTE in Year 1; 19.0 FTE in Year 2; and 21.0 FTE for Year 3), are estimated to start at $34,000 in Year 1(12% required employer contributions + 8% benefits is added on) .

❖ Salaries for the special education teachers (0.5 FTE in Year 1 and 1.0 FTE thereafter) are estimated to start at $36,000 in Year 1(12% required employer contributions + 8% benefits is added on).

❖ Salaries for the Paraprofessional Teachers (Aids) (9.5 FTE in Year 1; 13.0 FTE in Year 2; and 15.0 FTE in Year 3) are estimated to start at $22,000 in Year 1(12% required employer contributions + 8% benefits is added on). The paraprofessional Teachers (Aids) will also be responsible for the after-school tutoring program at John Hancock Academy.

❖ All salaries reflect 3% annual adjustment increase to account for estimated inflation.

❖ The salary expenses are viable and adequate as they reflect slightly above the average for the state compensations for both instructional and management personnel to provide incentives for an adequate pool of applicants for the respective positions, but also ensure that costs are within the manageable limits for charter school operations

Employee Related Expenses (ERE)

❖ FICA (Social Security and Medicare), SUTA/FUTA (Federal and State Unemployment) and Workman's Compensation are estimated to be 12% of the total salary expense .

Employee Benefits:

❖ In addition to the required employer contributions (ERE 12%), John Hancock Academy will provide employee benefits that are over and above those ERE contributions include, such as health insurance, dental plan, vision plan, and retirement 401K plan with a matching amount that builds over years. Such employee benefits policies and their implementation will ensure the sustainability of the human resource capital and substantially contribute toward the long-term viability of the school operations.

❖ John Hancock Academy will seek competitive packages for those benefits and will also take advantage of group plans offered through the Arizona Charter Schools Association.

❖ Cumulatively, the employee benefits are estimated at approximately 8% of total employee compensation.

The employee benefits package, that is in addition to the employer required contributions, is viable and adequate as it reflects reasonably attractive coverage for perspective employees, gravitating toward the

averages in the charter school sector in Arizona, but also ensure that costs are within the manageable limits for charter school operations.

Office Supplies:

- Use of office supplies, include paper, postage, pencils, etc., as follows:
  - $7,500 - Year 1;
  - $7,500 - Year 2;
  - $7,500 for Year 3;

- The budgeted amounts are viable and adequate to cover the office needs. The school is projecting additional $95 per student for Year 1, and $105 per student thereafter to be spent on instructional consumables (see next line item).

Instructional Consumables:

- The school is projecting $95 per student for Year 1, and $105 per student thereafter for instructional consumables, including assessment and testing materials. The estimate is based on the sister similar schools and Delite Gaddie's experience in charter school instruction and administration. It reflects the anticipated student enrolment and re-use of some materials. The first three-year period expenditures are as follows: $33,250 is budgeted for Year 1, $53,550 for Year 2, and $59,850 for Year 3.

- This per student estimate also factors in the following assessment materials:
  - DIBELS, which will be used three times a year to benchmark reading skills; $1.00 per student - $350 for year 1; Cost estimate based on vendor pricing information;[1]
  - Galileo K-12 Online, which will be used for ongoing formative and quarterly benchmark assessments; Cost estimate based on vendor quote - $11,000;
  - WRAT, which will be used for initial assessment and placing students in Forms, consistent with the Gaddie Educational Model; $2,000 - Includes initial kits, software, manuals, books, forms and booklets; Cost estimate based on vendor pricing information.[2]

- $95 per student for Year 1 and $105 per student thereafter for instructional consumables is deemed viable and adequate on the basis of the sister school experience, the surveys with teachers establishing the needs, and the estimates made by the school's curriculum coordinator.

Membership Dues, Registration, and Travel:

- Includes: Membership dues for ACSA and local area travel for professional development;

- Note: The estimates in this budget are viable and adequate, as additional funding sources (title and competitive grants) will be pursued for travel and events registration, including professional development sessions. This line item reflects a projection with revenue source from state equalization funds:
  - $2,000 for Year 1;
  - $1,850 for Year 2;
  - $1,850 for Year 3.

[1] https://dibels.uoregon.edu/help/dds/pricing.php
[2] http://www4.parinc.com/Products/Product.aspx?ProductID=WRAT4

Contacted Services (AIS):

- Contracted services (AIS) are estimated annually at:
  - $32,000 in Year 1;
  - $35,000 in Year 2;
  - $30,000 in Year 3.

- The estimate is viable and adequate, as it is based on sister schools' experience and actual vendor quotes. The cost levels of contracted services at John Hancock Academy and Happy Valley School is deemed to be comparable, but scaled down to reflect the difference in the student population at the two schools for the following reasons:
  - Identical management approaches and styles at both schools;
  - Similar human and resource structure at both schools;
  - Possibility to use same service providers, without guarantees where bidding is required;
  - Relatively similar target area demographics .

- Contracted Services (AIS) includes the following types of purchased services:
  - Accounting,/financial consulting services:

	Accounting/ Financial Consulting Services	Payroll Processing Services
Year 1	$21,000 ($1,750/mo)	$3,000
Year 2	$21,000 ($1,750/mo)	$3,500
Year 3	$21,000 ($1,750/mo)	$4,000

  - Other services:
    - Legal services as needed - estimated at $2,000 for a retainer in Year 1; $3,000 in Year 2 and in Year 3;
    - Educational consultants and license fees - $2,000 - $7,000 estimated range;
    - Professional development related to the Common Core Standards implementation and curriculum alignment; delivery methods, classroom management techniques and school culture - estimated at $2,000

Contracted Services (Special Education):

- Special education services include components of administration, psychological evaluations, and direct delivery of services to eligible students performed by outside providers. The numbers increase over the three-year period based on the assumption that the number of students needing purchase services will continue to increase as the enrollment increases. The projections for the cost of those services assume annual increases typical for the industry, and accounting for anticipated inflation, cost of meeting Federal and State compliance requirements, curriculum and assessment requirements, and teacher qualification requirements.

- The estimate for special education services is based on sister schools' experience and actual vendor quotes. The following amounts are projected:
  - $50,000 is budgeted for special education for outside services in Year 1;
  - $65,000 is budgeted for special education for outside services in Year 2;
  - $65,000 is budgeted for special education for outside services in Year 3;

- The estimates in Year 2 and Year 3 reflect the increase in student enrollment;

- This estimate is adequate and viable because: it is based on the market study for special education services averaging 10-12% and projected needs of the school.

Curriculum and resource materials:

- On average John Hancock Academy will expend $210 per student for curriculum and resource materials per school year. Estimates are based on actual vendor quotes and estimated student enrollment.

- Most curriculum and resource materials will be re-used in Years 2, Year 3 and thereafter, however, there will be a need for replacements, updates, and additional materials. During Year 2 an additional $25,000 are factored into the projected amount, over and above the increased number of students; and during Year 3 - an additional $35,000.

- Total funds for curriculum for each of the fist three years is as follows: $75,500; $58,600; and $47,600.

- This estimate is adequate and viable because: it is based on the needs assessment study of the school's curriculum coordinator and the experience in the sister schools; the school has budgeted sufficient amounts for annual updates of the curriculum materials, where needed.

Library Resources / Software:

- The following amounts are budgeted for the first three years:
    - $8,000 in Year 1;
    - $8,500 in Year 2;
    - $8,500 in Year 3.

- This estimate is adequate and viable because it is based on the experience of sister schools.

SAIS Software:

- The SAIS software will be purchased during the Start-Up Period ($8,000 from the Start-Up Budget); Cost based on vendor quote and include training;

- In Year 1 an additional $1,000 are budgeted toward SAIS software in the event any changes are required;

- Thereafter, $10,500 is budgeted for each consecutive year.

Auditor's Fees:

- The following amounts are budgeted for the first three years, in consideration of the student enrollment growth and average numbers for such services:
    - $9,500 in Year 1;
    - $11,000 in Year 2;
    - $11,000 in Year 3.

<u>Operations & Maintenance (O&M) EXPENDITURES</u>:

Supplies:

- The estimate for office supplies include various consumables such as paper, pencils, toner, stationary, etc.

- Based on observations for such needs at sister charter schools and number of students, the school founders have budgeted for office supplies $1,000 per month for Year 1, and $2,200 per month thereafter, as follows:
    - Year 1 - $12,000;
    - Year 2 - $26,400;
    - Year 3 - $26,400;

Marketing/Advertising:

- John Hancock Academy is carefully planning its marketing/advertising and promotional efforts in terms of costs and return on invested funds. Main expenditures will cover printing, brochures, door-hangers, mailing, community meetings, website maintenance, travel, refreshments, media advertisement, list serve maintenance The following expenditures are budgeted:
    - Year 1 - $5,000 (continuation of the Start-Up Period marketing campaign with $25,000 budget);
    - Year 2 - $25,500;
    - Year 3 - $25,500;

- The marketing and advertising campaign is deemed adequate and viable as John Hancock Academy will capitalize on the experience of its sister school. It will adopt practices and work with those vendors that have proven to yield better results.

Contracted Services - O&M:

- John Hancock Academy is planning to purchase contracted in the following areas:
    - Janitorial services (at approximately $1,200/month) - cost estimate based on competitive preliminary vendor quotes.
    - HVAC maintenance (approximately $400/month) - cost estimate based on typical costs of similar size charter school facilities/number of AC units;
    - School events (approximately $400-$800/month) - cost estimate based on sister school experience and founder experience with charter schools for over 12 years;
    - Professional management support (approximately $400-$800 month) - cost estimate based on sister school experience and founder experience with charter schools for over 12 years;
    - Strategic business planning (as needed, estimated at $1,500- $3,000 per year) - cost estimate based on sister school experience and founder experience with charter schools for over 12 years;

- The annual funds necessary to cover those services are estimated, as follows:
    - Year 1 - $27,500;
    - Year 2 - $35,000;
    - Year 3 - $27,500.

- This estimate is adequate and viable because it is based on: the needs assessment study of the school's founders and the experience of the sister schools; actual vendor quotes.

Building Rent/Lease/Loan:

- The facility plan assumes that the school's main building will be developed and ready for the opening of the school in Year 1. For the opening date of the school's Year 2 a modular building unit with 6 classrooms will be added to the school campus to accommodate the projected student number increases. The facility costs and budget projections reflect this path of development;

- The cost for the facility is based on projected rent (NNN lease, gross rent amounts) in the event the school decides to pursue work with investors/developers. In the event the school is approved for own funding (bond), the estimated costs would be lower, as investor profit margins would be factored out. Conservatively, the school assumes work with investors/developers and payment of rent;

- The rent for the building is adequately planned and viable, because budget assumes that the lease payment shall not exceed 17% of all received equalization funds, and will be less than 14% of all school revenues, including grants, Prop 301, and others (not included in this budget projection). This arrangement is in alignment with the school size at start-up. it has been aligned with the potential developer's construction cost and debt service coverage requirement estimates. It has been coordinated with the school facility developer.

- The gross rent payment (all triple-net components included) are estimated at:
    - $25,500 per month for Year 1 (reduced amount, includes only main building);
    - $43,500 per month for Year 2 (covers main building and modular unit);
    - $44,5370 per month for Year 3 (2% annual escalation factor from Year 2).

- A 2% annual escalation factor of rent amount is calculated for each consecutive year after Year 2.

Building Improvements:

- John Hancock Academy will enter into a specially designed, brand new facility, specially designed and built for the school. Most facility components will be under builder warranty. Besides the regular maintenance costs, reflected in line item "Purchased Services - O&M", only incidental costs may occur, which is budgeted respectively:
    - Year 1 - $500;
    - Year 2 - $500;
    - Year 3 - $500;

Land and Improvements:

- John Hancock Academy will enter into a brand new facility with all property improvements being completed. Besides the regular maintenance costs, reflected in line item "Contracted Services - O&M", only incidental costs may occur, which is budgeted respectively:
    - Year 1 - $500;
    - Year 2 - $500;
    - Year 3 - $500;

Fees / Permits:

- The facility of John Hancock Academy will have most permits, licenses, and certificates related to the facility secured by the school facility developer. The school has budgeted for various fees/permits (City, County, and State) as follows:
    - Year 1 - $4,500;
    - Year 2 - $4,500;
    - Year 3 - $4,500;

Property/Casualty Insurance:

- John Hancock Academy will purchase a property and casualty insurance pursuant to A.R.S.15-183 M - for liability and property loss. Estimate is based on comparable sister school practices and quotes:
    - Year 1 - $4,500;
    - Year 2 - $4,500;
    - Year 3 - $4,500;

Liability Insurance:

- John Hancock Academy will liability insurance pursuant to A.R.S.15-183 M, which will include coverage for the governing body of the school. Estimate is based on sister school practices and quotes:
    - Year 1 - $12,000;
    - Year 2 - $15,000;
    - Year 3 - $15,000;

Utilities (Electric, Gas, Water, Waste):

- Electric, gas, water and waste costs are estimated based on the cost structure of a similar sister school and the expenditures of similar size other charter schools in the area;
- The following average monthly utility cost estimates are budgeted during the first three years of operations:
    - Year 1 - $1,500 per month;
    - Year 2 - $1,950 per month;
    - Year 3 - $1,950 per month;;

- Those utility projections are adequate and viable, as the new construction will include energy-efficient HVAC system and internal electric and climate control system, an investment which will substantially reduce the utility consumption and respective payments for utilities. Additionally, the facility is designed with a lot of “green features”, including large dual-pane windows and skylights to allow for plenty of natural light – an ergonomic and at the same time energy-saving feature.

Phone/Communications/Internet:

- The costs for phone/communications/Internet connectivity are projected to be partially paid (reimbursed) by the E-rate program, which covers between 40%-90% based on the free and reduced lunch population of the school. For the purposes of this projection the discounts and not factored in, nor the reimbursements in the revenue sector. The monthly amounts below are estimated full cost amounts for those activities:

- Year 1 - $1,200 per month;
- Year 2 - $1,800 per month;
- Year 3 - $1,800 per month;;

❖ The school will apply for the E-rate discounts/reimbursements, which may reduce the phone/communication/Internet bill by as much as 90%. This will release funds in the budget that will be used in other areas as prioritized by the school, management. For the purposes of this budget projection only secured funds are factored in, revenues/discounts from E-Rate programs are planned but not included in this budget projection.

Transportation:

❖ John Hancock Academy intends to offer transportation, which is budgeted at $60,000 per year for Year 1, with expanded routs and $64,000 budget for Year 2 and Year 3. This projection is adequate and viable as a sister school covers approximately the same need and similar routes for less than $60,000.

Food Service:

❖ John Hancock Academy plans to offer food service to its students through an outside food vendor;

❖ The following estimates are based on the number of students enrolled. The school also take into consideration the estimated low-income population (families who qualify for the Free and Reduced Lunch Program) eligible to participate in the National School Lunch Program on a reimbursement basis. The estimated expenditures from the state equalization funding are as follows:
- Year 1 - $7,500;
- Year 2 - $7,500;
- Year 3 - $7,500;

❖ Additional funding sources (grants, formula funds) are considered, but not reflected in this budget. They are targeted to expand the food service program and improve the nutritional choices for students.

Student Furniture and Other Equipment:

❖ John Hancock Academy has discussed with the school facility developer to budget approximately $250,000 toward FF&E in the construction budget, which includes most student furniture (incl. desks, chairs and tables) and some equipment, such as technology infrastructure and some classroom equipment. The additional amounts from the state equalization funding over and above the furnishings provided by the facility developer are $15,000 during Year 1 and Year 2, and $7,500 thereafter.

Office Furniture and Other Equipment:

❖ John Hancock Academy has discussed with the school facility developer to budget approximately $250,000 toward FF&E in the construction budget, which includes most office furniture (incl. desks, chairs and tables). The additional amounts from the state equalization funding over and above the furnishings provided by the facility developer are $7,500 per year.

Student Technology Equipment:

- John Hancock Academy intends to purchase student technology equipment that includes mainly desktop computers for student use. The estimate is based on vendor quote:
  - Year 1 - $36,000 (80 student computers @ $450 each, including software licenses);
  - Year 2 - $45,000 (100 student computers @ $450 each, including software licenses);
  - Year 3 - $45,000 (100 student computers @ $450 each, including software licenses);

Office Technology Equipment:

- John Hancock Academy intends to purchase office technology equipment that includes mainly desktop and laptop computers for employee use. The estimate is based on vendor quote:
  - Year 1 - $8,800 (11 office desktop/laptop computers @ $800 each, including software licenses);
  - Year 2 - $12,000 (15 office desktop/laptop computers @ $800 each, including software licenses);
  - Year 3 - $6,400 (8 office desktop/laptop computers @ $800 each, including software licenses);

Other Leases (Security, Copier, etc.):

- John Hancock Academy will lease a commercial networked Copier/Printer/Scanner to be used by teachers and staff. Several quotes from vendors have been evaluated with average numbers, as follows:
  - Year 1 - $6,000;
  - Year 2 - $6,000;
  - Year 3 - $6,000;

- This projection is adequate and viable as a sister school (Burke Basic School) covers the same need for a similar cost. Additionally, the vendors' quotes confirms the viability of this number as projected amount in this line item.