

An overview of the factors influencing
our current financial situation
May 2011



Overview of Budget Situation

Current Status of Budget Planning for
2011-2012

Common Questions we hear

Fundraising Options

IN A STABLE WORLD, REVENUES (GREEN LINE) WOULD MATCH EXPENSES (RED LINE) EVERY YEAR



WE FACE A NUMBER OF ISSUES THAT COMPLICATE THIS STABLE WORLD.
FIRST, WE RECEIVE FEWER DOLLARS PER STUDENT THAN LAUSD

Parent fundraising plays a critical part in helping us mitigate this funding inequity



Note: We still spend fewer dollars (per pupil) than LAUSD

The Cause and Impact of being underfunded vis a vis LAUSD

Why are we underfunded?

- In part, because charter schools are underfunded. A 2005 report from the Thomas B. Fordham Foundation found that charters are funded at 78% the rate of traditional public schools
- In part, because while we are diverse, we do not serve as high a population of Title I children as the district at large (for which schools get additional resources)

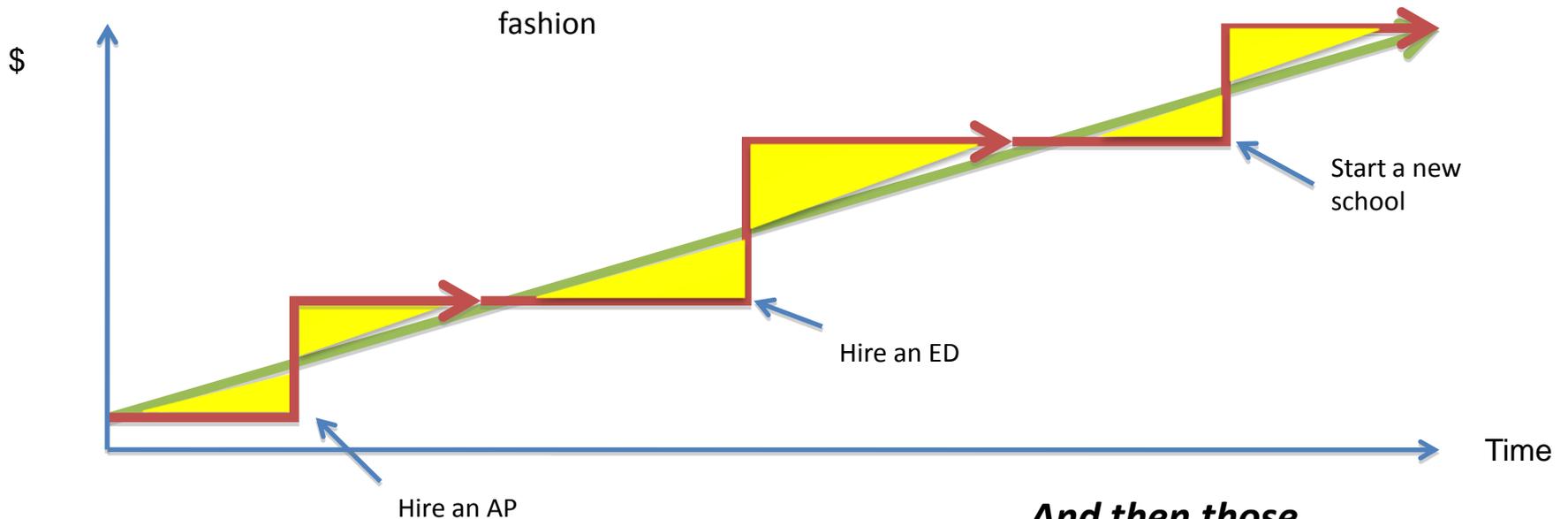
How do we spend less than LAUSD?

- Even though our rent costs drive up our budget significantly, we have smaller class size and more instructional support and enrichment, we recover costs in two key ways.
- First, we have a teaching population that has less years of service than the average teacher in LAUSD. We pay our teachers MORE than they would be paid in LAUSD but their average cost is lower
- Second, we have a much thinner leadership model and spend less dollars supporting leadership out of the classroom

SECOND, GROWTH MEANS THAT OUR EXPENSES GROW AT A DIFFERENT RATE THAN OUR REVENUES

Revenues go up based on the number of students we have

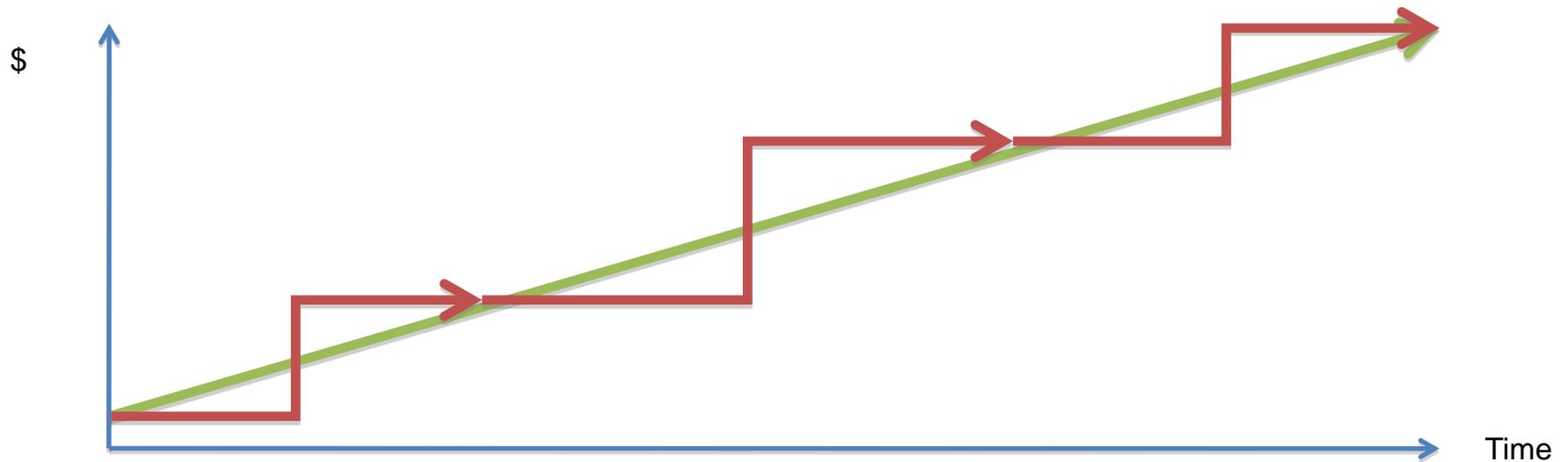
But as we grow, we need to add costs in an uneven fashion



When we make these investments, our expenses shift up and would outpace our revenues (without adjusting expenses)

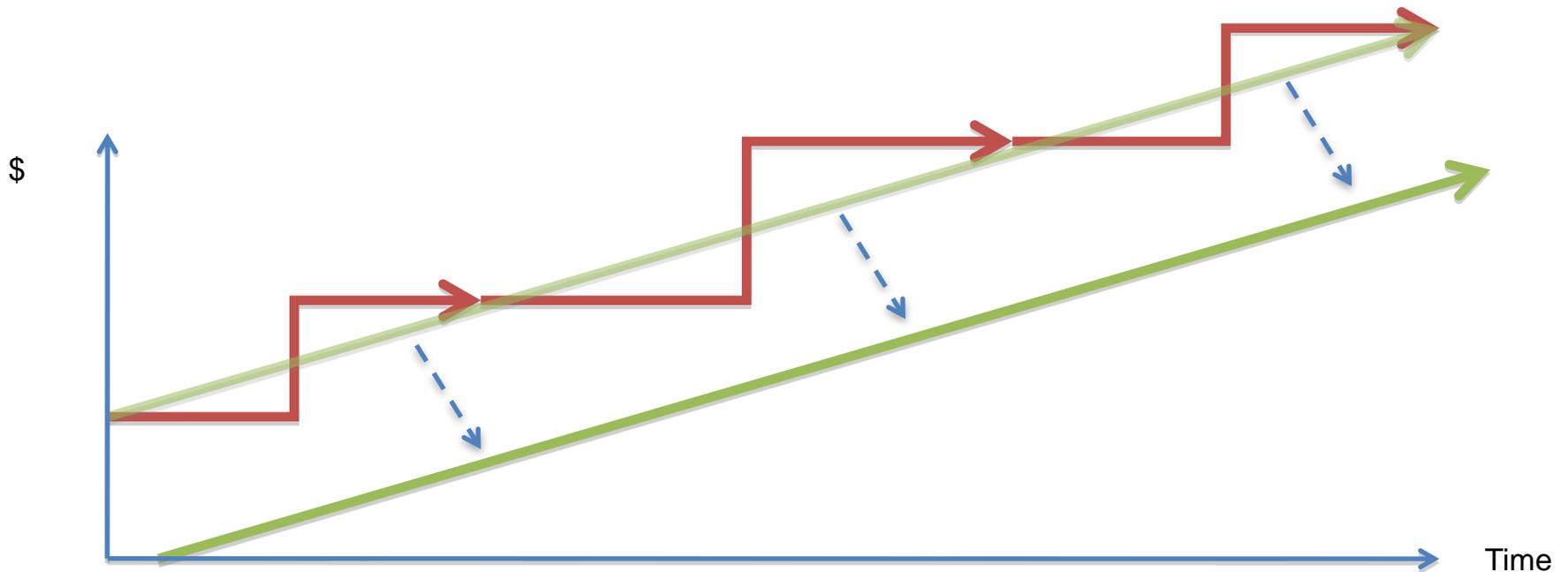
And then those investments pay off as we have more students bringing in revenue

THIRD, BUDGET CUTS HAVE DRAMATICALLY REDUCED OUR REVENUES ON A PER PUPIL BASIS



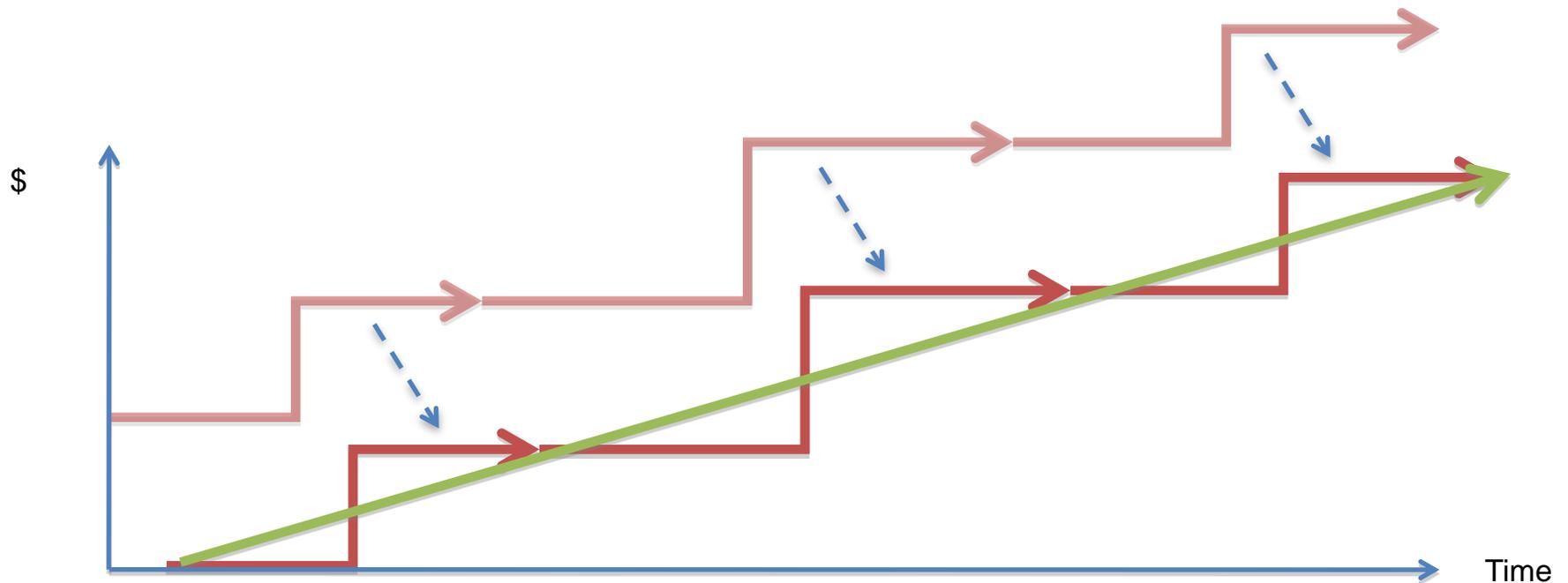
THIRD, BUDGET CUTS HAVE DRAMATICALLY REDUCED OUR REVENUES ON A PER PUPIL BASIS

Per pupil revenues have gone **DOWN** 15% since 2007-2008 and are poised to go down even further next year



THIRD, BUDGET CUTS HAVE DRAMATICALLY REDUCED OUR REVENUES ON A PER PUPIL BASIS

This has necessitated that we shift our expenses to adapt over the past few years

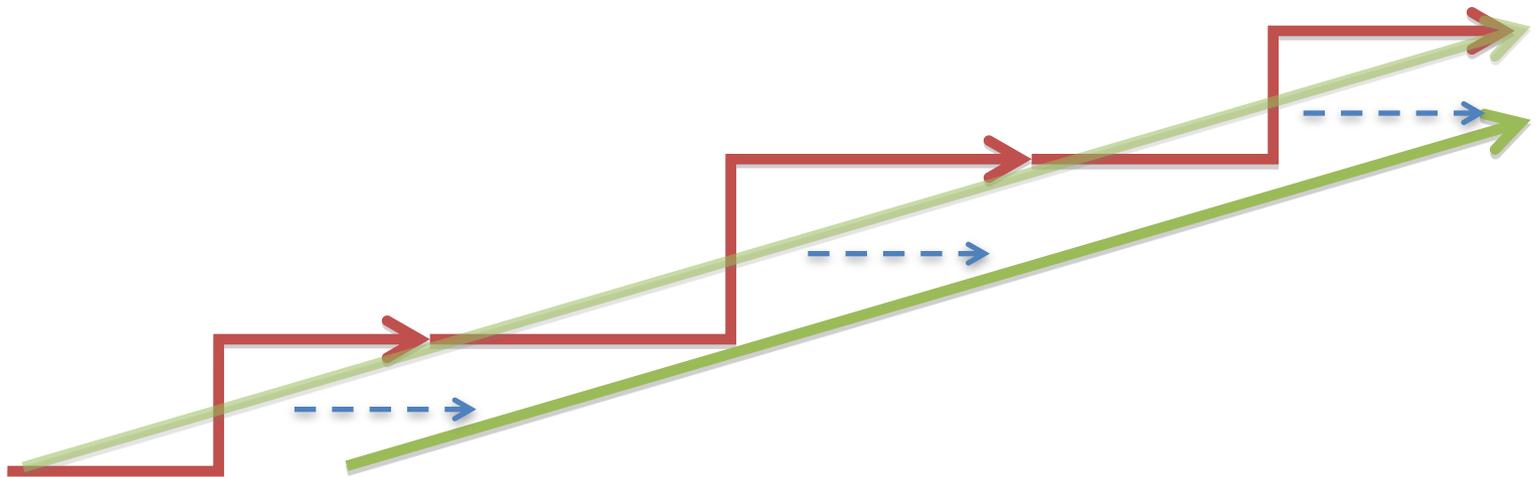


DESPITE A MASSIVE DECLINE IN PER-PUPIL REVENUES (FROM 2007-2008 TO 2010-2011), WE HAVE BEEN ABLE TO KEEP MOST OF THE CUTS FROM THE

	California	LAUSD	LCS
Per Pupil Revenues from Government	19% down	12% down	15% down
Elementary Class Size	Long Beach and San Jose raised K-3 class size to 30:1; Pasadena raised K-3 class size to 31:1;	Raised to 24:1 at K-3; Higher at 4-8	Raised to 22:1
Teacher Layoffs	22,000 teachers given pink slips as of April 2010	Laid off 2,700 teachers over 2 years	NONE
Teacher Salaries	Cuts due to furloughs in San Francisco and San Diego	Cut by 3.3% due to furloughs this year	Average salary increased 2.2% this year
Enrichment	Reduced in Pasadena and Long Beach	Art, Music cut by 50%	Art, Music, Garden kept; Yoga & Swimming Cut

FOURTH, THE STATE DEFERS (OUR PUSHES BACK) THE MONEY IT OWES SCHOOLS BY MANY MONTHS

Even though we pay our bills and our people on time, the state is often months late in paying us. **This means we always have to make sure we have enough cash to pay our bills, even when the state owes us money.**



There is even talk these days of the state delaying some of our payments by a year or more!

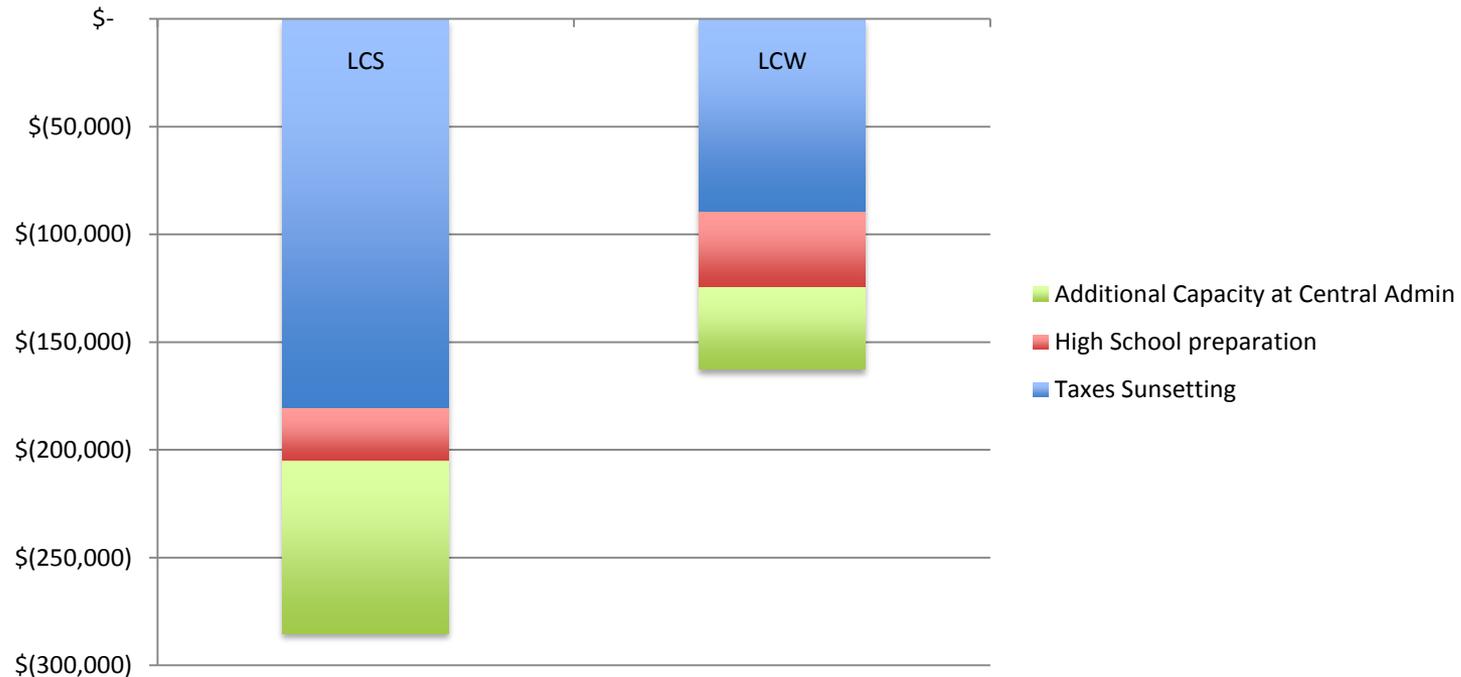
The Combination of all 4 factors means we can't continue to operate exactly the same way next year

If we kept our program model exactly the same (assuming similar increases to rent, salaries, and costs as in past years), we would run a combined **deficit of \$625,000** for both schools

72% of this deficit is caused by 3 factors influencing this:

- With certain key taxes sunseting on June 30 (and Sacramento not finding a way to extend them), we lose \$330 per pupil
- At the Central Admin level, we are continuing our work with facilities experts (which was funded with a grant this year but not next year) and making some investments in technology and technology support
- We are also hiring a Principal for the High School and giving that principal a small budget to operate with to prepare for the opening of a high school.

The 2 biggest drivers of the deficits are the sunsetting of the taxes and the continuation of technology and facilities work centrally (not offset by grant money)



LCS Deficit = \$341,518

LCW Deficit = \$285,622

As a note: although more of the cost of High School Preparation is being borne by LCS, it is offset by the money they do not have to spend to add a high school placement/counseling program (which they would have to add if we did not add a high school).

BUT WE HAVE A NUMBER OF FACTORS THAT HELP US A GREAT DEAL

- We can control our expenses – Unlike school districts who are constrained by state rules about how money can be spent, and traditional public schools who do not control their budgets, we can control how we spend out money. That means we get to choose to spend our money on the things that matter most to us
- We can control our revenues (to some degree) – We are a very popular school and we can determine how many students we take on. School districts and traditional schools don't have this opportunity as much
- We have very supportive parents – Parents will contribute over \$1 million to LCS and LCW this year. Our parent body helps to mitigate the pains of some of the worst cuts
- We have great leadership – Our Board and our school leaders are remarkable at maintaining financial discipline while maximizing every dollar we can.
- We enter this challenging time in great financial health – Thanks to the hard work of so many people over the years, we will end this year with positive net income and strong cash reserves as we head into this trying time.

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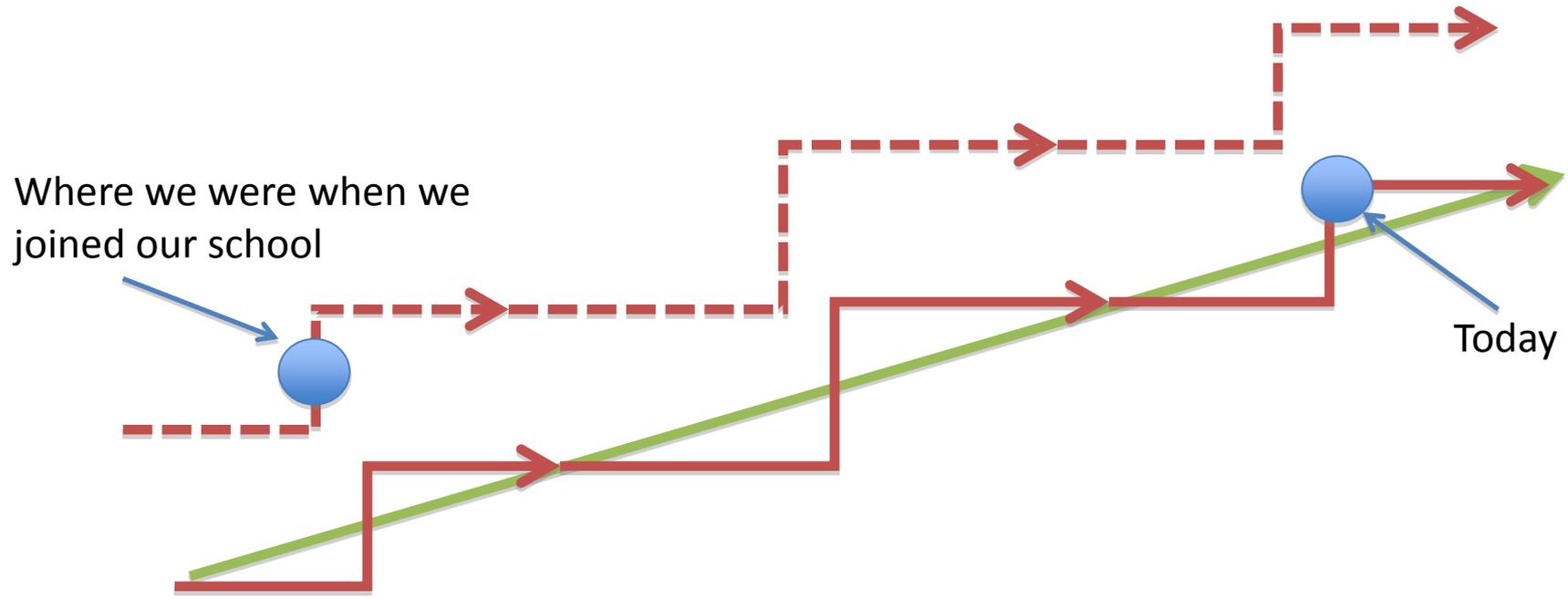
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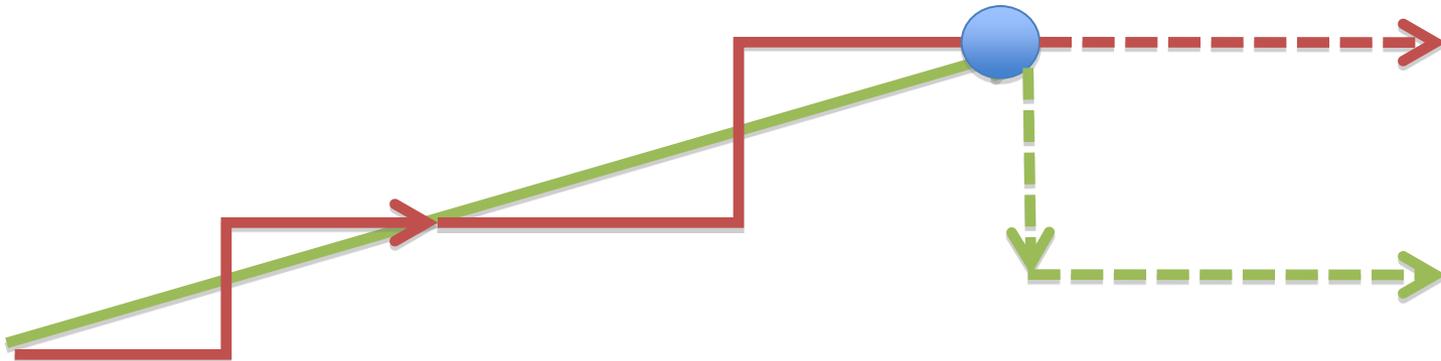
Fundraising Options

Concern (1): When I joined the Larchmont community, I was told it was going to be different



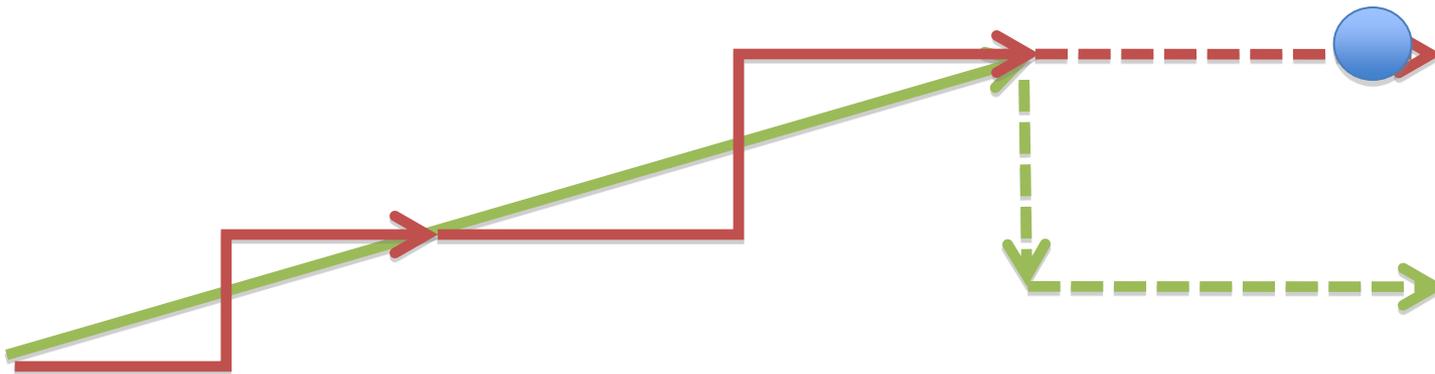
Concern (2): Given all the uncertainty, we should just stay the way we are and not grow/change

The landscape is moving too quickly, there is no status quo. We can't compare tomorrow to today; we can only compare 2 different versions of tomorrow



Concern (2): Given all the uncertainty, we should just stay the way we are and not grow/change

Given that we have pressing needs to be addressed for our current schools (e.g. better technology, better facilities, a path to 12th grade for ALL of our students), we need to make changes now. Given also that our budgets are being cut, we can't hope to meet the needs of our community without adapting our approach



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General Operating

If we raised for General Operating, we would be asking for families, businesses, and foundations to offset the \$627,000 funding gap.

Pros

It addresses our most immediate needs

Cons

Unless we were prepared to do this EVERY year, our operating model is constantly out of whack with our revenue model

In any year when the philanthropic markets dry up, our model is threatened and we will face very painful decisions (but we won't be able to have the foresight we have now)

We won't be able to prove our model is sustainable (and encourage replication)

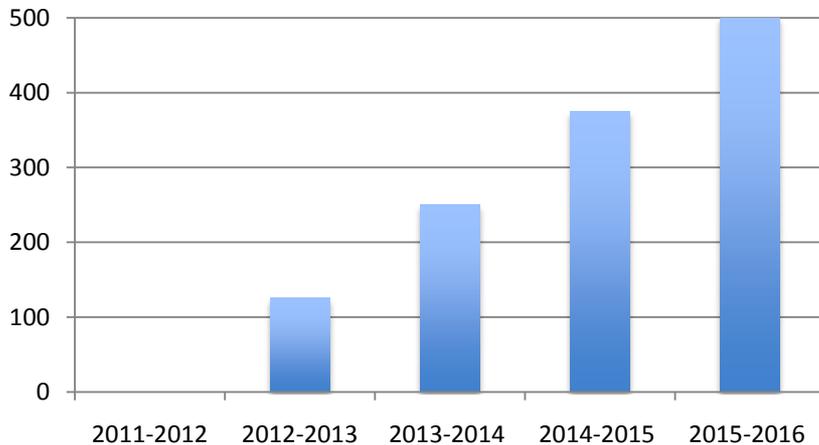
It reduces our ability to make really big additional asks of the same donors in the same timeframe

Every school (and every charter school) in California is facing the same challenge and this ask may either not be compelling OR would be made in a highly competitive environment

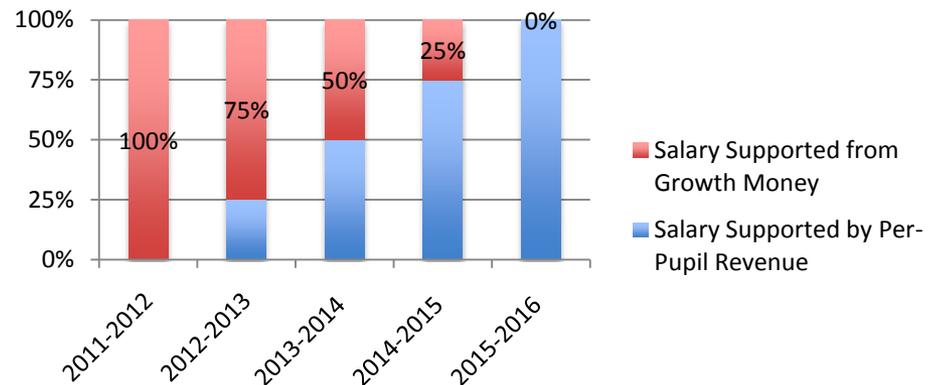
Growth (1 of 2): What it would look like

If we raised for Growth, we would ask for the funding of salaries not yet fully supported by our per-pupil revenues (Example: the High School Principal)

Number of Students



Growth Funding needed to support Principal Salary



And/or we could ask for one-time costs needed for growth (e.g. facilities development; curriculum development)

Growth (2 of 2): Pros and Cons

Pros

Uses outside funding in a sustainable way

The market would likely be more excited about this than general operating

We could do this in conjunction with a capital campaign

Cons

We approached 11 foundations about this in 2010 and received funding from 2 of them equalling 1/3 of our total ask

The market may not be as excited about this as other lines of funding (e.g. capital)

We could not do this separate from a capital campaign and then go back for capital

Capital

If we raised for capital, we may need to raise \$4MM - \$10MM for each ~500 student school

Pros

It would have the greatest impact on our long term sustainability

It would have the greatest impact on our ability to recruit a diverse community of students at all grade levels

Based on initial feedback, the philanthropic markets would likely be interested in this

Cons

It does not address our immediate needs

It is extremely labor intensive (of staff, board, and parent leadership)

We should focus on one area....

I strongly urge us as a Board/ED team to collectively pick one type of fundraising area to focus on for 2 main reasons:

- Each of these efforts will be labor intensive and if we don't focus on one, we run the risk of not doing any of them well
- It is hard to hit up the same donors for multiple asks. It is also confusing for them about where our priorities truly lie

...and that area should be the capital campaign

We should focus here because:

- It will have the greatest impact on our long-term sustainability
- If we raise enough here, we can decrease the pressure on the operating budgets of our schools for years to come
- It is the area we are most likely going to be able to secure large impactful gifts
- It is the most labor intensive (it would be hard to do this AND another campaign)

To counterbalance this, we can encourage schools and families to engage in small parent led campaigns for particular budget items

If particular schools want to raise money to help mitigate the impact of budget cuts, I think we should encourage them to do so. To enable the success here, I would encourage the following framework:

- 1.The amounts should be focused on a discrete item that is facing budget cuts (e.g. garden for all students)
- 2.It should focus on potential donors close to us (e.g. parents, grandparents, local businesses)
- 3.No one should be approached that could give \$25,000 or more (those prospects should be the focus of the capital campaign)

I think one big caveat should be made clear here: the state budget landscape is moving. If later this summer or fall, the state cuts more from our budget (which is not unheard of), donors need to know we may not be able to spend the money on what we originally intended to.