



120 Malabar Road, SE - Palm Bay, FL 32907 (321-952-3400)

Mayor
JOHN J. MAZZIOTTI

Deputy Mayor
ED GEIER

Councilmembers
PAT WOODARD
MILO ZONKA
KRISTINE ISNARDI

AGENDA

SPECIAL COUNCIL MEETING NO. 2008-35

THURSDAY

November 13, 2008 - 6:30 P.M.
City Hall Council Chambers

CALL TO ORDER:

ROLL CALL:

BUSINESS:

1. Certification of the results of the Regular Municipal Election held on November 4, 2008.
2. Administering the Oath of Office to the officials for the Office of Mayor and City Council Seats 2 and 3.
3. Selection by councilmembers of a Deputy Mayor.
4. Consideration of Palm Bay Community Charter School finance restructuring.

ADJOURNMENT:

If an individual decides to appeal any decision made by the City Council with respect to any matter considered at this meeting, a record of the proceedings will be required and the individual will need to ensure that a verbatim transcript of the proceedings is made, which record includes the testimony and evidence upon which the appeal is based (FS 286.0105). Such person must provide a method for recording the proceedings verbatim.

In accordance with the Americans with Disabilities Act, persons needing special accommodations for this meeting shall, at least 48 hours prior to the meeting, contact the Office of the City Clerk at (321) 952-3414 or Florida Relay System at 711.

THIS MEETING IS BROADCAST LIVE ON THE CITY'S WEBSITE.

City of Palm Bay, Florida
REGULAR MUNICIPAL ELECTION
November 4, 2008

MAYOR

John J. Mazziotti Unopposed

SEAT 2

Brian Jacob Anderson	8,778
James Brock	7,700
<u>William Capote</u>	<u>11,837</u>
Natasha C. Logan Munnings	7,900

RECOUNT FOR SEAT 3, REQUIRED BY LAW, SCHEDULED FOR THURSDAY, NOVEMBER 12, 2008. FINAL TABULATION WILL BE SUBMITTED TO COUNCIL PRIOR TO SPECIAL COUNCIL MEETING.

SEAT 3

Michele Paccione	12,963
Bruce Wechsler	10,301
Grace White	12,822

Registered Voters:	58,685
Ballots Cast:	47,023
Turnout:	80.1%

City of Palm Bay, Florida
OATH OF OFFICE

I, _____ do solemnly swear that I will support, protect, and defend the Constitution and Government of the United States of America and the Constitution of the State of Florida against all enemies, domestic or foreign; that I will bear true faith, loyalty, and allegiance to the same, and that I am entitled to hold office under the laws of the State of Florida and the Constitution and that I will faithfully perform all duties of the:

Office of City Council, Seat ____

of the City of Palm Bay on which I am about to enter.

Name of Councilmember

State of Florida
County of Brevard

Sworn to and subscribed before me this ___ day of November 200___, by _____, personally known to me.

Notary Public, Alice Passmore

MEMO TO: Honorable Mayor and Members of City Council
FROM: Alice Passmore, City Clerk
DATE: November 13, 2008
SUBJECT: Selection of Deputy Mayor

In accordance with the City Charter, Article III, Legislative, Section 3.04, "at the first council meeting following the first Tuesday after the first Monday in November ... the council shall elect one (1) of its members as deputy mayor".

This is presented to Council for consideration at tonight's meeting.

If you should have any questions, please advise.

aip



**City of Palm Bay
City Manager's Office**

Interoffice Memorandum

To: Mayor and Council

From: Lee R. Feldman, City Manager

Date: November 8, 2008

**RE: Palm Bay Community Charter School – Patriot Campus
Proposed Financial Restructuring Transaction**

At the June 2008 workshop with Charter Schools USA (CSUSA), the management company for the Palm Bay Community Charter School, it was indicated that due to the lower than anticipated enrollment at Patriot it would be necessary to restructure the existing debt in order to have sufficient revenues to continue to operate the school. Since that time, the City has worked diligently with CSUSA and the bond holders in order to restructure and supplement the revenue stream in order to maintain Patriot as a viable educational institution and an asset for the City.

The primary reason for the revenue shortfall is the lower than expected growth patterns in the southeast Palm Bay area. The original financing structure was based upon significant growth in the population of the City, which as you know, has not materialized due to the current economic conditions and the retraction of the housing market.

New cash flow projections have been made using conservative growth of 75 and 100 students per year and are attached to this memorandum.

A proposed solution to provide Patriot with adequate resources to continue paying all of its obligations for a period of time is as follows:

1. A new Series of 2008 Bonds will be sold. These bonds will include \$16,595,000 of the original Series A Bonds plus issuing costs. All but \$750,000 of the Series A Bonds (which would remain outstanding) would be cancelled. With the exception of the \$750,000 remaining outstanding, the Series A bondholders would be paid 75 cents on the dollar plus accrued interest on the outstanding bonds.
2. The new Series 2008A tax-exempt bonds would have a 30 year maturity, a coupon of 8.0% with 1 year of capitalized interest then 4 years of interest only and level amortization for the remaining 25 years.
3. The Series 2005B taxable bonds would remain outstanding.

4. The City of Palm Bay would provide \$3.6 million into an operating reserve along with the bond investors releasing a portion of the 2005 DSRF in the amount of \$1,572,924 for a total operating reserve in the amount of \$5,172,924. The operating reserve would be restricted in use to pay senior obligations of the school which includes senior management fees and debt service, unless otherwise approved by a majority of bondholders.
5. Charter Schools USA would receive a \$450,000 management fee, escalating at 3% per year prior to debt service being paid on the bonds. Additional subordinate incentive management fees would be payable on an annual basis in an amount equal to up to 25% of excess cash flow, and capped at \$500,000.
6. A Series 2008B subordinate cash flow note will be issued and payable in the amount of \$9,791,250. The note holders will be comprised of the \$4,856,250 (50%) of foregone principal payable to the 2005A bondholders of record whose bonds were cancelled, the City of Palm Bay's \$3,600,000 (37%) contribution to the operating reserve and the \$1,335,000 (13%) in cash contributions from CSUSA. This note will be secured by the remaining 75% of excess cash flows and payable at the above pro-rata percentages.
7. The majority of the Repair and Replacement Fund would be transferred to the new Series 2008A bonds in the amount of \$460,308. The remaining \$39,692 would remain with the Series A&B bonds not cancelled.
8. An additional reserve in the amount of \$500,000 would be created from the proceeds of the new bonds to fund a reserve fund to pay for marketing and technology improvements as recommended by the consultants.
9. A Series 2008C subordinate cash flow note will be issued and payable in the amount of \$2,215,777 which represents the remaining unpaid portion of the developer fees on the project. In addition to the developer fees in the Series 2008C note, this note will also pay interest on the funds loaned which are listed in the 2008B subordinate note. The interest will be payable at a rate of 8.50% starting on the closing date of the \$9,791,250 2008B cash flow note. The interest will compound annually and will be paid pro-rata in the same percentages as the 2008 cash flow note from available cash flow until paid in full. This would be payable from available cash flow after Series 2008B cash flow note has been paid in full.

The critical piece for the City of this restructuring is item #4 relating to the issuance of \$3.6 million in debt, which would be paid back through school revenues approximately starting in approximately FY 17. If the City is required to have these bonds marketed, it will be necessary to back these bonds with an available revenue pledge. The City will have sufficient public service tax revenue available in 2013 when some existing debt is retired. Staff is also examining the possibility of placing this debt with the City's Police and Fire Pension Plan.

Palm Bay Community Charter School **FY07 - FY18**
 \$450,000 Mgmt Fee above the line to CSUSA, No Upfront

Enrollment Increases @ 75 Per Year

	FY07 Audited Actuals	FY08 Audited Actuals	FY09 Projection	FY10 Projection	FY11 Projection	FY12 Projection	FY13 Projection	FY14 Projection	FY15 Projection	FY16 Projection	FY17 Projection	FY18 Projection
Targeted Student Enrollment	1,050	1,159	765	842	995	995	1,069	1,144	1,221	1,296	1,374	1,450
Actual/Projected Student Enrollment	750	943	750	825	902	975	1,048	1,121	1,197	1,270	1,347	1,421
Forecasted FTE Per Student	5,914	6,441	6,059	6,059	6,240	6,428	6,620	6,819	7,024	7,234	7,451	7,675
Revenues:												
State Capitation (Includes Transportation)	4,435,691	6,074,218	4,543,988	4,998,387	5,628,850	6,267,575	6,935,717	7,641,648	8,404,343	9,188,198	10,033,427	10,906,058
Fed./State Grants	25,000	128,750	128,750	-	-	-	-	-	-	-	-	-
Capital Outlay Revenue	-	-	-	495,000	487,080	473,899	458,229	441,147	423,941	404,984	386,422	367,016
PreK Revenue	-	104,995	91,200	93,936	96,754	99,657	102,646	105,726	108,898	112,164	115,529	118,995
Before/Aftercare Revenue	156,717	183,028	171,128	189,338	207,009	230,631	254,572	280,785	308,215	327,147	357,743	388,274
Food Service Revenue	83,655	269,060	334,473	367,538	413,896	460,998	510,433	562,212	618,285	676,043	738,449	803,006
Total Earned Capitation	4,701,063	6,760,051	5,269,539	6,144,199	6,833,589	7,532,760	8,261,597	9,031,518	9,863,682	10,708,536	11,631,570	12,583,349
Board Fee Refund to be Used for CAPEX	70,534	130,580	75,733	98,453	125,432	152,688	181,275	211,606	244,626	278,551	315,387	353,430
Contribution from CSUSA	232,647	214,528	-	-	-	-	-	-	-	-	-	-
Other Revenue	58,191	31,557	21,076	16,686	17,187	17,702	18,233	18,780	19,344	19,924	20,522	21,137
Reinvested Earnings	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	5,062,435	7,136,716	5,366,348	6,259,338	6,976,208	7,703,150	8,461,105	9,261,904	10,127,652	11,007,011	11,967,479	12,957,916
Expenses:												
Instruction Expense	2,819,841	3,084,517	2,801,162	2,893,327	2,997,715	3,633,078	3,665,109	3,790,825	4,043,556	4,056,585	4,197,209	4,511,008
Administrative Expenses	742,339	847,871	910,184	934,712	962,605	991,331	1,020,921	1,051,401	1,082,791	1,115,127	1,148,430	1,182,733
Professional Services	18,838	124,024	104,139	67,519	68,495	68,495	54,500	55,535	56,600	57,699	58,830	49,995
District Fee	222,425	299,405	227,199	249,919	281,442	313,379	346,786	382,082	420,217	459,410	501,671	545,303
Vendor Fee	440,831	934,209	1,033,422	1,144,470	1,268,007	1,335,875	1,468,971	1,544,401	1,690,648	1,843,272	1,934,798	2,029,307
Facility Expenses	188,228	241,758	269,342	277,422	285,745	294,318	303,147	312,241	321,608	331,256	341,194	351,430
FF&E Expenses	38,658	176,476	62,954	175,000	225,000	175,000	175,000	225,000	175,000	175,000	225,000	175,000
Repair and Replacement Fund	175,000	325,000	-	-	-	-	-	-	-	-	-	-
Senior Management Fee CSUSA +3%/yr	-	-	450,000	463,500	477,405	491,727	506,479	521,673	537,324	553,443	570,047	587,148
Other Operating Expenses	59,424	54,805	59,759	61,552	63,399	65,300	67,260	69,278	71,355	73,496	75,701	77,972
Total Expenses	4,705,584	6,088,065	5,918,161	6,267,421	6,629,813	7,368,503	7,608,173	7,952,436	8,399,099	8,665,288	9,052,880	9,509,896
Net Operating Income Prior to Debt Service	356,851	1,048,651	(551,813)	(8,083)	346,395	334,647	852,932	1,309,468	1,728,553	2,341,723	2,914,599	3,448,020
Remaining 2005 Bond Debt Service	-	-	223,834	332,800	332,550	335,275	52,500	52,500	52,500	52,500	52,500	52,500
Restructured Bond Debt Service	-	1,055,511	0	774,433	1,327,600	1,327,600	1,327,600	1,365,100	1,545,433	1,546,500	1,545,967	1,544,667
Net Income/(Deficit)	356,851	(6,860)	(775,647)	(1,115,316)	(1,313,755)	(1,328,228)	(527,168)	(108,132)	130,620	742,723	1,316,132	1,850,853
Incentive Management Fee (25% Net Income)	-	-	-	-	-	-	-	-	32,655	185,681	329,033	462,713
Remaining Net Income	356,851	(6,860)	(775,647)	(1,115,316)	(1,313,755)	(1,328,228)	(527,168)	(108,132)	97,965	557,042	987,099	1,388,140
Cash Balance	-	-	0	0	0	0	0	0	192,165	749,207	0	0
Operating Reserve	-	-	5,172,924	4,500,735	3,475,434	2,231,188	947,583	439,367	340,022	346,823	0	0
Operating Reserve Income @ 2.0%	-	-	103,458	90,015	69,509	44,624	18,952	8,787	6,800	6,936	0	0
Operating Reserve Used	-	-	775,647	1,115,316	1,313,755	1,328,228	527,168	108,132	0	0	0	0
DSCR Prior to Operating Reserve	-	-	0.000	0.000	0.261	0.252	0.642	0.959	1.118	1.514	1.885	2.232
Fund DSRF @ MADS from Operating Reserve	-	-	-	-	-	-	-	-	-	-	1,567,400	-
Remaining Operating Reserve	-	-	4,500,735	3,475,434	2,231,188	947,583	439,367	340,022	346,823	353,759	0	0
Cummulative Cash Deficit												
Cash Flow Note Distribution:	0	0	0	0	0	0	0	0	0	0	168,906	1,388,140
Bondholders 50%	0	0	0	0	0	0	0	0	0	0	84,453	694,070
City of Palm Bay 37%	0	0	0	0	0	0	0	0	0	0	62,495	513,612
CSUSA 13%	0	0	0	0	0	0	0	0	0	0	21,958	180,458
Remaining Balance of Cash Flow Note	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,644,301	8,436,620

Palm Bay Community Charter School **FY07 - FY18**
 \$450,000 Mgmt Fee above the line to CSUSA, No Upfront

Enrollment Increases @ 100 Per Year

	FY07 Audited Actuals	FY08 Audited Actuals	FY09 Projection	FY10 Projection	FY11 Projection	FY12 Projection	FY13 Projection	FY14 Projection	FY15 Projection	FY16 Projection	FY17 Projection	FY18 Projection
Targeted Student Enrollment	1,050	1,159	765	862	962	1,055	1,144	1,236	1,328	1,411	1,489	1,489
Actual/Projected Student Enrollment	750	943	750	845	943	1,034	1,121	1,211	1,301	1,383	1,459	1,459
Forecasted FTE Per Student	\$5,914	\$6,441	\$6,059	\$6,059	\$6,240	\$6,428	\$6,620	\$6,819	\$7,024	\$7,234	\$7,451	\$7,675
Revenues:												
State Capitation (Includes Transportation)	4,435,691	6,074,218	4,543,988	5,119,560	5,884,707	6,645,519	7,422,320	8,259,797	9,140,842	10,003,508	10,873,197	11,199,393
Fed./State Grants	25,000	128,750	128,750	-	-	-	-	-	-	-	-	-
Capital Outlay Revenue	-	-	-	507,000	509,220	502,475	490,378	476,832	461,092	440,920	418,764	376,888
PreK Revenue	-	104,995	91,200	93,936	96,754	99,657	102,646	105,726	108,898	112,164	115,529	118,995
Before/Aftercare Revenue	156,717	183,028	171,128	193,928	216,419	244,538	272,432	303,498	335,225	356,176	387,686	398,717
Food Service Revenue	83,655	269,060	334,473	376,447	432,709	488,797	546,245	607,690	672,466	736,032	800,256	824,604
Total Earned Capitation	4,701,063	6,760,051	5,269,539	6,290,871	7,139,809	7,980,986	8,834,021	9,753,543	10,718,523	11,648,800	12,595,432	12,918,597
Board Fee Refund to be Used for CAPEX	70,534	130,580	75,733	104,511	138,225	171,585	205,605	242,514	281,451	319,317	357,375	368,097
Contribution from CSUSA	232,647	214,528	-	-	-	-	-	-	-	-	-	-
Other Revenue	58,191	31,557	21,076	16,686	17,187	17,702	18,233	18,780	19,344	19,924	20,522	21,137
Reinvested Earnings	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	5,062,435	7,136,716	5,366,348	6,412,068	7,295,221	8,170,273	9,057,859	10,014,837	11,019,318	11,988,041	12,973,329	13,307,831
Expenses:												
Instruction Expense	2,819,841	3,084,517	2,801,162	2,898,059	3,017,040	3,801,333	3,837,759	3,973,662	4,245,332	4,255,960	4,401,662	4,703,089
Administrative Expenses	742,339	847,871	910,184	934,712	962,605	991,331	1,020,921	1,051,401	1,082,791	1,115,127	1,148,430	1,182,733
Professional Services	18,838	124,024	104,139	67,519	68,495	68,495	54,500	55,535	56,600	57,699	58,830	49,995
District Fee	222,425	299,405	227,199	255,978	294,235	332,276	371,116	412,990	457,042	500,175	543,660	559,970
Vendor Fee	440,831	934,209	1,033,422	1,209,236	1,284,186	1,420,364	1,562,167	1,647,782	1,803,443	1,963,046	2,128,411	2,120,219
Facility Expenses	188,228	241,758	269,342	277,422	285,745	294,318	303,147	312,241	321,608	331,256	341,194	351,430
FF&E Expenses	38,658	176,476	62,954	205,020	256,521	202,018	197,515	250,517	196,014	187,008	225,000	175,000
Repair and Replacement Fund	175,000	325,000	-	-	-	-	-	-	-	-	-	-
Senior Management Fee CSUSA +3%/yr	-	-	450,000	463,500	477,405	491,727	506,479	521,673	537,324	553,443	570,047	587,148
Other Operating Expenses	59,424	54,805	59,759	61,552	63,399	65,300	67,260	69,278	71,355	73,496	75,701	77,972
Total Expenses	4,705,584	6,088,065	5,918,161	6,372,998	6,709,631	7,667,162	7,920,864	8,295,079	8,771,509	9,037,210	9,492,935	9,807,556
Net Operating Income Prior to Debt Service	356,851	1,048,651	(551,813)	39,070	585,590	503,111	1,136,995	1,719,758	2,247,809	2,950,831	3,480,394	3,500,275
Remaining 2005 Bond Debt Service	-	-	223,834	332,800	332,550	335,275	52,500	52,500	52,500	52,500	52,500	52,500
Restructured Bond Debt Service	-	1,055,511	0	774,433	1,327,600	1,327,600	1,327,600	1,365,100	1,545,433	1,546,500	1,545,967	1,544,667
Net Income/(Deficit)	356,851	(6,860)	(775,647)	(1,068,163)	(1,074,560)	(1,159,764)	(243,105)	302,158	649,876	1,351,831	1,881,927	1,903,108
Incentive Management Fee (25% Net Income)	-	-	-	-	-	-	-	-	162,469	337,958	470,482	475,777
Remaining Net Income	356,851	(6,860)	(775,647)	(1,068,163)	(1,074,560)	(1,159,764)	(243,105)	302,158	487,407	1,013,873	1,411,446	1,427,331
Cash Balance	-	-	0	0	0	0	0	302,158	789,565	0	0	0
Operating Reserve	-	-	5,172,924	4,500,735	3,522,587	2,518,479	1,409,084	1,194,161	1,218,044	0	0	0
Operating Reserve Income @ 2.0%	-	-	103,458	90,015	70,452	50,370	28,182	23,883	24,361	0	0	0
Operating Reserve Used	-	-	775,647	1,068,163	1,074,560	1,159,764	243,105	0	0	0	0	0
DSCR Prior to Operating Reserve	-	-	0.000	0.000	0.441	0.379	0.856	1.260	1.454	1.908	2.251	2.266
Fund DSRF @ MADS from Operating Reserve	-	-	-	-	-	-	-	-	-	1,567,200	-	-
Remaining Operating Reserve	-	-	4,500,735	3,522,587	2,518,479	1,409,084	1,194,161	1,218,044	1,242,405	0	0	0
Cash Flow Note Distribution:	0	0	0	0	0	0	0	0	0	236,238	1,411,446	1,427,331
Bondholders 50%	0	0	0	0	0	0	0	0	0	118,119	705,723	713,666
City of Palm Bay 37%	0	0	0	0	0	0	0	0	0	87,408	522,235	528,112
CSUSA 13%	0	0	0	0	0	0	0	0	0	3,071	18,349	18,555
Remaining Balance of Cash Flow Note	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,791,250	9,582,652	8,336,345	7,076,012



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404-256-0003 • Fax 404-256-4555

Patriot Charter School

Assessment

Prepared For:

Greenberg Traurig, LLP

Prepared By:

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404-293-0137

October 29, 2008

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I. Introduction

The purpose of this assessment of the Palm Bay Community Charter School - Patriot Campus (the 'School') is to ascertain the following:

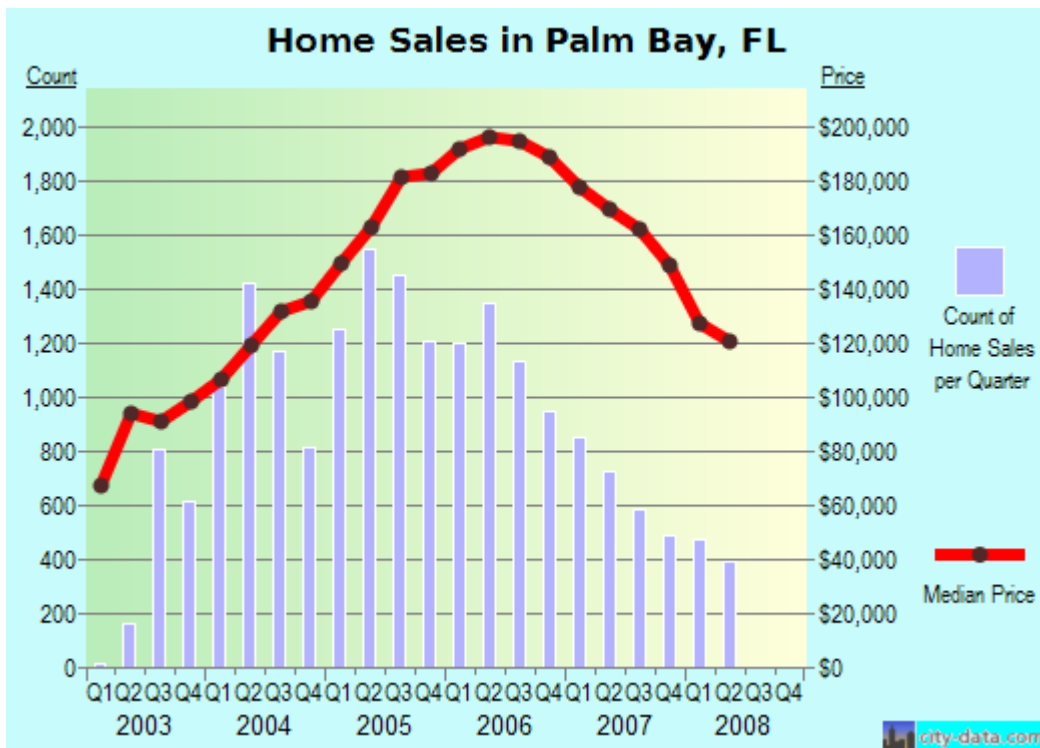
1. School's viability and optimal level of enrollment;
2. Availability of strategic and tactical alternatives;
3. Potential management and leadership changes; and
4. Actions the current parties of interest should take - both operational and financial – in both the short and longer term to increase enrollment and/or increase revenues

II. Palm Bay Market and Demographics

The City of Palm Bay (“City”) has a population of approximately 100,000. Based on the geography of the City it has the ability to expand to a population of approximately 420,000. The City has been impacted disproportionately by the current economic environment: housing prices are down, home building is down and population growth is stagnant. However, over time the City appears to be an attractive market for young families with children.

Housing Prices

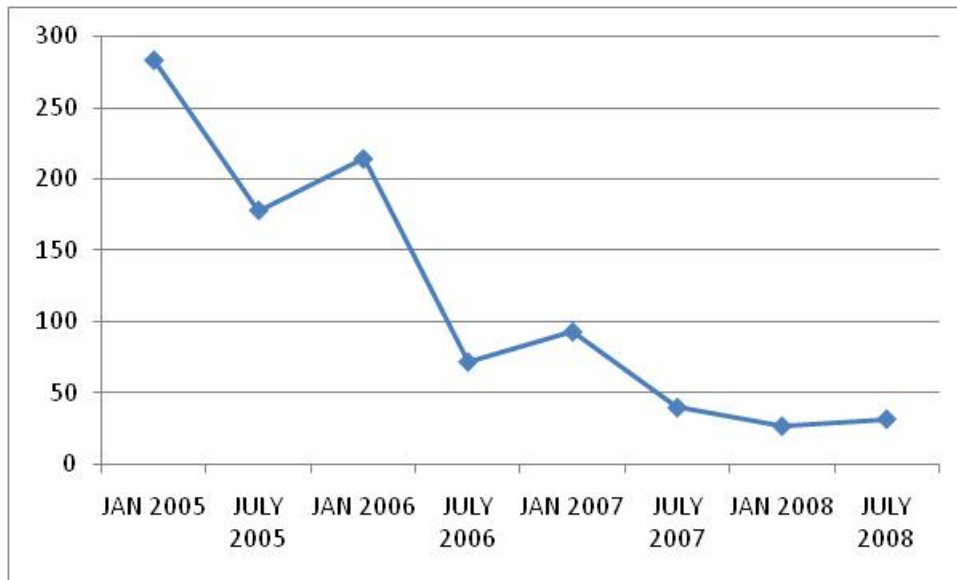
House prices jumped from a median selling price of \$78,300 in 2000 to \$198,600 in 2006. The median sales price for homes for the 3 month period June – August 2008 was \$110,825 (while the average listing price in the same period was \$157,046).



Building Permits

The level of single-family building permits issued by the City is down from 283 in January 2005 to 32 in July 2008. The City does not project that this situation will change for at least another 9 – 12 months. Building permits (and home sales) are a reflection of the incoming city population (from 2000 to 2006 city population grew 22.5%).

Palm Bay Building Permits January 2005 to July 2008



The City projects that building permit levels to be relatively flat this year. After 2009, the city projects that there will be a gradual uptick in permits to approximately 1,000 by 2010 or 2011.

Demographic Projections

The City states that demographic projections are difficult to make, particularly estimating foreclosures (Florida has the second highest rate of foreclosures in the United States). The city believes that the population will remain steady for most of the year with increases beginning to occur at modest levels in late 2008 or in 2009. An increase in the number of vacant homes has led to a statistical drop in population due to the method utilized to calculate population (active residential electric connections are used as a base number).

While the City knows it is not growing, it does not believe that it has a significant outflow of population. We did not identify an alternate source to statistically verify this information.

Market for Young Families

The City is one of the younger communities in Florida due to:

1. High technology employment opportunities at Cape Canaveral and the presence of defense, aerospace and related technology companies.
2. The presence of moderate priced housing which means that Brevard residents can move to Palm Bay and get more house for less money; the cost of living index is 85.3 (baseline 100) making the City a cost effective choice.

Actual Demographics Versus Original Assumptions

The original documentation underlying the Patriot project contains assumptions regarding supply and demand for 'student stations'. In summary form, these assumptions include:

- a) Demand for student stations would *increase* from 2005 to 2010 due to an increase in city population from 95,000 to 118,243 (and related impact on school age children).
- b) Supply of student stations may not increase to meet demand ("all of these schools and stations may not be available, particularly in the time frames required")¹.

However, both the demand side assumption changed and supply increased. The city population is approximately 100,000 and therefore demand has not materialized. In addition, the supply of student stations in Patriot's immediate footprint is higher due to the construction of an elementary school, Sunrise Elementary. Sunrise Elementary opened the same day as Patriot and only a mile from the campus.

As a result, the underlying assumptions regarding demand and supply have changed, and therefore the underlying financial assumptions are no longer valid. Significant adjustments to the financial projections are now required; however, there are no short-term fixes to the financial problems the School now faces. Such adjustments are discussed later in this report.

Summary

It is unlikely that the City will see significant population increases or an associated significant increase in students in the next 2 – 3 years. Therefore, the School is faced with operating in a very competitive environment. In order to attract students from other schools it must be perceived as better than the alternatives. The primary factors driving the perception of 'better' include test scores and the facility, as discussed in detail later in this report.

¹ "City of Palm Bay School Analysis".

III. Review of Facility

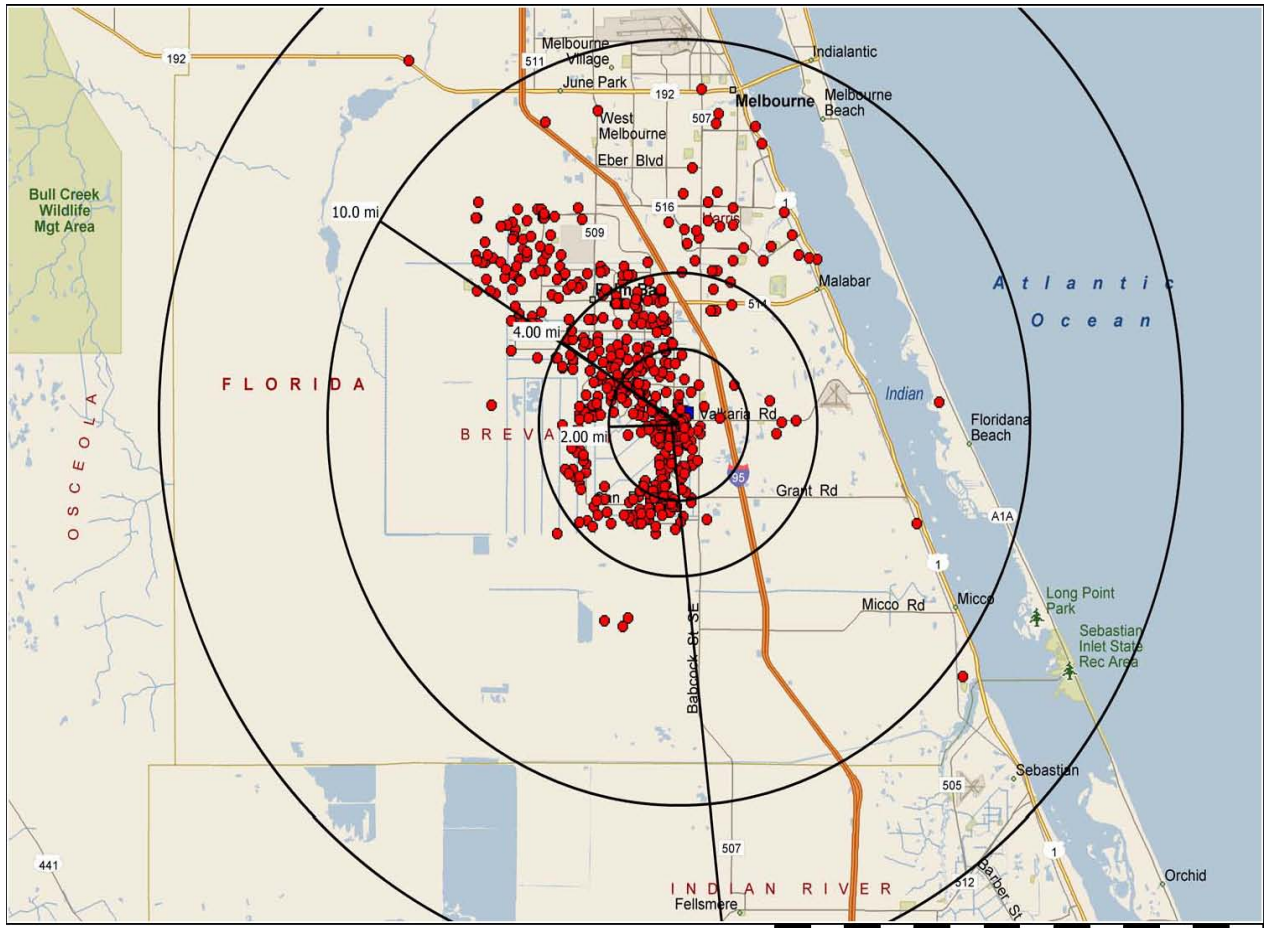
The facility is approximately 100,000 square foot 2 storey block building located on approximately 12 acres of land. The facility has classrooms as well as an art room, library, media center and cafeteria. The classrooms and other areas, with the exception of the library, appear to be well supplied.

The facilities consist of a single, large oblong building. The building is not visually appealing; some cosmetic changes to the campus may assist in attracting the community to the School. Classrooms run on the exterior and interior of the building with a hallway in between. The building appears to be able to hold the maximum number of students in the smallest physical space. Though there is no consensus among researchers, a general 'rule of thumb' of 100 square feet per student is often used to assess student capacity. This square footage estimate assumes that the school facility includes most of the auxiliary areas found in most schools such as a gymnasium, auditorium, etc. We find that a capacity of 1,600 students is an aggressive estimate of the number of students that can be reasonably housed at the School, averaging 62.5 square feet per student. While we believe that the school can house the maximum-stated capacity of 1,600 students, we believe this can only be achieved 1) where there are overcrowded conditions with few alternatives (the original assumptions), or 2) if the school is among the top-rated schools in terms of test scores. We believe that a capacity in the range of 1,300 to 1,400 students is a more ideal targeted capacity when balancing an ideal educational environment with the financial objectives. Note that we have not performed a detailed study of the architectural design of the School regarding this matter since the prospects of reaching stated capacity of 1,600 students in the short-term is remote.

The School is planned to be much larger than other elementary schools in the area. Opening such a large school, with no planning for a 'staged' opening was a risky strategy and dependent on either (i) sustained rapid population growth (which did not occur) or (ii) pulling students away from other schools. Discovery (960) and Christa McAuliffe (916) are large elementary schools, with the majority of the elementary schools having 500 – 800 students.

The following chart depicts the areas from which the School draws its students:

Location of Students²

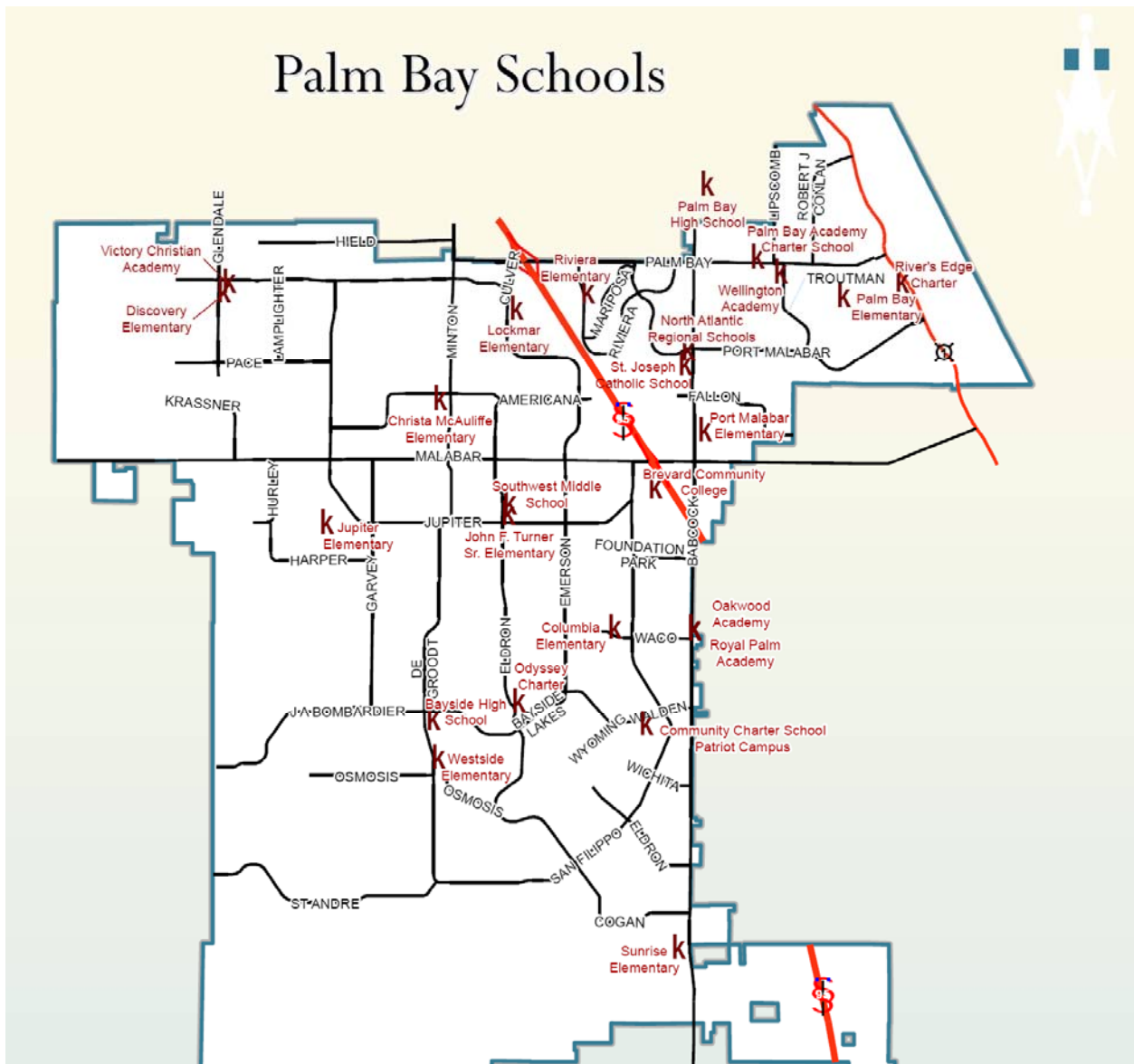


There are a number of schools closely located to the Patriot Campus that offer parents a good deal of choice of educational facility.

School	Distance From Patriot Campus	Number of Students	Great Schools Ranking
Columbia Elementary	1.5 miles	577	6
Odyssey Charter	2.3 miles	508	7
Royal Palm Academy	1.6 miles	120	9
Sunrise Elementary	1.0 miles	550	7
Westside Elementary	3.9 miles	773	7

² Data supplied by CSUSA

Location of Elementary Schools in Palm Bay



Based on the close geographic proximity of the schools and the presence of alternative Charter School options and little population growth, the Patriot campus must compete to attract students from other existing students.

A review of various websites and school ranking sites and parental comments the Patriot campus is rated lower than alternate elementary schools in the vicinity. Parent comments include that there is a lack of the type of extra-curricular activities that they find at traditional schools (although the school has expanded its offerings substantially over the last year). Additional types of lower cost extra-curricular activities that we believe are popular among parents that should be considered are:

1. Sports that can be offered as as intramural, then expanded to competitive levels – soccer, track/cross country, baseball, tennis;
2. Instrumental music;
3. Expanded offerings in Choir; and
4. Clubs, such as poetry club, writing club, current events club, theatre club, math club, science club, etc;

As noted in the Financial Review section, the School is receiving Title I funds for the first time. We recommend that a portion of these funds be used for academic-focused afterschool programs. Note that these funds are subject to certain restrictions and whether the School has yet to receive their Title I 'School-wide' designation.

Other parent criticisms included comments on the cost of the school uniforms (although scholarships may be available for such items).

Schools that ranked highly among parents (Royal Palm Academy, Odyssey Charter, Sunrise Elementary, Westside Elementary) did so for a variety of reasons:

- Royal Palm Academy was praised for its strong teaching staff and administration
- Odyssey Charter was praised for its teachers and administrators, although parents noted growing pains with the school and disagreed as to the level of commitment of the school to Montessori principals
- Sunrise Elementary was specifically praised for the strong principal, parents noted that the facility was not the best, but that it was clean
- Westside Elementary was praised for the principal (or former principal) and staff, parents noted that the school was too large and somewhat unwelcoming

While Montessori is a popular concept, we would not recommend that the School consider the pursuit of a Montessori concept for the following reasons:

1. Montessori schools are ideally suited for smaller school populations;
2. It generally requires experienced specialized trained teachers, which are in short supply;
3. It would require obtaining a broad range of different high quality materials that are costly;
4. The ideal school environment would require a costly redesign of the facility interior;
5. Most Montessori schools adopt the concept from its inception; transitions from a traditional program are generally very difficult and disruptive in the early years of transition

Based on parent comments in the community the visibility and communication from (i) the school principal and (ii) the staff with parents is a key factor in how parents perceive a school.

IV. Assessment of City of Palm Bay Involvement

The City of Palm Bay and Lee Feldman, City Manager, have been very responsive to all requests for information and provided detailed answers to questions. Although the City states that it only has a 'limited moral obligation' to participate in solving the funding deficit, all conversations with the City have indicated that they are willing to do so. The level of participation, which appears to be contingent on the current bondholders and CSUSA also participating, is the question.

Key points and suggestions from the City as to how to participate in a solution regarding the funding deficit for the school are as follows:

- Share the costs between the parties (City, CSUSA, current bondholders)
- Bondholders waive principal and interest for a period
- CSUSA to continue to waive fees
- Raise a capital appreciation bond in the amount of \$3.6 million that will be paid off beginning in 2014
- Use the \$500k debt reserve for expenditures relating to grade expansion
- Review whether the school is eligible for retroactive Impact Fees as taxes were collected in the City (Odyssey Charter received \$1 million)
- Implement a 'theme' for the school such as environmental technology

We agree with the City that the implementation of a theme for the school is important. In addition, that theme needs to be communicated and emphasized in the curriculum, in extra-curricular activities and in communication with the community, student body and with prospective students.

We agree with the City that careful review and consideration should be made as to whether the school is eligible for retroactive Impact Fees.

The City should provide a specific and fact based proposal on how to raise the \$3.6 million capital appreciation bond, including whether the bond will be taxable or tax-exempt, and how it will be sold given current market conditions. Such a proposal should consider the requirements of current stakeholders.

We discussed whether the school building could be used for an alternate purpose, such as adult education, in the evenings. This is an open question as Florida regulates the uses of a school building: people working out of the building may require a background check and fingerprinting in order to work from the location.

The City does not believe that the School Board has acted favorably to Charter Schools and continues to be difficult to work with. As an example, Sunrise Elementary opened the same day as the Patriot campus school and less than one mile away.

The City does not see any political ramifications from the Patriot campus school closing.

V. Financial Review

We reviewed the School's June 30, 2008 audited financial statements. The statements show that the General Fund has been exhausted: the statements include a receivable from CSUSA in the amount of \$116,198 that represents the accumulated deficit through June 30, 2008. If CSUSA had taken management fees the deficit would be much greater; this reflects the significantly lower revenues realized versus original projections.

The official paid enrollment for the 2007-2008 year was 943 students; the approximate enrollment for the current 2008-2009 school year is 749 students, a loss of 194 students. Note that the School principal was not aware of any specific reasons for the 20% drop in student enrollment and referred us to CSUSA for details. Specific data regarding the loss of students has not been obtained and further assessment in this area is warranted. We recommend interviewing current parents and students to determine their education preferences (academic, vocational etc.), comments, and commitment to remaining with the School. If contact information is available, we also recommend contacting former parents regarding their reasons for choosing an alternative school.

The fiscal year 2008-2009 budget is based upon the expected enrollment of 995 students. Therefore, the actual enrollment represents a revenue shortfall of approximately \$1,360,000 (net of a student transportation grant in the amount of \$153,065 not originally budgeted). The table below presents a summary of selected Academy general fund financial data for the 2007 and 2008 fiscal years:

	Financial statements ended June 30, 2007	Financial statements ended June 30, 2008
Revenues:		
State Sources	\$4,359,802	\$5,755,513
Federal grant funds (three year start-up grant)		128,750
Local sources (primarily federal food service revenue)	323,490	519,245
Aftercare	156,717	183,029
Total revenues	4,840,009	6,586,537
Expenditures:		
Direct instructional costs	2,542,063	2,851,274
Support cost	2,048,873	2,549,108
Debt service	-	1,055,511
Food Service costs	242,215	310,940
Total Expenditures	4,833,151	6,766,833
Net excess of revenues over expenditures	\$181,858*	\$(180,296)

*Amount represents the restated amount resulting from the development fee accrued in 2006-2007 but written off in 2007-2008 in the amount of \$175,000.

The table below shows selected financial data for the School's 2008-2009 forecasted budget as prepared by CSUSA:

	CSUSA Financial forecast for the year ending June 30, 2009
Revenues:	
State Sources	\$4,390,923
Federal grant funds (three year start-up grant)	128,750
Student Transportation grant	153,065
Pre-K Revenue	91,200
Food Service	334,473
Aftercare	171,128
Other revenue	96,809
Total revenues	5,366,348
Expenditures:	
Direct instructional costs	2,818,662
Support cost	2,300,244
Management Fee	818,111
Development Fee	175,000
Property Management Fee	175,000
Debt service	1,667,683
Food Service costs	349,255
Total Expenditures	8,303,955
Forecasted shortfall	\$(2,937,607)

We estimate that, subject to the distribution of students by grade, the School should establish a student enrollment goal of approximately 1,300 to 1,400 students. This is based on the above forecast before the expense reductions discussed below). Based on the current enrollment of 749, we believe it is unlikely that the School will attain this level of enrollment within a 2-3 year time horizon (even with the addition of high school grades).

In light of the current negative forecast, we recommend that negotiations be undertaken to eliminate the following payments:

1. Management Fee: \$818,111
2. Development Fee \$175,000
3. Property Management Fee \$175,000

Eliminating these expenditures reduces the above forecasted shortfall to (\$1,769,607).

Revenue enhancement opportunities are minimal as the majority of revenues are directly correlated to enrollment. Enrollment for K-8 students is unlikely to increase significantly due to poor test scores and little near-term population growth. As previously noted, increasing test scores takes several years³.

We recommend that the School pursue expansion from K-8 through K-12. Ideally, one grade would be added per year composed primarily of the previous year's oldest grade (i.e., for 2009-2010, the School would retain its 8th graders, forming the 9th grade class). This method results in the best possible test scores for each grade added. Composing the new grade of existing students is important as newly recruited high school students tend to have the highest levels of test score deficiencies.

We believe that increasing test scores is the most significant medium-to-long term solution for sustained increased enrollment. Therefore, based on our experience, a target of 75 students per expansion grade is achievable if the School's test scores are competitive and the school successfully adopts an academic theme that is well designed and appealing to the student and parents⁴. The School should also develop a student retention program aimed at retaining current students by stressing what the school has to offer and how it is a good fit for their future development.

In order to mitigate a concern that the School lacks extra-curriculum facilities we recommend that the School position itself as a 'college preparatory' high school focused on academic pursuits. Therefore, future capital outlays (especially for the 11th and 12th grades) should be on areas such as science labs and computers. Funding will be required for such projects and a source for such funding should be identified before embarking on the program.

In addition, the School and parties of interest should consider a partnership with a local community college. The ability for students to earn college credits is a draw for parents; the relative cost of acquiring such classes may be financially beneficial to the School. The School needs to also focus on a career / academic theme (such as environmental technology or language immersion) in order to distinguish itself from the local competitive market.

Note that the concepts of a college preparatory institution and a career/academic theme are not mutually exclusive. College preparatory demonstrates a dedication to academics geared towards a curriculum that prepares the students for college. It stresses academics over athletics and can turn a negative (no gymnasium) into a positive by saying that we focus our resources on the subjects that are going to be most vital to the student's success as an adult. The career/academic *theme* of the college preparatory is used to attract students and to form a specific identity for the existing student body and in the community, such as environmental technology or foreign language immersion. It can be a springboard for the student into a certain college program, or an underlying strength/discipline that helps the student succeed in whatever program they pursue.

³ At best, increasing test scores will take 2 years. This is only if the Principal of the school is an excellent leader. Increasing enrollment, while simultaneously increasing test scores, will only occur if such a Principal is also a leader in the community.

⁴ Note that the City also suggested that the School implement and communicate a theme.

Note that the School will qualify for Title 1 funds this year due to its percentage of 'free and reduced lunch' students. However, these funds are restricted to be used for supplementary academic purposes and cannot be used to 'supplant' existing or State-required academic programs. Therefore, the additional funds received from Title 1 funds should be treated as a wash as additional expenses will also be incurred. These funds could be used for extra-curricular activities that promote a 'college preparatory' program with an academic / career theme. The school has not yet received these funds or a 'school-wide' designation.

The opportunities for reductions in expenditures are minimal. The School currently has 51 teachers serving 749 students; an average student-to-teacher ratio of 15. The current count of 51 teachers represents a cut of 7 teachers versus the original budget.

We recommend further study to seek the potential reduction of as many of 5 additional teaching positions. Such a reduction would save approximately \$208,000 per year. The reduction of 5 teaching positions would increase the average student-to-teacher ratio to 16. Note that the average teacher salary approximates \$34,700, comparable to area charter school teachers and significantly lower than average area public school teachers⁵.

Transportation costs are a significant, but necessary cost in attracting students to the School. Charter schools (and most traditional schools) with good test scores do not, in general, need bus transportation. This is because parents are eager to get their children into the best schools. Until the School attains the reputation of being a school earning, and preparing students to earn, attractive test scores (or there is a return to significant population growth leading to a shortage of city-wide school capacity), the School will need to offer bus transportation. Where it is determined that the cost of additional busing can be justified (in our experience 10-15 additional students cover the cost of a bus), we recommend the expansion of busing. We also recommend that the availability of busing be aggressively used in the School's advertising and marketing efforts.

We recently assisted a charter school initiate a busing program, and concurrent advertising strategy, which was very successful. We can provide assistance in this area.

In non-instructional areas, the School has two assistant principals. We recommend having two assistant principals in a larger school. However, due to low enrollment the elimination of one assistant principal should be considered. Eliminating this position will save approximately \$58,000.

⁵ "Teachers work more for less" Florida Today, October 7, 2008. Average first year educator salary in Brevard County \$36,000; average salary \$37,300. Therefore average teacher salary is approximately 7% lower at Patriot.

The following table shows the 2009 projection period with the changes recommended above.

	Pro Forma with Reductions
Revenues:	
State Sources	\$4,390,923
Federal grant funds (three year start-up grant)	128,750
Student Transportation grant	153,065
Pre-K Revenue	91,200
Food Service	334,473
Aftercare	171,128
Other revenue	96,809
Total revenues	5,366,348
Expenditures:	
Direct instructional costs	2,610,662
Support cost	2,242,244
Management Fee	0
Development Fee	0
Property Management Fee	0
Debt service	1,667,683
Food Service costs	349,255
Total Expenditures	6,869,844
Forecasted shortfall	(\$1,503,496)

- a) Reduction in 5 teacher salaries: (\$208,000)
- b) Reduction in 1 assistant principal (\$58,000)
- c) Elimination of Management Fee (\$818,111)
- d) Elimination of Development Fee (\$175,000)
- e) Elimination Property Management Fee (\$175,000)

VI. Assessment of CSUSA

The School is managed by Charter Schools USA (“CSUSA”), headquartered in Ft. Lauderdale, Florida. CSUSA manages 14 charter schools and its staff includes experienced educators. As with most professional school management companies, the School’s employees are employed by CSUSA. An important benefit of this structure is that CSUSA is able to pool employees from all of their managed schools into a larger employment pool to obtain lower fringe benefit rates. Importantly, this avoids the requirement that a school’s employees participate in the Teachers’ Retirement System of Florida. CSUSA instead offers a 401(k) plan to the School’s employees, with a matching contribution of 25% up to the first 6% of salary contributed by the employee to the 401(k) plan, on a 4 year vesting schedule.

CSUSA contracts with the City to manage the School as the chartering authorization flows from Brevard County Public School District to the City of Palm Bay. The management contract is for fifteen years (commencing on August 31, 2004). It is automatically renewable for five year periods thereafter unless terminated in writing.

We reviewed CSUSA’s education/curriculum philosophy and overall management support system and concluded that they have a well-structured, research-based approach to managing charter schools. However, while a structured CSUSA approach may work in many situations, resolving the School’s issues will require creative and flexible solutions. Based on our experience with a number of similar size charter school management companies, certain of these solutions may be beyond CSUSA’s current capabilities.

The origins of the formation of the School were risky and highly dependent on the continuation of the then-current, favorable economic conditions. In 2004, the City was experiencing significant increases in housing and population. This appeared to assure that the School’s planned enrollment would be realized: the key driver of the school was the assumption that it would meet the needs of an expected and continued surge in population. However, the current downturn in the economic cycle and stagnant population in the City have shown this key assumption to be incorrect.

In addition to the risk of opening a school with lofty, projected population assumptions, other risks existed. The opening of a K-8 school for 1,600 students in a community with a reputation for relatively good schools, and where the next largest similar school had a population of only approximately 960 students gave the School no room for error and totally dependent on the lack of classroom space at other area schools. However, with high-quality schools in the vicinity, the School was unlikely to attract ‘the best and the brightest’ students. New schools in this situation attract students who were unsuccessful at other schools or are new to the area; often, such students bring lower test scores with them.

One of the key decision factors for parents of high-achieving students in determining where to send their child to school is the most recent test scores of area schools. As the chart below demonstrates, the School struggles to compete on a test score basis with other schools in Palm Bay. With a large student

body, it generally takes years (the more grades that are opened at one time, the longer it takes to remediate low test scores into higher test scores) to achieve competitive test scores with other high-achieving, established schools.

Finally, new schools with large populations tend to attract students with disciplinary problems. A school with disciplinary problems deters applications from good students and promotes a negative reputation that is difficult to overcome in the short term.

CSUSA, as experts in school planning, should have sought to stage the opening of the School for a population more commensurate with the populations of surrounding schools. Such a staged opening could have then provided for the optional mid-term flexibility of growing the School to a larger population once the school’s test scores were competitive.

However, now that the School is open with a student population of 749 students, the question is how to increase that student enrollment in a competitive environment with a steady population. As discussed in the sections above this includes:

- Grade expansion to K-12;
- Positioning the School as a ‘college preparatory’ institution;
- Emphasis of a school theme in the School, the community and to prospective students; and
- Most importantly, focusing on strategies for rapidly improving test scores

The following is a chart depicting the test scores of the public and charter elementary schools that provide competition within the School’s geographic area:

Palm Bay School	Grades	# of students	FCAT Math*	FCAT Reading**	FCAT Combined	Great Schools Rating***	Distance From Patriot
Lockmar Elementary	PK-6	742	358.5	339.5	698	10	5.3 mi
Royal Palm Charter	K-6	120	345.25	338.5	683.75	9	1.3 mi
Palm Bay Academy Charter	K-8	369	344.17	338	682.17	10	5.9 mi
Port Malabar Elementary	K-6	767	351	323.5	674.5	9	3.8 mi
Odyssey Charter	K-8	508	328.67	320.8	649.47	7	1.9 mi
Sunrise Elementary	PK-6	550	333.25	314.5	647.75	7	.8 mi
Christa McAuliffe Elementary	PK-6	916	330.25	314.8	645.05	7	4.7 mi
Palm Bay Elementary	PK-6	704	330.25	314.75	645	7	5.8 mi
Westside Elementary	K-6	773	326	318.3	644.3	7	2.7 mi
Discovery Elementary	PK-6	960	325	315.8	640.8	6	11.5 mi
Riviera Elementary	PK-6	610	321.25	310	631.25	6	5.5 mi
Jupiter Elementary	PK-6	792	321	309	630	6	4.7 mi
Columbia Elementary	PK-6	577	318.5	312	630.5	6	1.1 mi

John F. Turner Elementary	PK-6	690	308.75	304.3	613.05	4	3.0 mi
Patriot Charter	K-8	750	307.2	303	610.2	4	-
River's Edge Charter	K-8	346	291.2	286.6	577.8	2	6.5 mi
Riverdale Country Day	K-12	162	216.5	231.5	448	1	5.9 mi

*FCAT (Florida Comprehensive Assessment Test) District Mean – 341; State Mean – 313

** FCAT District Mean – 333; State Mean – 310

***Ratings based on assessment performed by Great Schools, Inc. a non-profit that provides rating of schools primarily based on test scores (<http://www.greatschools.net/>). We do not attest to the accuracy of the ratings, but it is used throughout the school education industry as one of many assessment tools.

CSUSA's size and commitment to the School has been demonstrated through CSUSA not receiving any management fees since the inception of the management agreement (this financial condition is not likely to change in the near to mid-term). Few management companies of their caliber are likely to show such commitment and wait for the School's turnaround.

CSUSA appears to be open to suggestions from outside their organization for improvements that would increase the School's revenues. As such, we would not recommend a change of management companies at this point in time provided, however, that CSUSA provide a specific, actionable written plan to close the gap between actual and viable performance with regard to the financial / debt structure and the educational offerings of the School. Such a plan should include broad strategic goals as well as short to medium term tactics to achieve long term viability.

Finally, we note the difficulties (if not impossibility) of making management company and / or significant professional staff changes during the school year.

VII. Summary and Key Recommendations

Based upon our review and analysis of information provided to us, information gathered from third party sources and our site visits, we conclude and recommend the following:

1. We conclude that the School does not have sufficient enrollment, and will not achieve sufficient enrollment in the short to medium term, to reach effective financial capability based upon current assumptions.
2. We recommend that the School pursue K-12 expansion. Ideally, one grade would be added per year composed primarily of the previous year's oldest grade. This provides the best means for maintaining test scores while expanding grades.
3. We recommend that the School position itself as a 'college preparatory' high school focused on academic pursuits. Capital outlays for such a grade expansion and positioning will include funds for science labs and computers. Potential funding sources should be identified prior to embarking on this project.
4. We recommend that the School and parties of interest consider a partnership with a local community college as part of a 'college preparatory' program. The ability for students to earn college credits is a draw for parents; the relative cost of acquiring such classes may be financially beneficial to the School.
5. We recommend that the School pursue a career / academic theme (such as environmental technology or language immersion) in order to distinguish itself from the local competitive market. This theme should incorporate extend to all grades of the School.
6. We recommend that the Academy's position of assistant principal at the approximate salary and fringe benefit cost of \$58,000 be eliminated.
7. We recommend the further study of the potential reduction of as many of 5 additional teaching positions. Such a reduction would save approximately \$208,000 per year. The reduction of 5 teaching positions would increase the average student-to-teacher ratio from 15 to 16.

Finally, we recommend that further analysis and consideration be given to the following:

- Pursuing conversations with other area charter schools regarding their interest in moving their operation within the School facility (a 'school within a school' concept);
- In depth review of the capabilities of the existing principal to determine if he is ideally suited for a challenged School;
- Interviews with parents and students (in person interviews or focus groups) to determine their education preferences and commitment to remaining with the School;
- The potential of raising additional capital (such as the \$3.6 million capital appreciation bond suggested by the City) to fund the School's losses until enrollment reaches break-even levels;

- Review of how to improve the relationship between the Brevard School District and the School;
- The potential of realizing retroactive Impact Fees due to the educational impact created by the development of additional housing – there is precedence for this with the award of Impact Fees to the Odyssey Charter

Appendix A: Report Recommendations By Category

OPERATIONS:

- We recommend that the School pursue K-12 expansion. Ideally, one grade would be added per year composed primarily of the previous year's oldest grade. This provides the best means for maintaining test scores while expanding grades.
- We recommend that the School begin pursuing specific conversations with other area charter schools regarding their interest in moving their operations within the School facility (a 'school within a school' concept).
- We recommend that an in depth review of the capabilities of the existing principal be performed in early 2009 to determine if he is ideally suited for a challenged School. We do not recommend a change in leadership during a mid-year point. An ideal replacement principal would generally not be available until the beginning of a school year.

CURRICULUM AND PROGRAMS:

- We recommend that the School position itself as a 'college preparatory' high school focused on academic pursuits. Capital outlays for such a grade expansion and positioning will include funds for science labs and computers. Potential funding sources should be identified prior to embarking on this project.
- We recommend that the School pursue a career / academic theme (such as environmental technology or language immersion) in order to distinguish itself from the local competitive market. This theme should incorporate extend to all grades of the School.
- We recommend that the School and parties of interest consider a partnership with a local community college as part of a 'college preparatory' program. The ability for students to earn college credits is a draw for parents; the relative cost of acquiring such classes may be financially beneficial to the School.

FINANCIAL:

- We recommend that the position of assistant principal at the approximate salary and fringe benefit cost of \$58,000 be eliminated.
- We recommend the further study of the potential reduction of as many of 5 additional teaching positions. Such a reduction would save approximately \$208,000 per year. The reduction of 5 teaching positions would increase the average student-to-teacher ratio from 15 to 16.
- We recommend the further study of the potential of realizing retroactive Impact Fees due to the educational impact created by the development of additional housing – there is precedence for this with the award of Impact Fees to the Odyssey Charter.