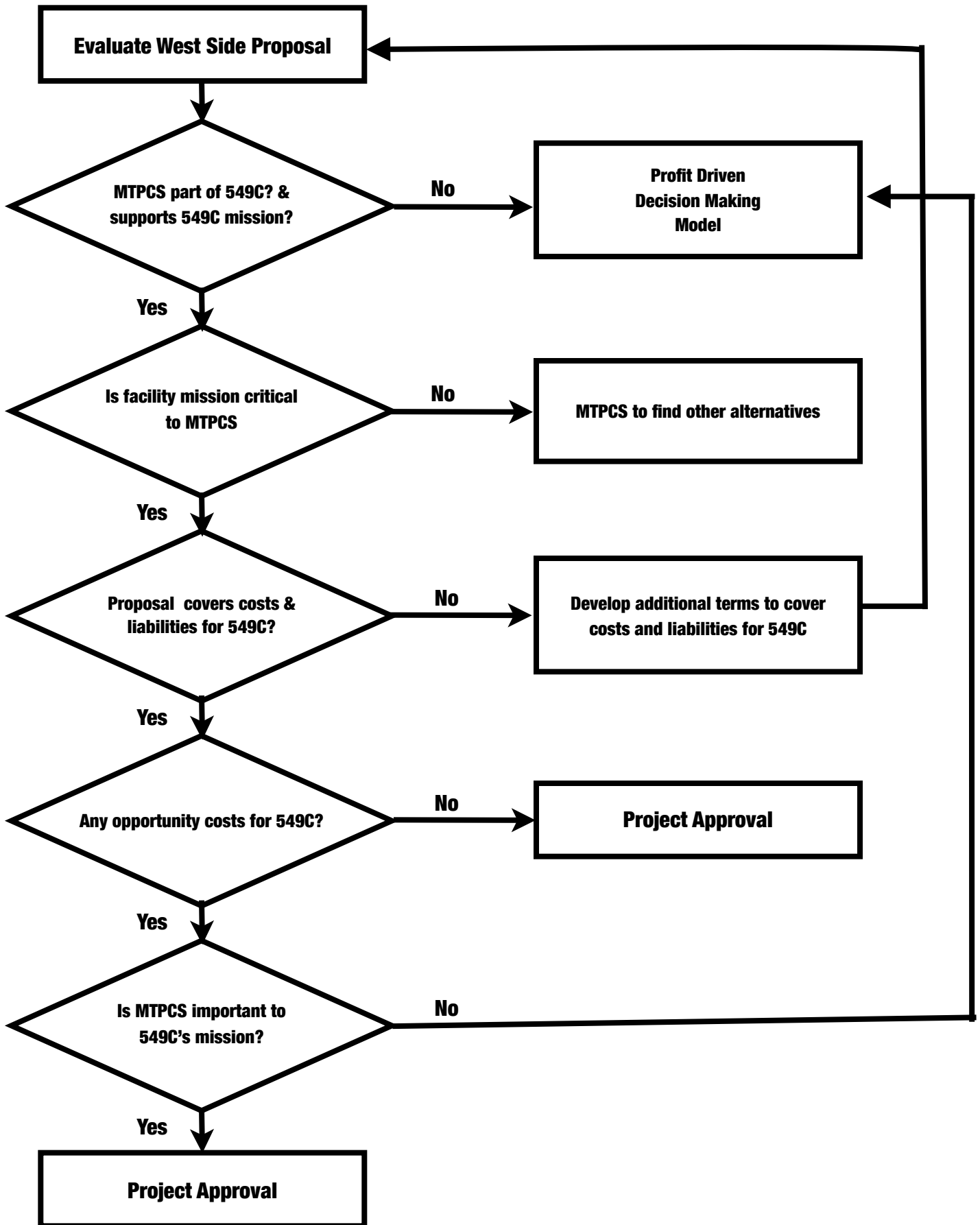


Mission Driven Decision Making Model Supporting West Side Facility Proposal



MTPCS and the Medford School District have been collaborating on the details of this agreement for more than nine months. The crux of the issues that are being considered seems to remain with the determination whether the optimal decision for 549C will result in 549C assessing a rental fee for MTPCS to occupy the West Side facility. In an effort to move the negotiation forward, MTPCS provides the following considerations in support of the decision making process:

Prior to establishing criteria for a particular decision making model, we would reiterate the position of both parties and the nature of the asset in question, the West Side Facility:

Medford School District 549C's Position:

549C is a government entity with the mission of providing and promoting public education within the Medford district boundaries. Being in this sector of the state government, 549C's operation is primarily cost based with the revenue coming primarily from the State School Fund. 549C in this economic downturn strives to maximize the return on investment of its assets, however, there is no mandate for 549C to engage in economic activities as part of its primary functional operation and objectives.

MTPCS's Position:

MTPCS is a charter school authorized by 549C per NCLB Title V

MTPCS is considered as a public school by NCLB Title V and it receives funds from the federal government and state government and the school does NOT charge tuition.

MTPCS provides additional choices within 549C offering

MTPCS keeps only 80% of the State School Fund and 549C keeps 10% - 20% of this fund as MTPCS's sponsor.

West Side Facility:

The West Side facility was built in the early 1900's for the purpose of accommodating a public school. The facility became obsolete in the 1980's; due to its small size; it is not a viable facility for a typical elementary school within 549C. The facility was leased to the Navy Reserve Center for close to 20 years prior to being remodeled to temporarily accommodate students from Jackson Elementary School. Following the relocation of the Jackson students back to their original facility, scheduled in December of 2009, the West Side facility will become a surplus asset of 549C.

Our goal is to try to establish objective criteria to be used to evaluate whether or not a rental fee is due by MTPCS for the West Side Facility.

Analysis of the West Side Facility

What is the primary purpose of this facility? Was the West Side Facility originally

Built for the purpose of accommodating a public school? Yes

Built as an investment that was meant to bring additional revenues to 549C? No

Has 549C ever charged any rental fee to any of the public schools occupying this facility? No.

We also established in previous meetings that other public schools within 549C do not pay rent for their facilities to 549C.

Analysis of MTPCS's position

Is MTPCS a public school? Yes, MTPCS is a quasi public entity funded by both the federal government and state government and does not charge tuition.

Is MTPCS part of 549C? Yes, 549C is the official authorizer of MTPCS.

How does MTPCS support 549C's mission?

MTPCS serves a K-4th population with a potential growth to a K-8th population within 549C district and surrounding areas. MTPCS provides public education to these students using a proven effective Waldorf-inspired method.

MTPCS presents an alternative choice for a segment of the underserved student population who might include homeschoolers, or families with students whose needs were not fully met by their previous experience in the public schools and private schoolers.

By addressing the needs of a segment the underserved student population, MTPCS presents an opportunity that did not exist before for this segment of students. MTPCS, **as a school of choice and one that was willingly selected by the students' families**, is in the position to provide these underserved students with the best chance to be successful learners today as they do not seem to respond to the mainstream educational approach and prepare them to become successful citizens tomorrow. For this reason, MTPCS does not compete with 549C but enhances its student options. **In effect, MTPCS furthers 549C's mission by successfully reaching out with its alternative educational approach to underserved students residing within 549C boundaries and surrounding areas.**

Analysis of the proposed terms of the agreement –

Do the terms cover the variable costs and insurance? Yes.

Will 549C incur additional liabilities with having MTPCS occupy the facility? No, actually the terms of the agreement will help 549C reduce its financial liabilities of holding a vacant facility.

Do the terms offer a payment of a rental fee? No. MTPCS is not in a financial position to pay a rental fee for the facility due to its 20% administrative fee payment to 549C, the budget reduction from the state, a sharp increase in overhead expenses estimated for the West Side facility, the school's small size and its under full capacity status, additional potential expenses with the transition year and potential loss of enrollment due to the relocation.

Does 549C have any opportunity costs at this time? None at this time. There is currently no prospective renter for the facility. The current commercial real estate market is depressed due to the downturn of the economy. In addition, due to issues with the water rights, MTPCS is the most suitable renter for the facility as it is a public entity with a focus on education.

The above analysis of the current situation and the terms of the agreement help establish the **following eight decision making criteria:**

1. Is MTPCS part of 549C? Yes.
2. Does MTPCS support 549C's mission? Yes.
3. Does MTPCS provide financial support to MSD through a 20% ADM contribution? Yes.
4. Is the facility mission critical to MTPCS? Yes.
5. Do proposed terms cover costs and liabilities for 549C? Yes.
6. Is there any opportunity cost for 549C? No.
7. Is MTPCS important to 549C's mission? Yes.
8. Does MTPCS increase the overall income of 549C through homeschool/private school student enrollment? Yes.

Other criteria to be considered:

1) Race to the Top Priorities and Guidelines:

The Race to the Top (R2T) priorities and guidelines published on July 29, 2009 in the Federal Register strongly emphasized support to charter schools among the top priorities. The guidelines indicated specific criteria with respect to support to charter schools, among them, providing access to public facilities.

As a school district that sponsors a charter school, 549C will be in an advantageous position to prove its support of these priorities and guidelines and join the state collective effort in this Race to the Top for additional federal funding that is critical to offset the state budget reduction in education funding.

The following is an excerpt from the Federal Register:

D) (2) Increasing the supply of high quality charter schools:

14(i) The extent to which the State has a charter school law that does not prohibit or effectively inhibit increasing the number of charter schools in the State (as measured by the percentage of total schools in the State that are allowed to be charter schools) or otherwise restrict student enrollment in charter schools

(ii) The extent to which the State has statutes and guidelines regarding how charter school authorizers approve, monitor, hold accountable, reauthorize, and close charter schools, including the extent to which such statutes or guidelines require that student academic achievement be a factor in such activities and decisions, and the extent to which charter school authorizers in the State have closed or not renewed ineffective charter schools.

(iii) The extent to which the State's charter schools receive equitable funding, compared to traditional public schools, and a commensurate share of local, State, and Federal program and revenue sources.

*(iv) The extent to which the State **provides charter schools with facilities funding (for leasing facilities, purchasing facilities, or making tenant improvements), assistance with facilities acquisition, access to public facilities, the ability to share in bonds and mill levies, or other supports;** and the extent to which the State does not impose any facility-related requirements on charter schools that are stricter than those applied to traditional public schools.*

2) Facility Bonds:

In the next academic year 2010-2011, public school students within 549C will be enjoying new or upgraded facilities. The two current school facility bonds assist 549C in building new facilities and renovating existing ones. The terms of this proposal will return the support that the Madrone Trail community itself extended to the school district via payment of these two facility bonds. A conservative estimated amount paid by the school community at full capacity will be approximately around \$40,000-\$50,000/year toward the two existing facility bonds – This estimated range of bond payment is close to the rent previously collected from the Navy Reserve Center– .

The children of the Madrone Trail families will likely not have a chance to enjoy the new and renovated facilities as they attend our public charter school, which was not included in the original bonds. If no agreement regarding a school facility can be reached with 549C, the underserved tax payers will find that either the educational opportunity offered by 549C will be closed due to a lack of facility or they will in essence have to pay more than once for their children's school facility, even though this school of choice is a publicly funded institution sponsored by the Medford school district.

The same situation applies to other stakeholders, such as faculty members and administrative staff, who will either face the end of an opportunity to make a difference in education or experience reduced resources to implement the program and a reduced pay scale as a result of having to meet the financial burden of a facility lease.

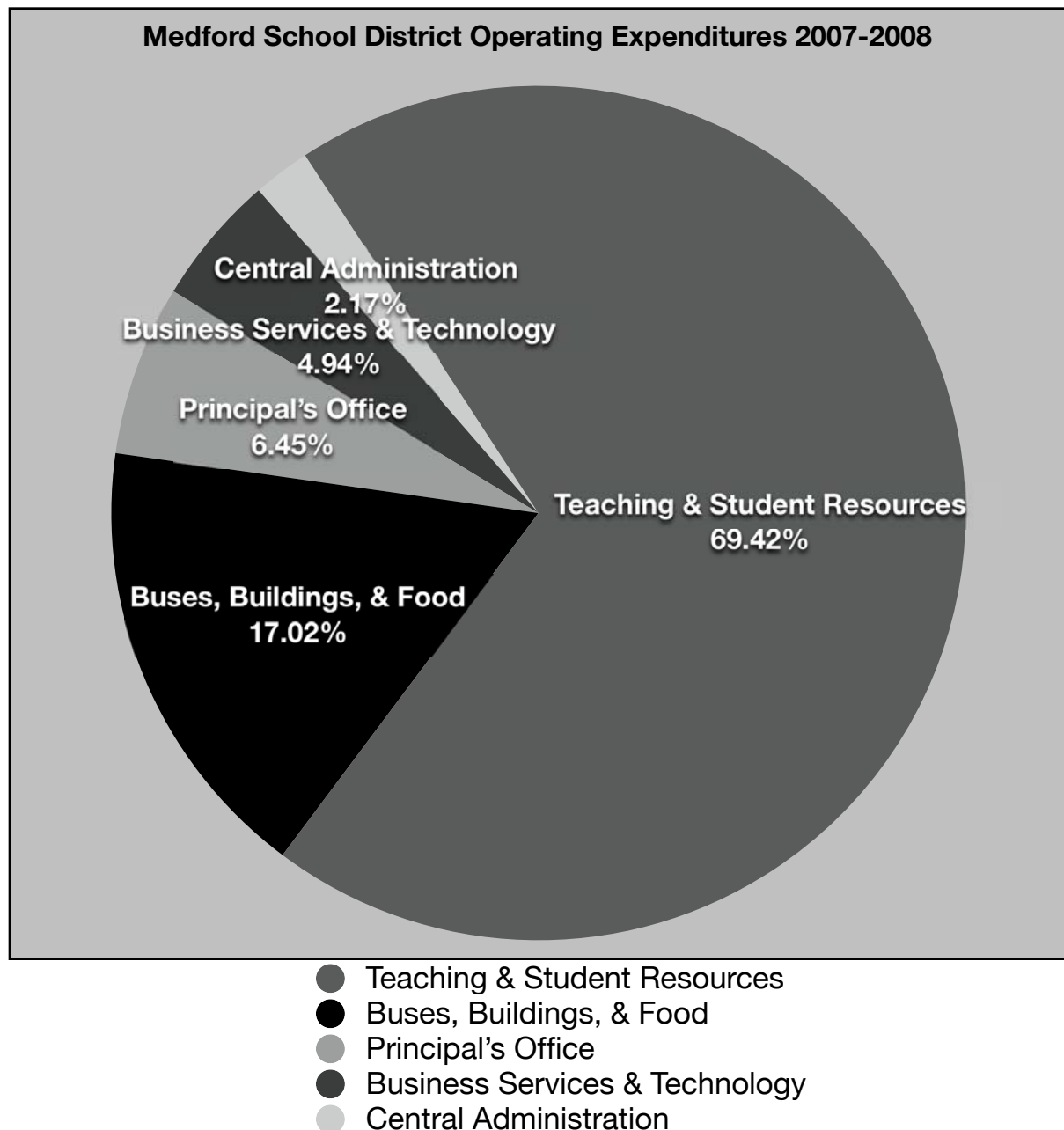
Potential Financial Losses from Dissolution of MTPCS

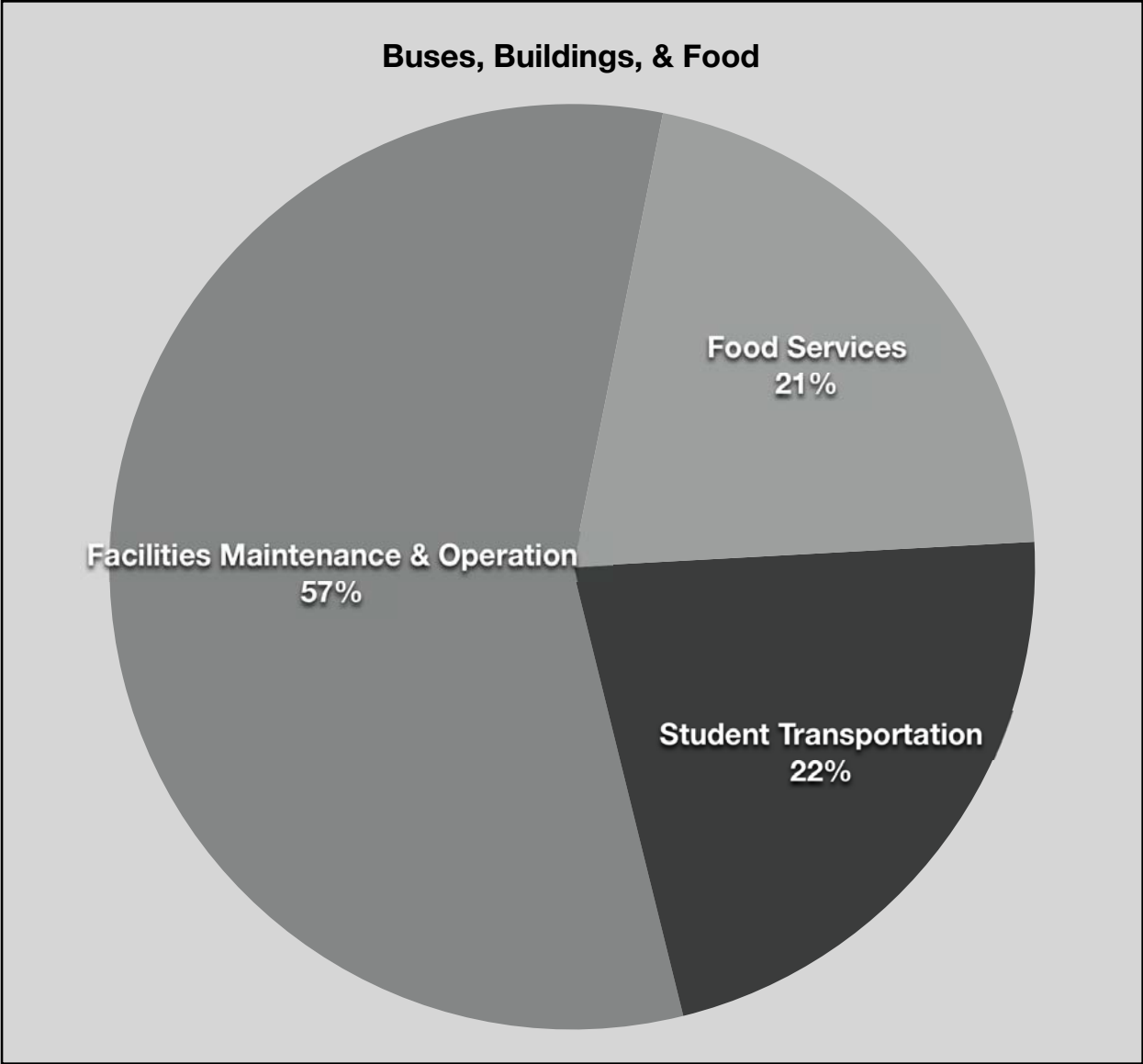
	# of Students	MTPCS Revenue	549C Revenue	Potential Losses from NR students	Potential Losses from R students 100%	Potential Losses from R students 20%	Potential Losses from R students 50%	Potential Losses from R students 70%
K - Resident	19	\$44,368.80	\$11,092.20		\$11,092.20			
K- Non Resident	3	\$7,005.60		\$875.70				
Grades - Resident	63	\$294,235.20	\$73,558.80		\$73,558.80			
Grades - Non Resident	26	\$121,430.40	\$15,178.80	\$15,178.80				
	111	\$467,040.00	\$100,705.50	\$16,054.50	\$84,651.00	\$16,930.20	\$42,325.50	\$59,255.70
Current Charter School Base per Student	\$5,838.00							
MTPCS ADM rate per student	\$4,670.40							
MTPCS Kinder rate	\$2,335.20							
549C revenue rate - Grade R	\$1,167.60							
549C revenue rate - Grade NR	\$583.80							
549C revenue rate - K R	\$583.80							
549C revenue rate - K NR	\$291.90							
K R - Kindergarten resident of 549C								
K NR - Kindergarten out of district								
Grade R - 1st - 4th graders resident of 549C								
Grade NR - 1st - 4th graders out of district								

Potential Losses from Dissolution of MTPCS

As the facility issue is mission critical for MTPCS, the potential dissolution of MTPCS becomes a looming threat that requires consideration as we do not have a viable alternative for the school's long-term plan.

The above figures are approximately net losses as the income from MTPCS is after most operating expenses. MTPCS hardly uses any general overhead services at the central offices from either the business side or the curriculum side. Even if 549C recaptures some of the students following the dissolution of MPTCS, the higher cost structure of the district will not net at 20% after operating expenses. The following pie charts with data source from Open Books Project reflect the cost structure of 549C in 2007-2008:





- Food Services
- Student Transportation
- Facilities Maintenance & Operation

Based on our charter agreement, Madrone Trail Public Charter School utilizes minimal resources from 549C:

Currently, the services used include: Access to the HP3000 system to report students' attendance (this is a very old technology representing a minor part of all the encompassing technologies that 549C supports for the other schools); OAKES assessment for only specific grades, DIBELS testing and TAG identification and assessment; charter requirements annual review by the Director of Elementary Education and an annual site visit by district officials.

In addition to having an independent curriculum, we provide our own instructional materials, professional development for teachers, payroll our teachers, educational assistants, administrators and support staff. We are autonomous with respects to our accounting, financial and municipal audit services and general governance. In the past two years, we have demonstrated that we are a financially self-sufficient and contributing school to 549C in several aspects. **In reality, out of our 20% contribution to 549C, it is estimated that a very minimal percentage was used for the actual oversight of our school.**

In effect, according to a research report by the Chalkboard Project, 'Charter Schools and Tax Credits', the 20% of funding that are kept by school districts for sponsoring K-8 charter schools have no basis in actual costs of overseeing charter schools.

'As noted in Improving Quality and Strengthening Accountability in Oregon's Schools (2005), policymakers justified providing schools with less than full funding as a way to compensate the district for transportation costs. This justification is somewhat questionable because of the size of the shortfall in funding cannot fully be explained by transportation costs. Moreover, charters themselves must defray many real estate costs not charged to traditional public school operating budgets. In many cases, such costs are greater than the costs associated with a transportation obligation. Indeed, some of those involved in the discussion of the current laws have noted that the formulas for funding charter schools have no cost basis and were simply compromises necessary to enact charter legislation into law.' (Charter Schools and Tax Credits research report, last paragraph, page 1.)

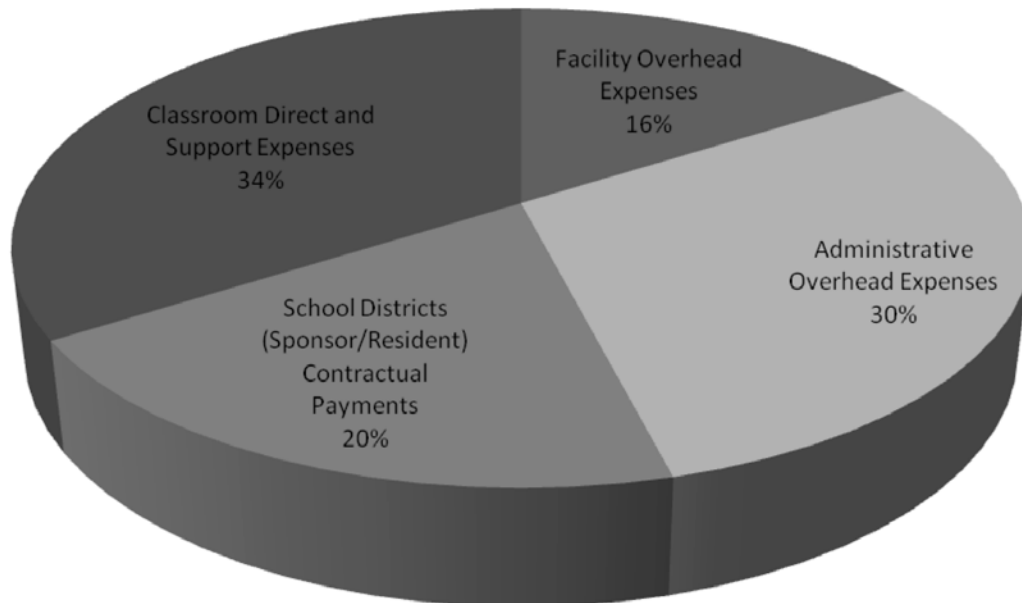
In the past, during the charter proposal process, 549C had to incur legal expenses to secure advice from OSBA attorneys and to develop the charter agreement. While it is legitimate to attribute the legal cost associated with the formulation of the charter agreement to the cost of sponsoring MTPCS, other legal expenses however, incurred for 549C board study session under OSBA attorneys' guidance and these attorneys' attendance at MTPCS's public hearing should also be allocated to Board of Education Services as these services serve to educate and guide board members on the concept of charter schools and their impact and the charter proposal process. These services occurred prior to MTPCS's existence and its approval. At best, MTPCS should be expected to bear these expenses partially and only in the year that the charter proposal was approved as this is not a recurring cost.

In addition, as indicated in the proposal, 549C will incur minimum upkeep costs of the building and insurance if the facility is left unutilized that can amount to over \$33,000. At today's enrollment and cost figures the total potential financial losses on an annual basis will be approximately around:

<u>Estimated % Loss of Resident Students</u>	<u>20%</u>	<u>50%</u>	<u>70%</u>	<u>100%</u>
Maintenance, utility and insurance costs:	\$33K	\$33K	\$33K	\$33K
Loss of all of out-of- district students	\$16K	\$16K	\$16K	\$16K
Estimated loss of resident students	\$17K	\$42K	\$59K	\$85K
Estimated Total Yearly Financial Impact on 549C	\$66K	\$91K	\$108K	\$134K

The estimated total yearly financial impact on 549C from the potential dissolution of Madrone Trail Public Charter School (MTPCS) including the maintenance, utility and insurance costs of maintaining the West Side facility should it remain vacant, loss of all of out-of-district students enrolled at our school and estimated loss of resident students will range from \$66,000/year to \$134,000/year. The financial impact due to loss of students will likely double when MTPCS reaches full capacity (222 students).

MTPCS Projected Operating Expenditures at West Side Facility



The above projected expenses represented in this pie chart are based on expense figures of last year at West Side as provided by school district officials, 20% contractual payments to sponsoring and resident school districts per our charter agreement, estimated property insurance premiums, and projected MTPCS administrative expenses.

Summary of Negotiation Points:

With respect to the utilization of the facility as described within the proposal:

Given the operating expenditure figures of 549C, and the minimal resources used by MTPCS, the 20% contribution of MTPCS would cover most of the variable costs of operating and maintaining the facility that MTPCS offers in this agreement. Based on OpenBooks Project data (Building – plant operation and maintenance = 57% of 17% of total budget or only 10% of total budget). The desirable outcome for MTPCS within this negotiation would have been to have most of the variable costs incurred in the operation and maintenance of West Side covered by 549C under the agreement. However, given the current economy, we understand that it will not be a reality. For this reason, we have offered, as an earnest gesture of good faith, to cover most variable costs associated with operating and maintaining the facility.

Based on the above estimates, our classroom direct and support expenses represent only 34% of the total budget. This percentage is less than half of the classroom direct and support expenses by the school district (69.42% - data from Open Books Project). To have a rental fee assessed in addition to the facility overhead costs and the 20% that 549C keeps will reduce the allocation of resources to the classroom to a level that is lower than 30% of the budget, jeopardizing the quality of the program and rendering this alternative educational opportunity unviable. **This financial reality serves as the basis of our formulation of the terms within this proposal.**

We understand that the desirable objective in this negotiation for 549C is to arrive at an agreement covering a rental fee for MTPCS's use of the West Side facility. However, as we have

demonstrated that this represents a prohibitively costly counter-proposal for MTPCS leading to its demise, both sides will not likely be able to bridge the gap of expectations in this negotiation, should we continue the discussion in that direction. Furthermore, although the current offer may not represent the most desirable outcome for 549C, **the decision making model illustrated above covers all necessary elements of a financially prudent and sound business decision indicating that the current proposal represents an acceptable and justified offer.**

Beside the burden of real estate costs, an expense that no other public schools within the district have to face, MTPCS is a financially viable entity contributing to the bottom line of 549C. In order to alleviate this burden of real estate costs, MTPCS is NOT requesting 549C to pay the rent of a third-party facility on our behalf; we are only requesting the use of a soon-to-be surplus asset while taking responsibility for the costs of operating the facility, maintenance and insurance expenses. This represents a value offer. **To abandon a financially viable entity that supports 549C's finances and overarching mission due to an expectation for profits that can be used as reserved cash or to subsidize other deficient areas of the school district would be an antithesis of sound business practices, especially when there is no opportunity cost involved.**

In addition, there are other significant losses and serious ramifications that follow:

- ✓ MTPCS students will lose their school of choice
- ✓ 549C will lose an alternative education within its offering
- ✓ Loss of past and potential financial and in-kind contributions from the business community
- ✓ Loss of financial leverage from the low cost structure of MTPCS in terms of dollars used to educate each child
- ✓ Loss of investments from the federal government in charter schools from the competitive federal incentive grant totaling \$480,000 approximately
- ✓ Loss of time and expertise contributed by teachers, board, founders, parents and administrator to build this alternative educational opportunity
- ✓ Show of lack of support of Race-to-Top priorities by 549C
- ✓ Show of lack of support of charter schools by 549C

With respect to a lease-to-purchase alternative:

Medford School District 549C administration proposes on October 27th, 2009 meeting:

- First 6 months (Jan-June 2010) free rent
- Following this period, 10c/sqft for the entire building = \$1,700/mo or \$20,400/year (this amount was changed from the previous meeting from 10c/sqft for occupied space only for the first year or \$1,100/month or \$13,200/year.
- \$5,000 deposit for damages
- Some additional earnest money to be specified if and when Madrone exercises the Buy Option

- Madrone has 3 years from July 2010 to buy the facility with all previous payments be credited toward the purchase price
- After 3 years, if the purchase option is not exercised, the rental price will increase to 20c/sqft

Madrone Trail counter-proposes:

- First 6 months (Jan-June 2010) free rent
- From July 2010 on, 10c/sqft for occupied space only **as earnest money**
- There will be an evaluation period to remove the following contingencies
 1. Both sides to agree on a fair price for the facility
 2. Madrone to secure financing terms from private sources or from 549C
 3. Inspection of building
 4. Confirmation from the Medford Water Commission regarding the transferability of the water right to Madrone

If and when all contingencies are removed, our earnest money will be committed and we have 3 years to exercise the Buy option from the date by which all the contingencies are removed with all payments of the earnest money be credited toward the purchase price.

If all contingencies cannot be closed by the end of December 2010 or it is known by that date or by an earlier date that the purchase will not be a viable option, we would like to have the facility rent free until June of 2011 and will move out by June 2011. (What it means is if we find out by Dec 2010 or earlier that the purchase is not a viable option then we don't lose the money that we put up since July 2010, in the meantime, we would be paying all costs associated with the operation and maintenance of the facility until June 2011, the date of our departure.)

Essentially, 549C proposed a lease-to-purchase, Madrone Trail proposes a lease-to-purchase with a risk free evaluation period since the only way we can afford to pay for the facility is to purchase it eventually. The difference is the timeline as to **when Madrone's commitment of the earnest money will start**, which is **when all contingencies are removed and the purchase is considered a viable option**. What we are trying to do is to **manage the downside risk if the purchase is not considered a viable option**. **If that is the case**, we have the facility rent free until June 2011 to find a new home. When the purchase is a viable option, the proposed terms not significantly different from 549C's proposal, except for the amount of the earnest money (payment for the entire building vs. occupied space).

Another alternative is that Madrone Trail will stay at the current location until all contingencies are removed. This is a straightforward option, however financially it is a lose-lose proposition since 549C will be paying to maintain an empty building and Madrone Trail will not have a campus that accommodates the students' needs in the meantime.