Introduction

AAHS has developed the attached startup and multiyear budget plan to cover the startup period through the 5th year of operations. The budget plan is conservative in both the revenue and expense assumptions and uses real-world assumptions from other charter schools. The budget is more than balanced in each year, establishing an operating cash reserve each year that will allow AAHS to be able to cultivate the cash and equity requirements for a new facility construction in its 3rd Year.

	FY 22	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**
	Y0	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**
Total Revenues	775,000	3,912,550	4,857,934	5,009,848	5,965,230	5,946,480
Total Expenses	748,451	2,081,245	3,992,271	4,904,209	5,741,707	5,937,671
Net Income (Loss)	26,549	1,831,305	865,663	105,639	223,523	8,809
Beginning Fund Balance	-	26,549	1,857,854	2,723,517	2,829,156	3,052,679
Ending Fund Balance	26,549	1,857,854	2,723,517	2,829,156	3,052,679	3,061,487
Total Enrollment	-	125	250	375	500	500

Startup Year

The startup year calls for $748K in spending to facilitate the planning and successful implementation of the proposed charter school. $251K of the $748K in budgeted spending is earmarked to pay (along with benefits) three staff members, the CEO, Director of Teaching & Learning, and Director of Operations, to engage in the various planning and implementation activities prior to the school opening its doors. Another $62K of the $745K budgeting is earmarked to support student and staff recruitment activities, as well as contracting with vendors and firms to ensure the school is adequately launced and represented legally and financially.

The balance of the planned startup spending is $436K, with $224K assumed in rental and occupancy costs to bring the proposed facility space under control and $203K in associated debt service from tenant improvements to get the space ready for use.

The budgeted spending is anticipated to be covered by several sources, including $200K of an assumed $1.5MM Charter Schools Program (CSP) grant through New Schools for Alabama, $325K from the Walton Family Foundation, $50K from the Daniel Foundation, and another $200K from the Charter School Growth Fund. While the $325K Walton Family Foundation Grant is the only funding that has been secured at this time, AAHS is anticipated to be highly competitive for all the other sources, particularly the CSP grant. In the event AAHS did not receive grant funding from the Charter School Growth Fund and the Daniel Foundation, it would likely rely more heavily on the CSP grant during the startup year, reducing its anticipated spending of the grant in future years. In the event that AAHS didn't receive the CSP grant as well, it would have to reach terms on deferred compensation agreements for staff until year 1. It would have to pursue a financial product that allowed for 100% financing of its facility along some sort of deferred debt service, to come at a more significant cost during its operating years. As an alternative, it would likely need to shelf its current facility plans in favor of working with a turnkey developer to acquire and rehab the building on its behalf, also to come at a more significant cost during its operating years. For the other areas of spending during the startup period, AAHS would work with vendors and service providers to provide vendor financing or extended payment terms. This is the approach charter schools who are otherwise resource-strapped during the startup period normally take.

Facility Plans & Debt Service

The facility budget and assumptions are built around the plan to rent and develop space from the Southern Museum of Flight through the end of FY 2024, at which point AAHS will move into a permanent space.

For the incubation space at the Southern Museum of Flight, AAHS is estimating it will take control of up 25,000 square feet and will invest $25 per square foot to convert the existing space into adequate instructional spaces through FY 24. 90% of the $625K in tenant improvements are anticipated to be financed through a 30-month amortizing loan at 5.5%, with the remaining 10% and any loan transaction costs paid out of the school's fund balance and operating reserve. Associated annual debt service will be $204K for FY 22, FY 23, and FY 24. During this time, AAHS anticipates it will have to pay a base rent of at least $12 per square foot per year to the Southern Museum of Flight.

AAHS will use up the time to then build up its cash reserves to pursue the construction of a 50,000 square foot permanent facility for opening in fall 2024. The estimated project cost, all in,

is estimated at $20MM or $400 per square foot. AAHS anticipates having to contribute about $2.45M in out-of-pocket expenses and equity contributions and then financing $18MM of the project. AAHS hopes to finance the transaction leveraging New Market Tax Credits to keep the cost of capital down to 5.5% with a 300-month amortization and 84-month maturity. This will require a refinancing at the end of FY 31. For the period of construction during FY 24, AAHS is anticipating paying interest-only or about $990K and then having recurring debt service of $1.33M starting FY 25 and every year thereafter.

Enrollment and Demographic Assumptions

The budget is built around opening with 125 9th Graders and adding a grade level through FY 26 until AAHS reaches 500 students, Grades 9 through 12. For planning purposes, it has assumed that about 76% of students will qualify for Free or Reduced Lunch (FRL) and about 15% of students will have an Individual Education Plan (IEP).

Revenue Assumptions for Years 1 through 5

The major revenue assumption for Years 1 through 5 is the Foundation Program, both the state and local components. The state and local components have been estimated at $4,874 and $1,287 per ADM. For the state component, AAHS reviewed the average amount paid per ADM at the 4 high schools in Birmingham City, available here: https://www.alsde.edu/dept/data/Foundation%20Reports%20Tabbed/FY%202021%20SupplementalSchool.pdf For the local component, AAHS calculated the average ADM rate of the 10 Mills divided by total district ADM, as found here: https://www.alsde.edu/dept/data/Foundation%20Reports%20Tabbed/FY%202021%20AllocationByDistrict.pdf In a given year, budgeting from the Foundation Program state and local components makes up anywhere from 20% to 50% of total budgeted revenues in a given year for AAHS. There is no assumed increase in this rate year over year.

In addition to the Foundation Program, using a similar methodology as above, AAHS has included assumed revenues through state categorical enhancements bundled on top of the base Foundation program, specifically allocations out of Nurse Funds ($68K per school), Tech Coordinator ($61K per school) Capital Purchase ($250 per ADM), and At Risk ($35 per ADM). There is no assumed increase in this rate year over year.

For federal categorical funding, AAHS has included estimates for Title I, Part A ($400 per FRL Student), Title II ($40 per FRL student), and IDEA Part B ($500 per Student with an IEP). These estimates are based on state-level and LEA-level allocations and federal rules for school and LEA distributions. AAHS also has budgeted $150 per new student added each year in one-time funding through the E-Rate program to fund telecom infrastructure and subsidize

recurring service costs. AAHS intends to register as a School Food Authority to be able to apply for federal reimbursements to cover or subsidize breakfast and lunch offered to students; this has been estimated at just under $778 per student. AAHS is aware the methodology for reimbursement is more nuanced and is driven by the type of meal served and the income level of a student receiving the meal in question and has budgeted for that nuance accordingly. .

In Years 1 and 2, AAHS has budgeted $1.3MM in CSP funds. As mentioned previously, AAHS is anticipating being highly competitive for this $1.5MM grant, and the amounts budgeted in Years 1 and 2 are the balance of the grant not spent in the startup period and it is meant to help schools in their first two years acquire the necessary materials, equipment, and services to implement its charter.

Given the unique nature of the proposed program and the intention to construct a new facility from the ground up, AAHS is estimating needing to secure and fundraise an additional $10MM in funding over the first 5 years to implement its program with fidelity, as well as undertake its capital plans.

Staffing & Salary Assumptions for Years 1 through 5

Staffing incorporates 14.5 staff in Year 1, with most significant growth in Years 2, 3, and 4, to 26, 36, and 44 staff, respectively, and 45 staff by Year. The specifics of each position and the rationale of the timing of when those staff members come on in a given year has been outlined in other aspects of this charter application, and the budgeted staffing is a reflection of that. Salaries budgeted for each position and position type are based on both local and regional market data for compensation in other charter schools. In the case of teaching staff in particular, the average is representative of a wider range AAHS expects to see as it hires teaching staff, with those with limited or no experience coming in below the average and those with more substantive experience coming in above the average. Positions not reflected in the staffing model like finance or janitorial are budgeted as contracted or outsourced services. Starting in Year 2, despite no assumed increase in rates for the Foundation Program, AAHS has assumed a 2% year over year increase to all compensation.

Employer Tax and Benefit Assumptions for Years 1 through 5

AAHS knows compensation represents only part of cost of staff, and accordingly has budgeted the associated taxes and benefit expenses. Specifically, it has included in its budget each year 6.2% of all wages for the employer portion of Social Security and 1.45% of all wages for the employer portion of Medicare. It has budgeted $200 per employee for State Unemployment Insurance. As a proposed 501c3, it has not budgeted anything for FUTA as it will be otherwise exempt from federal unemployment.

AAHS assumed an employer contribution, on average, of $6,00 to subsidize health (medical, dental, and vision) benefits. It has also budgeted employer contributions of 0.1% of total wages towards disability insurance and 1.25% of total wages towards workers' compensation insurance. Lastly, it has budgeted an employer contribution of 12.43% of total compensation towards participation in the TRS pension system, recognizing that not all staff may be eligible to participate. To the extent a staff member cannot participate in TRS, AAHS will identify an alternative retirement option and redirect the earmarked employer contributions accordingly.

Facility Expenses

AAHS anticipates financing both tenant improvements for its incubation space through FY 24, as well as the full build of a brand-new facility. This debt service has been accounted for in the budget. For the incubation space, it has assumed it will pay the Southern Museum of Flight $12 per square foot on an annual basis for leasing the space, in addition to the financed tenant improvements.

Separate from debt service payments, AAHS has budgeted various utilities and facility operating expenses tied to an assumption of $6.20 per square foot with a 25,000 square foot estimated footprint during incubation and a 50,000 square foot estimated footprint at its permanent site. Starting in Year 2, despite no assumed increase in rates for the Foundation, AAHS has assumed a 1.5% year over year increase in facility operating expenses.

All in, about 33% of the AAHS operating budget will go towards related facility expenses (rent, debt service, and facility operating expenses) which is higher than AAHS would like but represents a conservative planning picture. AAHS will be working with its facility and financial planning partners to figure out a way to drive the cost down.

Expense Assumptions for Years 1 through 5

In addition to extremely detailed staffing, benefits, and facility expenses and assumptions, AAHS has put together an extensive set of budget assumptions for about 50+ additional line items mapping out planned spending around supplies and materials, equipment, furniture, and technology, and other critical operating expenses. Expenses cover the typical spending within a charter school, from academic to administrative in nature. The assumptions for line items are linked to initial discussions with specific vendors or they are based on spending levels and strategies at other charter schools. Expenses have been mapped out over a 5-year period to outline which expenses should be expected to be constant and which ones should change each year and the relevant driver. In most cases, the driver is enrollment, though the reality is the driver of each expense will be far more nuanced than that. Despite no assumed increase in

Foundation Program funding, most of the expense line items have incorporated a 1.5% year over year increase starting in Year 2.

Contingency Planning

By assuming the Foundation Program stays flat year over year, while building in an assumed increase in operating costs year over year, AAHS has developed a budget with limited opportunity for financial shortfalls. Additionally, by targeting sizeable operating incomes each year and a growing fund balance, AAHS built in some capacity to absorb shortfalls out of its cash reserves.

Revenue shortfalls do occur, primarily driven by missed enrollment targets or fundraising. In order to avoid this situation, part of the contingency planning includes ensuring adequate spending towards student recruitment and marketing. In the startup year alone, AAHS has earmarked about $5K towards those initiatives, making missed enrollment targets less likely.

Should AAHS miss its enrollment targets or fundraising, AAHS would make targeted cuts to address that shortfall. Part of this work starts with a break-even analysis. In conducting an in-depth break-even analysis as part of the charter application process, AAHS has determined that by just adjusting line items driven by the number of students and not changing any of the proposed staffing, it could miss its enrollment targets by 20% and still balance its budget. This would however likely jeopardize its longer-term facility plans and it would need to likely scrap a new building and look to stay in the incubation space more permanently.

The most tenuous part of the proposed budget plan is the amount of fundraising associated with pursuing a new building. AAHS needs to build up its cash resources to be able to meet equity contributions, as well as service the associated debt with constructing a $20MM facility. The good news is AAHS will know very early on if it can pursue a new building or not. Because it will need to demonstrate to a lender that it's going to have at least 10% to go towards the new facility, if it can't fundraise $2MM in Year 1, it will not have the funds available or financial credibility to continue pursuing a new building. This will then force AAHS to pursue a cheaper but perhaps less preferred approach of making the Museum of Southern Flight a more permanent home.

There is no simple panacea to address a revenue shortfall, but the reality is that the rebalancing of the budget may not be difficult depending on the circumstances. The break-even analysis shows that there is a way to scale back the budget without significant change or impact to the proposed school. AAHS understands the spending plan in a given year needs to be carefully aligned to the resources available in a specific period, while still ensuring that the mission and

the goals of the charter can still be prioritized and met. AAHS has the benefit of experts on both its facility and financial planning teams to help it navigate any shortfalls.

Cash Flow Contingency

AAHS has prepared projected cash flows for Year 0 and Year 1, which frontloads a lot of initial expenses early in each year to align with the purchasing of materials and equipment, while otherwise being conservative in the planning of the receipt of revenues. All other expenses have been projected evenly throughout the year. To the extent there is a mismatch or delay in the Foundation Program funding or another funding source, AAHS will pursue vendor financing and payment terms that allow for net 30, net 60, and net 90 payment. Additionally, AAHS will also prioritize during the startup period cultivating a banking relationship to secure a working line of credit. If AAHS finds itself in the position where these cash flow contingency solutions are not adequate, it will take steps to reduce or eliminate spending altogether until its revenue inflows have stabilized.

Note on Accounting Basis

For the purposes of demonstrating financial viability on both a budgeted and cash basis, the startup and multiyear budget plan has been presented on a cash basis, even though it is expected that AAHS will prepare and issue financial statements on an accrual basis. What that means for the reader of the budget plan is that there are a number of items that would likely be capitalized and either amortized or depreciated over a period of time. That capitalization and subsequent amortization or depreciation would not impact the projected cash, but it would meaningfully improve net income based on GAAP. For example, the principal portion of debt service in each year would actually not come out of net income, but rather it would reduce a loan liability on its balance sheet.

Note on Budget Template

Due to the restrictive nature of the state template provided, we were limited in our ability to present more nuanced calculations, specifically the limits on drivers (3) and budget categories. In our internal budgeting, we were able to budget with more driver specificity such as change in enrollment or change in staff or square footage or change in square footage as a few examples. As a result, we have been forced to simplify the budgeting assumptions to make the template work for the application purposes and would welcome the opportunity to submit an alternative budget and format that provides a more robust and detailed financial plan.