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Federal Rule 26(a)(2)(B)
REPORT OF PLAINTIFF'S ECONOMIC EXPERT
Redwood Christian Schools v. Alameda County
March 26, 2006

1. My name is Phillip H. Allman.
2. My resume is attached to this report. I received a Ph.D. in economics from Michigan State University in 1982. My primary fields of expertise are financial and labor economics. I have published articles in economics on topics such as forecasting interest rates, wage growth, and valuing pensions. I have testified in over 300 trials involving the valuation of economic damages. My fee schedule for report preparation and testimony is attached. The list of trials and depositions in which I have testified over the last four years is attached.
3. I have been retained by plaintiff's counsel to conduct an analysis of the economic loss sustained by Redwood Christian Schools as a result of being denied a conditional use permit in 2001 and delay in construction of a new school located at 6365 Palo Verde Road. This report assumes the permit will be granted in July 2006 and classes will begin at 6365 Palo Verde Road in September 2009.
4. To perform the economic loss analysis I have:
 - reviewed statements of the financial position of Redwood Christian Schools for the fiscal years 1997-2005 prepared by Glenn A. Miller, CPA
 - reviewed data on enrollment, tuition, and teachers' salaries at Redwood Christian Schools
 - reviewed data on enrollment at Castro Valley Unified
 - reviewed data on estimated construction costs for the facility at 6365 Palo Verde Road
 - visited the site where Redwood Christian School proposes to build their new facility
 - reviewed data past corporate bond rates from the Federal Reserve Bank
 - projected future interest rates based on data from the Federal Reserve Bank and the U.S. Bureau of Labor Statistics.
5. Redwood Christian Schools has sustained two categories of loss resulting from the delay in the construction of their new facility – net assets and construction financing. The net assets loss derives from a decline in enrollment and revenues due to the new facility not being built. The financing loss derives from the increased cost to build the new facility between 2000 and October 2006.

6. The net assets loss is projected by determining the difference in yearly net asset accumulation if construction had started as scheduled versus construction starting in October 2006. When the conditional use permit was denied in 2001, enrollment at Redwood Christian Schools was 1,126 with an annual growth rate of 3.0 percent since 1998 (see the attached Figure 1). Net assets (total revenues – total expenses) for the fiscal year ending June 2001 were \$772,000.¹ Following the denial of the permit, enrollment has fallen to 845 for the 2005-06 school year (see Figure 1) and subsequently net assets fell to \$254,202. If construction had begun as scheduled, it is projected that net assets would have been \$822,000 for 2002 and would have grown to \$1.67 million for 2005.² The difference between the projected net assets and the actual net assets is \$454,204 in 2002 and \$1.41 million in 2005. This projection is based on the following: (1) enrollment at Redwood Christian Schools would have grown at the same pace as Castro Valley Unified School District if the new facility had been built, (2) expenses for administration would have grown in line with the rate of growth in tuition and enrollment, and (3) expenses for salaries would have grown in-line with the rate of growth in enrollment and the actual increases in teachers salaries. The net assets loss is projected until the start of the 2014-15 school year. If construction of the new facility begins in October 2006, it is assumed that enrollment will “catch up” to the projected enrollment if construction had started in 2000 (see Figure 1). Thus, net asset losses will stop at that date.

7. Two projections of the financing loss are computed. The first assumes that donors would have financed the entire cost of the facility. The second assumes that the cost of the facility is financed through loans. Both projections rely on estimated construction costs of \$21.6 million if construction had started in 2000 or \$37.1 million if construction starts in October 2006. If donors had financed the construction of the facility, the projected loss is the difference between the estimated costs in 2000 versus 2006. If the construction costs were financed through loans, the loss is the difference in the present discounted value of loan payments starting in 2000 versus starting payments in 2006. The financing costs assume an interest rate based on corporate AAA bonds and payments over a 30 year period. If financing started in 2000, the monthly cost is projected at \$143,705. Due to the drop in interest rates since 2000, it is assumed the loans would have been refinanced in 2003. This would lower the monthly payment to \$130,505 per month. If financing started in October 2006, the monthly financing cost is projected at \$222,433.

8. All future values are discounted to present value using an interest rate of 5.0 percent. This rate is based upon the historical yield of a balanced portfolio three-month and ten-year Treasury securities. Since 1955, the average yield has been 2.0 percent higher than the rate of inflation. The rate of inflation is projected to be 3.0 percent in the future.

¹ For a complete accounting of projected revenues and expenses see the attached Tables A and D.

² This value excludes the cost of financing the new facility. These costs are accounted for in the financing loss calculation.

9. The past period for the net assets loss begins on July 1, 2001 and ends on the current trial date (June 24, 2006). During this time period, the net assets loss for Redwood Christian Schools is **\$5,334,444**.

10. The future period for the net assets loss begins on June 25, 2006 and ends on June 30, 2014. During this time period, the present discounted value of the net assets loss for Redwood Christian Schools is **\$9,740,696**.

11. The total net asset loss is the sum of the past and future net asset losses and sums to **\$15,075,140**.

12. The period for the financing loss is January 1, 2000 to June 30, 2036. If the construction financing was done through donations, the loss is **\$15,500,000**. If the financing was done through loans, the presented discounted value of the loss is **\$8,980,431**.

13. The total economic loss is the sum of the net asset loss and the financing loss. If the construction financing was done through donations, the present discounted value of the loss is **\$30,575,140**. If the financing was done through loans, the presented discounted value of the loss is **\$24,055,571**.

14. The attached tables detail the calculations of the losses described above.

15. I am prepared to testify to these projections in deposition or at trial if called upon to do so.

16. The projections are based on the cited references and sources. Thus, these figures are subject to change if the parameters on which they were based change.

Phillip H. Allman, Ph.D.