

**CHARTER SCHOOL FACILITIES PROGRAM
2009-2010 FUNDING ROUND
STAFF SUMMARY REPORT – MAY 2010**

Applicant/Obligor:	Ocean Charter School
Project School:	Ocean Charter School
CDS (County – District – School) Code:	19 64733 0102335
Proposed Project Location:	To be determined, West Los Angeles
Project Type:	New Construction
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$21,175,488
State Apportionment (50% Project Cost):	\$10,587,744
Lump Sum Contribution:	\$750,000
Total CSFP Financed Amount:	\$9,837,744
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$501,194
First Year of Occupancy of New Project:	2012-13

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Ocean Charter School (“Ocean” or “OCS”) is financially sound for purposes of the Charter School Facilities Program (Program) Preliminary and Advance Apportionments, but not for purposes of a Final Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination. This determination is contingent upon Ocean’s execution of an Implementation Agreement with CSFA, the State Controller’s Office and CDE, at the appropriate time, whereby CSFA will intercept the Ocean’s state-aid portion of its General Purpose Block Grant at regular intervals to satisfy the payment requirements of its CSFP obligations.

Application Highlights: Below staff has highlighted key criteria that were evaluated when conducting our financial soundness review of Ocean Charter School. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	Ocean has met all Program eligibility criteria, including: 1) having a charter in place; 2) fulfilling the requirement for two academic years of operations; and 3) being in compliance with the terms of its charter and in good standing with its chartering authorizer.
Demographic Information	Ocean currently serves 348 students in grades K-8, and has projected enrollment to increase to 420 students in 2012-13 and 2013-14 (first year of CSFP repayments), continuing higher to 460 students in 2014-15. OCS has recorded ADA rates of 97%, 96%, 95% and 95% for 2006-07 through 2009-10 (P2).
Debt Service Coverage	Projected debt service coverage ratios will meet the minimum Program requirement of 100% at 101.1%, 103.0% and 113.8%, when including contributions, for the first three years of CSFP payments commencing in 2013-14. Debt service coverage calculated without contributions is projected to be insufficient. Ocean is reliant on contributions, projected at 16% of total revenues in 2013-14, and an initial lump sum payment of \$750,000 to meet the minimum debt service coverage requirement.
Other Financial Factors	<ol style="list-style-type: none"> 1. Projected ratios of CSFP payments to total revenues are 14.4% (2013-14), 14.1% (2014-15) and 13.7% (2015-16), which is at the top of the preferred maximum of 10-15%. 2. Net working capital for 2008-09 of \$1,311,210 represented 49.5% of total expenses, which greatly exceeds the preferred minimum of 5.0%.
Student Performance	Ocean has met all 9 of 9 AYP criteria for the past four years. In addition, API growth scores have increased each year from 802 in 2005-06 to 896 in 2008-09. Ocean's statewide and similar schools rankings were 8 and 5 (10 = best), respectively, in 2008-09.

Program Eligibility: On January 5, 2010, the Los Angeles Unified School District verified Ocean is: 1) in compliance with the terms of its charter agreement, and 2) in good standing with its chartering authority. The school confirmed the initial charter was approved in 2003 and renewed in 2008. The current charter is valid through June 2013.

Legal Status Questionnaire: Staff reviewed Ocean's responses to the questions contained in the Legal Status Questionnaire (LSQ). Ocean responded: "OCS has no known disclosures" to any civil or criminal matters.

Project Description: Ocean is seeking new construction of a 23-classroom facility in the West Los Angeles area to house all 460 students in Kindergarten through 8th grade. The school is currently divided between two locations. The South Campus is a leased, two-story building on Culver Boulevard in Los Angeles, which serves students in grades K-3 and includes a small library, special resource room, and storage. The North Campus is shared space on the Walgrove Elementary School campus on Appleton Way, Los Angeles, and serves students in grades 4-8. Capacity at the two locations is 420 students.

Organization Information: Ocean is a K-8 grade charter school with 501(c)(3) non-profit public benefit status as West LA Waldorf Method Charter School D/B/A Ocean Charter School. The school received its first charter in 2003 and began instructional operations with the 2004-05 school year, with 194 students in grades K-6. The school currently serves 348 students in grades K-8 and plans enrollment to increase to 460 in 2014-15.

The school describes itself as the only Waldorf-informed charter school in the Los Angeles region and the largest of its kind in the United States. Its Whole Child Curriculum integrates the arts into every aspect of the program allowing children to learn academic content and meet California Academic Achievement Standards in an approach that is developmentally appropriate, meaningful, and multidimensional. The school further describes a vital element to their competitive advantage is the method of looping teachers in their two-year Kindergarten program, where the students' Kindergarten teacher remains a constant as they develop a community together and prepare for first grade. Teachers in grades 1-3 remain with their classes in those three years, allowing teachers a better understanding of each child's learning style and the advantage of adapting their own teaching style to each child. Likewise, teachers in grades 4 to 6 and grades 7 to 8, remain with their classes.

Educational Management Organization: Not applicable.

Management Experience: The resumes of the school's personnel and the management team demonstrate professional, experienced and qualified individuals serving in key capacities within the organization.

Stephanie Edwards has served as Executive Director at Ocean since 2008. Previously she worked as a teacher for Capistrano Unified School District and Director/Teacher of Kindergarten at Journey School, a K-8 charter in San Clemente. Ms. Edwards earned her Bachelor of Arts in Liberal Studies at California State University, San Bernardino, and has a Multiple Subject Teaching Credential from the University of California, Irvine.

Kristy Mack-Fett, Director of Ocean's North Campus since 2009, previously served as Ocean's Assistant Director and Education Coordinator from August 2006. Ms. Mack-Fett earned a Bachelor's of Arts in Comparative Area Studies: Certificate in Women's Studies from Duke University, North Carolina and is in the process of earning a Doctorate in Education (Ed.D.) in Educational Leadership from the University of California, Los Angeles.

Board Experience: Ocean is governed by a Board of Trustees based on a consensus model involving key stakeholders such as parents, teachers, staff, and community members. Its Board Trustees, which may include 7–20 members, currently includes members with a variety of occupations and experiences, as noted below.

Board Member	Joined Board	Current Expiration	City of Residence	Occupation
Dean Kubani, Chair	2008	2012	Santa Monica	Director, Office of Sustainability and the Environment, City of Santa Monica
Kami Cotler, Vice Chair	2008	2010	Los Angeles	Principal, Environmental Charter Middle School

Board Member	Joined Board	Current Expiration	City of Residence	Occupation
Elizabeth Koravos, Treasurer	2008	2011	Los Angeles	Development Director of Venice Arts
Susan Addison, Secretary	2008	2011	Los Angeles	Architect, Addison Schierbeek Architects
Jami Bright	2009	2011	Culver City	Teacher, Ocean Charter School
Elizabeth Brownlow	2009	2012	Culver City	Marketing & Communications Consultant, Nestle
Stephanie Edwards	NA	NA	San Clemente	Executive Director, Ocean Charter School
Charles Francis	2009	2010	Santa Monica	Director, DVD Budgeting/Estimating, Warner Brothers/Warner Premiere
Jason Haas	2006	2012	Culver City	Attorney-at-Law, Theodora Oringher Miller and Richman PC
Joan Jaeckel	2009	2012	Studio City	Consultant
Tamar Kern	2002, 2007, 2009	2012	Los Angeles	Teacher, Ocean Charter School
Kristy Mack-Fett	NA	NA	Los Angeles	Director, Ocean Charter School
Fran Montano	2009	2012	Westchester	Owner, The Actors Workout Studio
Nile Park	2009	2010	Los Angeles	Senior Director, Food Arts Group
Wendy Teeter, Ph.D.	2004	2010	Venice	Curator of Archaeology, Fowler Museum, UCLA

Management Experience for Schools Open Less than Two Years: Not applicable. Ocean began instructional operations in 2004, which exceeds the requirement for two years of management charter experience.

Student Performance: Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school’s financial position. Schools with improving student performance trends are viewed favorably, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by the CDE. The API is also used as an indicator for measuring AYP per the No Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of federal Title I funds.

Ocean has four years of reported API scores, allowing a review of progress and comparison to similar schools. Ocean met all 9 of 9 AYP criteria for each year from 2005-06 through 2008-09. Additionally, the school has met growth targets each year and achieved base scores of 802, 823, 847, and 896 between 2005-06 and 2008-09. The school received a statewide ranking of 8 and a similar schools ranking of 5 in 2008-09, the most recent year reported.

Ocean Charter School	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	Yes	Yes	Yes
Criteria Met / Required Criteria	9 / 9	9 / 9	9 / 9	9 / 9
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	7	7	8	8
API Base Similar Schools Rank (10 = best)	N/A	4	2	5
School's Actual Growth	25	24	28	54
Similar Schools Median of Actual Growth	N/A	10	7	13
Did School's Growth Exceed Median?	N/A	Yes	Yes	Yes

Enrollment and Retention Rate Information: Ocean began instructional operations in 2004-05 with 194 students in grades K-6. In 2005-06, grade 7 was added and in 2005-06, grade 8 was added. Ocean has continued to show steady growth with student enrollment of 348 students in grades K-8 for the current academic year. Ocean has projected enrollment to consistently increase to 372, 396, 420, and 420 students during 2010-11, 2011-12, 2012-13 (year of project occupancy), and 2013-14, respectively. By 2014-15, the enrollment is expected to level off at 460 students. OCS has recorded ADA rates of 97%, 96%, 95% and 95% for 2006-07 through 2009-10 (P2).

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate Ocean’s ability to meet its CSFP obligation. The table on the following page summarizes key aspects of the school’s past and projected financial performance. *Staff’s analysis of financial performance includes adjustments for depreciation, capital outlay and loan repayment; therefore, our results may differ from audited figures.*

Staff’s evaluation of Ocean’s financial performance is based on review of the following documents: (1) Ocean’s audited financial statements for 2005-06 through 2008-09; (2) Ocean’s second interim budget for 2009-10; (3) Ocean’s budget projections for 2010-11 through 2015-16; and (4) Ocean’s current enrollment for 2009-10 as well as projected average annual enrollment for 2010-11 through 2015-16.

Ocean’s financial projections and projected debt service coverage are based upon the following assumptions: (1) an interest rate of 3.0% on the CSFP local matching share amortized over 30 years; (2) total project costs of \$21,175,488, as provided by the Office of Public School Construction; (3) a lump sum payment of \$750,000; (4) project occupancy by the 2012-13 school year; (5) increases in enrollment from 348 students for the current 2009-10 academic year to 420 students for 2012-13 (first year of project occupancy), and to 460 students by 2014-15 and 2015-16 (refer to the Enrollment Information section above); (6) projected ADA rates of 95% for 2009-10 through 2015-16; (7) revenue growth (cost of living adjustments) to the general purpose block grant funding rate of 1.0% for 2010-11, 1.5% for 2011-12, and 2.0% for each year from 2012-13 through 2015-16; and (8) projected contributions in the amounts of \$354,600 for 2009-10, \$379,510 for 2010-11, \$403,510 for 2011-12; and \$427,966 annually from 2012-13 through 2015-16.

Ocean Charter School	Actual	Actual	Actual	2nd Interim	Projected	Projected	Projected	Projected	Projected	Projected
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
ENROLLMENT PROJECTIONS										
Enrollment	262	295	320	348	372	396	420	420	460	460
Average Daily Attendance	254	284	304	331	353	376	399	399	437	437
Average Daily Attendance (%)	97%	96%	95%	95%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS										
Total Revenues Available for CSFP Payment	\$ 2,154,338	\$ 2,752,742	\$ 3,010,542	\$ 2,845,166	\$ 2,928,700	\$ 3,155,922	\$ 3,395,887	\$ 3,477,017	\$ 3,570,005	\$ 3,666,778
Total Expenses Paid Before CSFP Payment	2,189,319	2,411,951	2,649,344	2,820,436	2,919,987	3,088,364	2,917,172	2,991,147	3,074,543	3,117,164
Accounting Adjustments	35,540	29,584	28,905	21,912	21,463	21,463	21,463	21,463	21,463	21,463
Net Revenues Available for CSFP Payment	\$ 559	\$ 370,375	\$ 390,103	\$ 46,642	\$ 30,176	\$ 89,021	\$ 500,178	\$ 507,333	\$ 516,925	\$ 571,077
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,914	\$ 501,914	\$ 501,914
Net Revenues After CSFP Payment	\$ 559	\$ 370,375	\$ 390,103	\$ 46,642	\$ 30,176	\$ 89,021	\$ 500,178	\$ 5,419	\$ 15,011	\$ 69,163
FINANCIAL INDICATORS										
Net Revenues Available for CSFP Payment	\$ 559	\$ 370,375	\$ 390,103	\$ 46,642	\$ 30,176	\$ 89,021	\$ 500,178	\$ 507,333	\$ 516,925	\$ 571,077
Debt Service Coverage by Net Revenues	N/A	101.1%	103.0%	113.8%						
Contributions	\$ 245,035	\$ 327,572	\$ 335,198	\$ 354,600	\$ 379,510	\$ 403,510	\$ 427,966	\$ 427,966	\$ 427,966	\$ 427,966
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	15.8%	17.7%	28.5%						
CSFP Lease Payment / Revenues	N/A	14.4%	14.1%	13.7%						
Contributions / Revenues	11.4%	11.9%	11.1%	12.5%	13.0%	12.8%	12.6%	12.3%	12.0%	11.7%
Net Revenues After CSFP Payment / Revenues	0.0%	13.5%	13.0%	1.6%	1.0%	2.8%	14.7%	0.2%	0.4%	1.9%
Revenues / ADA	\$ 8,482	\$ 9,693	\$ 9,903	\$ 8,596	\$ 8,297	\$ 8,393	\$ 8,511	\$ 8,714	\$ 8,169	\$ 8,391
Expenses / ADA	\$ 8,619	\$ 8,493	\$ 8,715	\$ 8,521	\$ 8,272	\$ 8,214	\$ 7,311	\$ 8,755	\$ 8,184	\$ 8,282
Surplus (Deficit) / ADA	\$ (138)	\$ 1,200	\$ 1,188	\$ 75	\$ 25	\$ 180	\$ 1,200	\$ (40)	\$ (15)	\$ 109
Net Working Capital	\$ 904,779	\$ 1,277,755	\$ 1,311,210							
Net Working Capital / Expenses	41.3%	53.0%	49.5%							

Projected Contributions: Ocean's future reliance on contributions to make debt service payments is supported by the school's documented track record of raising funds for school operations, and other purposes. Ocean has raised the following net amounts of contributions: 2004-05 - \$162,367; 2005-06 - \$116,555; 2006-07 - \$245,035; 2007-08 - \$327,572; and 2008-09 - \$335,198.

Ocean representatives conveyed to staff that they have a contribution goal of \$1,500 per student. Contributions averaged \$1,059 per student from 2007-08 through 2009-10 (second interim). Contributions are projected to average \$990 per student from 2010-11 through 2015-16. If OCS is successful in fundraising \$1,500 per student, then actual contribution revenue will exceed projected levels.

Long Term Debt: According to Ocean's 2008-09 audited financial statements and Second Interim budget report, Ocean does not have any long term debt. The only loan reported is that the school was accepted into the California Department of Education's Charter School Revolving Loan Program in 2004-05. The school received a loan in the amount of \$250,000 bearing an interest rate of 2.30 percent, which was repaid over four years with the final \$63,760 payment in 2008-09.

Financial Performance/Change in Net Assets: For 2005-06 through 2008-09, OCS recorded the following increases (decreases) to net assets: \$381,268, (\$34,981), \$340,791 and \$361,198. Excluding the contributions noted above, OCS would have recorded the following operating surpluses (deficits) in the same years: \$264,713, (\$280,016), \$13,219 and \$26,000. Based on second interim data for 2009-10, OCS is expected to book an operating deficit of \$329,870 which, when adjusted for anticipated contributions of \$354,600, would result in an increase to net assets of \$24,730. Similar financial performance is projected for 2010-11 and 2011-12 with respective increases to net assets of \$8,713 and \$67,558. In 2012-13, when Ocean is scheduled to occupy the CSFP facility and cease making lease payments to LAUSD for its two existing facilities, net assets are forecast to increase by \$478,715, net of anticipated contributions of \$427,966. Prior to CSFP payments, which are expected to commence in 2013-14, Ocean forecasts the following annual increases to net assets: \$485,870 in 2013-14, \$495,462 in 2014-15 and \$549,614 in 2015-16.

Projected Debt Service Coverage of CSFP Payments – Ocean's financial projections indicate the school will be able to afford the projected annual CSFP payments for the new construction project with its forecasts of contributions and enrollment growth, and an initial lump sum payment of \$750,000. Given a projected CSFP payment of \$501,914, Ocean's net revenues (including contributions) of \$507,333 during the first year of CSFP payments, 2013-14, would provide debt service coverage of 101.1%. During the second and third years of CSFP payments, Ocean's net revenues would provide debt service coverage of 103.0% and 113.8%. Without contributions, Ocean's debt service coverage ratios for the first three years of CSFP payments would not meet the minimum 100.0% required by Program regulations. Ocean's annual CSFP payment of \$501,914 would annually average 14.1% of projected revenues, placing this indicator at the top of the preferred maximum target of 10-15%.

Liquidity: Liquidity is measured in terms of net working capital (NWC) and is calculated by subtracting current liabilities from current assets. Ocean's NWC for 2007-08 was \$1,277,755, or 53.0% of total expenses. For 2008-09, this figure grew slightly to \$1,311,210, or 49.5% of total expenses. Staff considers NWC equivalent of at least 5.0% of total expenses to be sufficient.

Ocean is pledging \$750,000 million in cash on hand toward its CSFP project cost in order to reduce the program loan amount to \$9,837,744. (Staff will require that these pledged funds become restricted assets of OCS.) After reviewing bank and other account statements, staff has confirmed that OCS possesses these funds at the present time.

Strengths, Weaknesses and Mitigants:

- + Ocean met all AYP criteria for each of the past four years from 2005-06 to 2008-09, and its API growth scores grew steadily from 802 to 896 in the same four year period.
- + Ocean is projected to have debt service coverage ratios of 101.1%, 103.0% and 113.8%, including contributions, for the first three years after project occupancy.
- + Ocean has a strong fundraising track record raising an average of \$315,000 per year over the last four years.
- Ocean will rely heavily on contributions to meet minimum debt service coverage requirements. Projected debt service coverage ratios would be 15.8%, 17.7% and 28.5% without contributions.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Ocean Charter School is financially sound for the purposes of the Charter School Facilities Program preliminary and advance apportionments. This determination as it relates to an advance apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination. This determination is contingent upon Ocean's execution of an Implementation Agreement with CSFA, the State Controller's Office and CDE, at the appropriate time, whereby CSFA will intercept the Ocean's state-aid portion of its General Purpose Block Grant at regular intervals to satisfy the payment requirements of its CSFP obligation.