

## MEMORANDUM

## Staff Summary No. 6

**Date:** June 8, 2016

**To:** Members of the California School Finance Authority

**From:** Katrina M. Johantgen, Executive Director

**Subject:** Resolution 16-18 – Approval of the Revolving Loan Fund Program Recommendations and Amounts (Action Item)

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Below staff chronicles the timeline of events for the 2015-16 funding round of the Charter School Revolving Loan Fund Program (CSRLF):

- In December 2014, the California School Finance Authority (CSFA) posted the CSRLF application for the 2015-16 funding round. CSFA notified all California charter schools of the availability of the 2015-16 CSRLF funding round application, and required all applications to be submitted to the Authority by February 24, 2016 at 5:00 P.M.
- In total, 41 CSRLF applications were received, of which two were received after the deadline and were not eligible for review.
- Since February, CSFA staff has been assessing the 39 on-time CSRLF applications, following the framework established by statute and regulation, and the review process and methodology attached in Exhibit A.
- Pursuant to CSRLF Program regulations, staff has been reviewing two tiers of applications: (1) the 27 schools opening in 2016-17 that were considered priority one applications; and (2) the 12 schools that have already opened and were classified as priority two applications.
- Loan requests from priority one schools opening fall 2016 totaled \$6.75 million, while loan requests from priority two totaled \$2.9 million. The total loan request of \$9.65 million exceeded available loan funds of approximately \$9 million.
- At its May 19, 2016 meeting, CSFA approved 18 priority one schools for loans totaling \$4.5 million.

CSFA staff is currently reviewing both the remaining priority one applications and the priority two applications. Out of the remaining nine priority one applications, two applications were deemed ineligible for program funds and two schools have withdrawn their applications. Out of the 12 priority two applications, two applications were deemed ineligible for program funds. Because the six schools are no longer in review, there is now funding available for the remaining 15 applicants (requests totaling \$3.65 MM), if recommended. These 15 applicants include five priority one applications and ten priority two applications. For your review and consideration, staff provides our summary findings for each school in the attached Exhibit B.

Staff is working to disburse loan funds to as many schools as possible prior to the end of the State's June 30 fiscal year end. In order to receive funding through the Program, schools must be approved by the Authority board, must have their County-District-School (CDS) Code in place, and must provide an executed loan agreement and governing board resolution to the Authority.

CSFA staff plans to bring remaining recommendations to a future board meeting.

**Recommendation:** Staff recommends that the Board adopt Resolution No. 16-18 approval of the revolving loan fund recommendations and amounts to the schools in Exhibit B. Staff is charged with providing schools with notification of loan approval, distributing loan agreements, executing loan agreements, and carrying out all necessary steps to disbursing funds to schools.

## Exhibit A

### Charter School Revolving Loan Fund Program

#### Application Review Process

1. **Application Eligibility & Package Review**: Confirmed that the submittal complied with application terms such as:

- Met application deadline
- Met eligibility requirements set forth in regulations (Section 10170.18)
- Submitted required documentation with signatures, where applicable
- Loan request is less than or equal to \$250,000
- Repayment period is 5 years or less

**Prioritization of Applications:**

- a. Reviewers took the funding preferences set forth in the governing statute and Program regulations into account for purposes of prioritizing schools applying for loans. Specifically, Section 41365(e) of the Education Code states that, "Priority for loans from the Charter School Revolving Loan Fund shall be given to new charter schools for startup costs." Based on this provision in the law, Program regulations reflect similar preferences; therefore, staff determined that applications for loans to schools opening in 2016-17 would be given priority over applications for schools that opened in 2015-16 or earlier, resulting in two tiers of priority, "priority one schools" and "priority two schools."

2. **Operational Analysis**: Determined whether minimum qualifications were met such as:

- Has approved charter in place
- Detailed business plan and/or charter petition
- Board of Director listing with no apparent conflicts
- Key staff resumes demonstrate relevant education and experience
- Projected enrollment and ADA supported by student enrollment and/or waiting lists
- Students population seems comparable to the demographic in the school's proposed location
- Evidence of a facility use agreement or draft agreement, if applicable

3. **Financial Analysis**: Conducted fiscal evaluation based on a variety of indicators and critically analyzed financial data and ratios against benchmarks and industry practice using an internally created financial model to identify fiscal strengths and weaknesses such as:

- Availability of other sources of funding

- Impact of loan on other financing
- Reasonableness of budget assumptions
- Alignment of revenue and expenditure projections with comparable data available from the California Department of Education, California Department of Finance, and National Charter School Resource Center
- Calculated financial ratios within range when compared against benchmarks
- Focused on debt service coverage with and without net assets and contingencies

4. **Loan Recommendations:** Considered all operational and financial information and assumptions for each loan and performed the following:

- Assigned risk levels—low, moderate, or high
- Sort applicants by priority and region in accordance with California Code of Regulations §10170.17(l) through (o), if oversubscribed
- Assess geographical distribution for reasonableness, if oversubscribed
- Based on the availability of funds, recommended specific loans for approval or non-approval

5. **Consideration of the Charter Term:**

- a. Furthermore, staff used Section 10170.21(b) of the Program regulations to decide the specific loan amount and repayment period of each recommended loan. The regulations state that the Authority may consider the term of the charter as well as the loan amount in determining the repayment period. This year, to further protect Program funds from defaulted schools, staff based the approved loan amount and repayment period on the school's charter term. Staff recommended that each applicant have a repayment period that does not exceed the school's charter term and a loan amount that the school is able to repay within the loan term.

Exhibit B

Charter School Revolving Loan Fund Program

2015-16 Recommended Loans

#	Charter School Name	County	Award Amount
1	Ballington Academy for the Arts & Sciences - San Bernardino	San Bernardino	\$250,000
2	Excellence Performance Innovation Citizenship (EPIC) Charter School	Orange	250,000
3	Rocketship Franklin McKinley	Santa Clara	250,000
4	Rocketship Mt. Diablo	Contra Costa	250,000
5	Redding STEM Academy	Shasta	250,000
<b>TOTAL</b>			<b>\$1,100,000</b>

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<b>Applicant</b>	Ballington Academy for the Arts & Sciences - San Bernardino
<b>CDS Code</b>	36-67876-0133892
<b>Charter #</b>	1795
<b>Charter Term</b>	2015-2018 (3 yrs)
<b>Opening Date</b>	8/22/2016
<b>CMO/EMO (If Applicable)</b>	NA
<b>Chartering Authority</b>	San Bernardino City Unified School District
<b>County</b>	San Bernardino
<b>Requested Loan Amount</b>	\$250,000
<b>Requested Loan Term</b>	5 years
<b>**Loan Recommendation**</b>	Staff is recommending that Ballington Academy for the Arts & Sciences - San Bernardino (Ballington) be awarded a \$250,000 loan for a term of 2 years, the length of the remaining charter term.
<b>Staff Considerations &amp; Findings</b> <ul style="list-style-type: none"> <li>➤ Business/strategic plan</li> <li>➤ Outreach</li> <li>➤ School Demographics</li> <li>➤ Key Staff Education/ Experience</li> <li>➤ Facility Lease Agreement (If Applicable)</li> <li>➤ Enrollment</li> <li>➤ Financial Analysis</li> </ul>	<ol style="list-style-type: none"> <li>1. The mission of Ballington is to provide all students with meaningful learning experiences through the integration of arts, sciences and technology.</li> <li>2. The school's marketing plan details community outreach at local libraries, community club-houses, businesses, and other community organizations. The marketing plan also provides for the preparation and distribution of recruiting materials in English and Spanish. Among recruitment activities are: presentations to local preschools, door-to-door recruitment in targeted areas, radio advertising, and advertising in local newspapers and newsletters.</li> <li>3. The school projects that its student demographics will consist of the following: 72% Latino, 8% White, 14% African American, and 6% other, as well as 27.7% EL and 80% FRPM.</li> <li>4. Resumes of key staff show individuals with strong education and charter school experience.</li> <li>5. The school has a lease with NMSBPCSLDHB, a California Limited Partnership in San Bernardino with an annual lease costs ranging from about \$440,000 in Year 1 to about \$480,000 in Year 5.</li> <li>6. The school provided a current enrollment/interest list of approximately 85 students in the spring. Ballington's Volunteers of America operated Early Head Start and preschool programs in San Bernardino which will funnel the school's future enrollment.</li> <li>7. The school meets debt service coverage requirements in all years of repayment.</li> <li>8. The school's financial projections show sufficient net assets in all years of repayment.</li> <li>9. Availability of other sources of funding include: Approximately \$575,000 from the Public Charter School Grant Program.</li> </ol>

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<b>Applicant</b>	Rocketship Franklin McKinley
<b>CDS Code</b>	43-10439-0133496
<b>Charter #</b>	1778
<b>Charter Term</b>	2016-2021 (5 yrs)
<b>Opening Date</b>	8/1/2016
<b>CMO/EMO (If Applicable)</b>	Rocketship Inc.
<b>Chartering Authority</b>	Santa Clara County Office of Education
<b>County</b>	Santa Clara
<b>Requested Loan Amount</b>	\$250,000
<b>Requested Loan Term</b>	4 years
<b>**Loan Recommendation**</b>	Staff is recommending that Rocketship Franklin McKinley be awarded a \$250,000 loan for a term of 4 years.
<b>Staff Considerations &amp; Findings</b> <ul style="list-style-type: none"> <li>➤ Business/strategic plan</li> <li>➤ Outreach</li> <li>➤ School Demographics</li> <li>➤ Key Staff Education/ Experience</li> <li>➤ Facility Lease Agreement (If Applicable)</li> <li>➤ Enrollment</li> <li>➤ Financial Analysis</li> </ul>	<ol style="list-style-type: none"> <li>1. The school has a thorough and reasonable business/strategic plan.</li> <li>2. MISSION: Rocketship Franklin McKinley (RSFM) will eliminate the achievement gap by graduating students at or above grade level in Literacy and Math. RSFM seeks to create a future in which thousands of children from San Jose have graduated from four-year colleges and have come back to eradicate the last traces of the achievement gap.</li> <li>3. Among the school's marketing techniques are: creating flyers and brochures written in English and Spanish to hand out to the public; inviting community members to monthly school meetings; and use of print media, newspapers in particular, to increase public interest. .</li> <li>4. The school projects that its student demographics will consist of: 50% English Language Learners; and 70% free or reduced priced meal.</li> <li>5. Resumes of key staff show individuals with strong education and charter school experience with masters and/or bachelor degrees.</li> <li>6. The School has a lease with Launchpad Development Sixteen LLC in San Jose with annual lease costs (base rent) ranging from about \$400,000 in Year 1 to about \$440,000 in Year 5.</li> <li>7. At time of submission, RSFM had 407 applications, and due to the high demand for Transitional Kindergarten (TK), the school opened an additional cohort of 75 students starting with TK.</li> <li>8. The school meets debt service coverage requirements for 5 out of 5 years.</li> <li>9. The school's financial projections show sufficient net assets available in years 2016-17 through 2019-20.</li> <li>10. Availability of other sources of funding include: Walton Foundation Grant, SB740, and a federal grant.</li> </ol>

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<b>Applicant</b>	Rocketship Mt. Diablo
<b>CDS Code</b>	Pending
<b>Charter #</b>	Pending
<b>Charter Term</b>	2016-2021 (5 yrs)
<b>Opening Date</b>	8/1/2016
<b>CMO/EMO (If Applicable)</b>	Rocketship Inc.
<b>Chartering Authority</b>	State Board of Education
<b>County</b>	Contra Costa
<b>Requested Loan Amount</b>	\$250,000
<b>Requested Loan Term</b>	4 years
<b>**Loan Recommendation**</b>	Staff is recommending that Rocketship Mt. Diablo be awarded a \$250,000 loan for a term of 4 years.
<b>Staff Considerations &amp; Findings</b> <ul style="list-style-type: none"> <li>➤ Business/strategic plan</li> <li>➤ Outreach</li> <li>➤ School Demographics</li> <li>➤ Key Staff Education/ Experience</li> <li>➤ Facility Lease Agreement (If Applicable)</li> <li>➤ Enrollment</li> <li>➤ Financial Analysis</li> </ul>	<ol style="list-style-type: none"> <li>1. The school has a thorough and reasonable business/strategic plan.</li> <li>2. MISSION: Rocketship Mt Diablo (RSMD) will eliminate the achievement gap by graduating students at or above grade level in literacy and math. RSMD seeks to create a future in which thousands of children from Concord have graduated from four-year colleges and have come back to eradicate the last traces of the achievement gap.</li> <li>3. The school’s marketing techniques include creating flyers and brochures written in English and Spanish to hand out to the public and inviting community members to monthly school meetings.</li> <li>4. The school projects that its student demographics will consist of: 50% English Language Learners, and 70% free or reduced priced meal.</li> <li>5. Resumes of key staff show individuals with strong education and charter school experience with masters and/or bachelor degrees.</li> <li>6. The school is in the process of leasing a prop 39 site from Mt. Diablo Unified School District.- possible locations are at Silverwood Elementary School, located at 1649 Claycord Ave, Concord, CA 94521 and Ayers Elementary School, located at 5120 Myrtle Dr., Concord, CA 94521</li> <li>7. The school has indicated that due to the delay in getting an approved charter petition, RSMD will open in a temporary facility in the 2016-17 school year. As a result, enrollment projections have been reduced to 250 students in the first year. The last school Rocketship opened, Rocketship Redwood City Prep, which opened in August 2015, opened in a Prop 39 space with about 250 students. A similar outreach and recruitment plan will be used for RSMD.</li> <li>8. The school meets debt service coverage requirements for 4 out of 5 years. Due to the school not initially meeting 1x debt service coverage, the CMO has optioned to subordinate the CMO fee for the school, resulting in the</li> </ol>

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	<p>school now being found financially sound for purposes of receiving the Revolving loan.</p> <ol style="list-style-type: none"><li>9. The school's financial projections show sufficient net assets available in years 2016-17 through 2020-21.</li><li>10. Availability of other sources of funding include: SB740, PCSGP &amp; Walton grants</li></ol>
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<b>Applicant</b>	Redding STEM Academy
<b>CDS Code</b>	45-10454-0132944
<b>Charter #</b>	1770
<b>Charter Term</b>	2015-18 (2yrs)
<b>Opening Date</b>	7/1/2015
<b>CMO/EMO (If Applicable)</b>	NA
<b>Chartering Authority</b>	Shasta County Office of Education
<b>County</b>	Shasta
<b>Requested Loan Amount</b>	\$250,000
<b>Requested Loan Term</b>	5
<b>**Loan Recommendation**</b>	Staff is recommending that Redding STEM Academy be awarded a \$250,000 loan for a term of 5 years. The school plans to renew their charter with Shasta County by the end of their charter term.
<b>Staff Considerations &amp; Findings</b> <ul style="list-style-type: none"> <li>➤ Business/strategic plan</li> <li>➤ Outreach</li> <li>➤ School Demographics</li> <li>➤ Key Staff Education/ Experience</li> <li>➤ Facility Lease Agreement (If Applicable)</li> <li>➤ Enrollment</li> <li>➤ Financial Analysis</li> </ul>	<ol style="list-style-type: none"> <li>1. The school has a thorough and reasonable business/ strategic plan.</li> <li>2. The school's key educational philosophy is to promote a purposeful learning environment based on the following: student-centered; high expectations; computer adaptive technology; opportunities for creative expression through art, music, theater, which develop imagination and opportunities for personal growth; hands-on inquiry-based learning opportunities in math, science, and engineering; use of multiple learning modes, including whole class, learning teams, small groups, and individualized instruction; and values of respect, integrity, kindness, and strong work ethic.</li> <li>3. The school's demographics reflect a relatively high proportion of students eligible for free and reduced-price meals, projected at about 55% for the 2016-17 academic year.</li> <li>4. Resumes of key staff show individuals with strong education and charter school experience.</li> <li>5. The school has a lease with the Shasta County Office of Education with annual costs of \$187,000.</li> <li>6. The school currently has 220 students and is projecting to have 226 students in 2016-17 and 242 students in 2017-18 through 2020-21, which staff considers reasonable. Based on the 2015-16 P2 Report, the school achieved an average daily attendance of 95%.</li> <li>7. The school meets debt service coverage requirements for five out of five years.</li> <li>8. The school's financial projections show sufficient net revenues to cover the loan payment and net assets available in all five projected years, 2016-17 through 2020-21.</li> </ol>

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<b>Applicant</b>	Excellence Performance Innovation Citizenship (EPIC) Charter School
<b>CDS Code</b>	Pending
<b>Charter #</b>	Pending
<b>Charter Term</b>	2016-2021 (5 yrs)
<b>Opening Date</b>	9/6/2016
<b>CMO/EMO (If Applicable)</b>	Next Generation Education Foundation
<b>Chartering Authority</b>	Orange County Department of Education
<b>County</b>	Orange
<b>Requested Loan Amount</b>	\$250,000
<b>Requested Loan Term</b>	5
<b>**Loan Recommendation**</b>	Staff is recommending that Excellence Performance Innovation Citizenship (EPIC) Charter School be awarded a \$100,000 loan for a term of 5 years.
<b>Staff Considerations &amp; Findings</b> <ul style="list-style-type: none"> <li>➤ Business/strategic plan</li> <li>➤ Outreach</li> <li>➤ School Demographics</li> <li>➤ Key Staff Education/ Experience</li> <li>➤ Facility Lease Agreement (If Applicable)</li> <li>➤ Enrollment</li> <li>➤ Financial Analysis</li> </ul>	<ol style="list-style-type: none"> <li>1. The school has a thorough and reasonable business/strategic plan.</li> <li>2. MISSION: “The <i>mission</i> of EPIC Charter School is to fulfill every student’s individual potential by personalizing an education plan that focuses on school and family partnership to achieve optimal student performance. EPIC Charter School will help establish the foundation for learning so that our students may become productive, responsible, creative, ethical, engaged learners. It is our goal to assist in the development of the leaders of tomorrow.”</li> <li>3. The school’s outreach goal is to match the ethnic, racial, linguistic, and socioeconomic diversity of the local school district, Anaheim Elementary School District. Among the school’s marketing techniques are the following: (1) distributing enrollment brochures and forms in various languages such as English and Spanish; (2) advertising by posting flyers and hosting tables at various locations including local libraries and community centers; (3) announcing enrollment and recruiting information in local newspapers, online news sources, and social media; and (4) hosting parent information nights and community events throughout the community.</li> <li>4. The school is projecting having 100 students for each of the projected years, 2016-17 through 2020-21.</li> <li>5. The school projects that its student demographics will match those of the local school district, Anaheim Elementary School District, which are the following: 90% eligible for free and reduced-price meals; 58% English-language learners; 13% disabled; 87% Hispanic/Latino; 4.6% Caucasian; 6.0% Asian/Filipino;</li> </ol>

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	<p>1.4% African-American; and 1% other ethnicity.</p> <ol style="list-style-type: none"><li>6. The school has a lease agreement with MS-DOWNTOWN ANAHEIM, LLC in the amount of approximately \$96,500 during the first year of operations.</li><li>7. Due to the school not meeting the debt service coverage requirement for \$250,000 over 5 years, staff determined the maximum loan amount that the school could sustain over 5 years and still meets the minimum requirement of 100% coverage. That amount is \$100,000.</li><li>8. Assuming a \$100,000 loan over 5 years, the school meets the debt service coverage ratio of 1.0 in all years, with ratios ranging from 1.2 to 2.4.</li><li>9. Assuming a \$100,000 loan, the school's financial projections show sufficient net revenues and net assets available in years 2016-21.</li><li>10. The school has applied for a Public Charter School Grant Program federal implementation grant, but has not yet received a grant award.</li></ol>
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