

**Charter School Facilities Program
 Proposition 51 Funding Round
 Staff Summary Report – June 2019**

Applicant/Obligor:	Perris Elementary School District
Project School:	Innovative Horizons Charter School
CDS (County – District – School) Code:	33-67199-6105571
School Address/Proposed Site:	1461 North A Street Perris, CA 92570
Type of Project:	Rehabilitation and New Construction
OPSC Project Numbers:	Rehabilitation – 54/67199-00-001 New Construction - 54/67199-00-002
Type of Apportionment:	Preliminary and Advance
County:	Riverside
District in which Project is Located:	Perris Elementary School District
Charter Authorizer:	Perris Elementary School District
Total OPSC Project Cost:*	Rehabilitation - \$20,071,998 New Construction - \$2,139,536 Total - \$22,211,534 Rehabilitation - \$10,035,999
State Apportionment (50% Project Cost):	New Construction - \$1,069,768 Total - \$11,105,767 Rehabilitation - \$10,035,999
Lump Sum Contribution:	New Construction - \$1,069,768 Total - \$11,105,767
Total CSFP Financed Amount:	N/A
Length of CSFP Funding Agreement:	N/A
Assumed Interest Rate:	N/A
Estimated Annual CSFP Payment:	N/A
First Year of Occupancy of New Project:	2020-21

**The amount identified as total project costs represents an estimate provided by the Office of Public School Construction for purposes of Preliminary-Apportionment financial soundness review. Final project costs will be provided at the time of Final Apportionment.*

Staff recommends the California School Finance Authority (Authority or CSFA) Board determine that Perris Elementary School District (District or PESD), on behalf of Innovative Horizons Charter School (School or IHCS), is financially sound for the purposes of Charter School Facilities Program (Program or CSFP), Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this period. This recommendation is contingent upon Perris Elementary School District, on behalf of Innovative Horizons Charter School providing a lump sum contribution as the matching share. Staff recommends the Authority Board to direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.

Application Highlights: Below staff highlighted key criteria evaluated when conducting its financial soundness review of Perris Elementary School District (District) on behalf of Innovative Horizons Charter School. Detailed information is contained in the body of the report.

Criteria	Comments
Obligor Information	
Demographic Information	<ul style="list-style-type: none"> • In 2018-19 PESD operated/authorized seven elementary schools, including IHCS, which is the District's lone charter school. Enrollment totals are 5,796 with a projected Average Daily Attendance (ADA) rate of 95% • By 2019-20, PESD projects enrollment of 5,758 students, a projected decline of less than 1%.
Other Financial Factors	<ul style="list-style-type: none"> • PESD will provide a lump sum contribution as the matching share. Staff has confirmed available funds. • PESD's General Fund balance, as of June 30, 2018, is \$14,540,855 with \$13,308,525 in unrestricted funds per the audited financial statements.

School Information	
Eligibility Criteria	Innovative Horizons Charter School met all eligibility criteria, Innovative Horizons: (1) began operation in August 2011; (2) most recent charter was approved in July 2016 and is in place through June 2022; and (3) is in good standing with its chartering authority and in compliance with the terms of its charter.
Student Performance	IHCS students have performed slightly better than both comparable school averages, and the District as a whole, in English Language Arts and Mathematics per the “Smarter Balanced” assessment measured through The California Assessment of Student Performance and Progress (CAASPP) System provided through California Department of Education (CDE).
Demographic Information	IHCS currently serves 912 students in grades K-8. Expected Enrollment in 2018-19 to be 912 students. Projected ADA rates are 95%, which is deemed reasonable.

Program Eligibility: On May 31, 2019, at CSFA staff’s request, verification and it was received from Perris Elementary School District confirming Innovative Horizons: (1) has been in operation for more than two years, (2) is in compliance with the terms of its charter agreements, and (3) is in good standing with its chartering authority. Innovative Horizons’ current charter is effective through June 2022.

Legal Status Questionnaire: Staff reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead staff to question the financial or legal integrity of this applicant.

Project Description: Innovative Horizons Charter School is applying for both rehabilitation and new construction for the 1461 North A Street location. The rehabilitation project will include modernization of the multi-purpose room so it may also be used as a library. The new construction project will include the removal of deteriorating classrooms to be replaced with two new two-story buildings, a new gym, a food service building, and a fitness center.

Obligor Organizational Information: The PESD was established in 1893 and is located in Riverside County. The District currently serves approximately 6,000 students in seven K-6 schools, one preschool, and one 1 K-8 dependent charter school (Innovative Horizons).

The District is comprised of the following mix of races/ethnicities: 88.4% Hispanic or Latino; 7.1% African American/Black; and 3.2% Caucasian/White. The remaining 1.3% are comprised of students who ethnically identify as American Indian, Alaska Native, Asian, Filipino, Pacific Islander, or two or more ethnicities. The rate of Unduplicated Pupil Count of Free/Reduced-Price Meals, English Learners & Foster Youth is about 93% for PESD in 2017-18.

The 2018-19 District’s Board consists of President Virniecia Green-Jordan, Clerk Jose Garcia, David Santos, Maribel Nava, and Michelle Maisel. Jean Marie Frey is the Superintendent for PESD and Francine M. Story is the Chief Business Official. Staff has

reviewed the credentials of the key board members and staff determined them to have the proper background and experience to govern and effectively oversee the operations of the District.

School Organizational Information: IHCS is a public charter school located within the boundaries of District and is authorized by the District. IHCS' initial charter was submitted to the District in 2011 and was approved. The District approved IHCS's most recent charter in July 2016 and it is set to expire on June 30, 2022.

In spring 2010 the District commissioned a task force to gauge the feasibility of creating a District dependent charter school. The District community was surveyed and 88% of respondents supported a dependent charter in the District. The task force found, through research and response, the community desired an integrated program that included emphasis on visual and performing arts, math, science, and a technology rich environment. Since its 2011 opening, IHCS become an in-demand school with enrollment exceeding 900 and a wait list for each grade level.

In its desire for differentiation, IHCS sought to offer and support: flexibility and responsiveness to student/parent/community needs; individual attention and instruction tailored to student needs; every student is visible and treated as a unique individual; a consistent educational experience for students over an extended period of time; a coherent focus and philosophy of education and curriculum that is integrated around that focus; a cohesive group of teachers who collaborate and discuss the needs of their students; a sense of shared leadership and investment among those participating in the school; increased safety and decreased physical disruptions/misbehavior; and involvement of families in the school community.

IHCS employs "backward mapping" to develop the curriculum for each grade level. Backward mapping, a standards based instructional planning process, begins with the end in mind, allowing teachers to better target the quality of performance IHCS wants from students, with those consequent standards working backward to instruction. For the planning of each course of study, teachers utilize the following structure: identify and analyze the standards to be met during the course of study; unpack the standards and identify prerequisite skills needed to be mastered; design an assessment or assignment through which students can demonstrate mastery of the standards; identify what students must know, or be able, to do in order to perform well on the assessment/assignment; plan and deliver direct instruction and other learning opportunities to assure that every student has adequate opportunities to learn and practice what is expected in mastering the knowledge and skills of the standards; provide independent practice; assess students to see if they have mastered the standards; analyze data from the assessment to give feedback, re-teach, determine individual support or move to next standards to be taught.

The school is governed by an Advisory Council and the District's Board. The Advisory Council's members rotate; members include three teachers, four parents, one non-credentialed employee, and one Board member. Sharill Cortez is the Principal and Kelley Pebley is the Assistant Principal. Staff reviewed the credentials of the key board members

and staff and determined all have the proper background and experience to govern and effectively oversee the operations of the School.

School Academic Performance: The following tables represent the 2015-16, 2016-17, and 2017-18 academic performance of IHCS, the averages of similar local public schools: Clearwater Elementary, Enchanted Hills Elementary, Good Hope Elementary, Palms Elementary, Perris Elementary, Railway Elementary, and Sky View Elementary (Local Schools) and the District.

The results are provided through CDE’s CAASPP “Smarter Balanced” testing data. The percentage of student groups meeting or exceeding average performance is based on the number of student groups served. Student groups, as determined in Ed. Code Section 52052 (a)(2), are ethnic subgroups, socioeconomically disadvantaged pupils, English learners, pupils with disabilities, foster youth, and homeless youth. The data for student groups performing at or above average was first made available for 2016-17.

English Language Arts – Comparison

% of Students Meeting or Exceeding Avg. Performance

	2015-16	2016-17	2017-18
IHCS	41.00%	34.57%	37.44%
Local Schools	31.60%	32.93%	32.53%
District	33.00%	33.53%	33.25%

All Students Performance

	2015-16	2016-17	2017-18
IHCS	N/A	Low	Average
Local Schools	N/A	Average	Low
District	N/A	Average	Low

Student Groups Meeting or Exceeding Avg. Performance

	2015-16	2016-17	2017-18
IHCS	N/A	0.00%	60.00%
Local Schools	N/A	39.00%	28.57%
District	N/A	87.00%	22.00%

Mathematics– Comparison

**% of Students Meeting or Exceeding Avg.
Performance**

	2015-16	2016-17	2017-18
IHCS	26.00%	22.17%	23.79%
Local Schools	20.80%	22.60%	22.65%
District	21.00%	22.58%	22.98%

All Students Performance

	2015-16	2016-17	2017-18
IHCS	N/A	Low	Average
Local Schools	N/A	Low	Low
District	N/A	Low	Low

**Student Groups Meeting or Exceeding Avg.
Performance**

	2015-16	2016-17	2017-18
IHCS	N/A	0.00%	80.00%
Local Schools	N/A	27.00%	29.17%
District	N/A	50.00%	0.00%

Enrollment Trends and Projections: The tables below present enrollment information for PESD and IHCS from 2014-15 through 2022-23. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

District-wide Student Enrollment and Average Daily Attendance

<u>PESD</u>	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	4,935	4,966	5,029	5,009	4,862	4,824	4,824
ADA	95.1%	95.5%	94.8%	95.5%	95.0%	95.0%	95.0%

<u>PESD</u>	2021-22	2022-23
Enrollment	4,824	4,824
ADA	95.0%	95.0%

Charter School Student Enrollment and Average Daily Attendance

<u>PESD</u>	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	886	916	934	912	934	934	934
ADA	96.2%	95.5%	94.9%	96.0%	95.0%	95.0%	95.0%

<u>PESD</u>	2021-22	2022-23
Enrollment	934	934
ADA	95.0%	95.0%

The review of historical enrollment, from 2015-16 through 2018-19, was used as a measure for the reasonability regarding projected enrollment for 2019-20 through 2022-23. From 2015-16 through 2017-18, IHCS grew an average of 1.4% with the greatest increase from 2015-16 to 2016-17. The projected enrollment stayed nominal at 934, which Staff considers reasonable. Staff also compared IHCS historical enrollment changes with Local Schools and the District as an additional measure of reasonability. The Local Schools averaged about 1.1% in enrollment growth. The District’s enrollment declined by an average of -0.1% over those four years.

District Financial Analysis:

Financial Data Sources: This financial analysis is based on the consideration and review of the following for PESD, the financial obligor and Applicant, on behalf of IHCS: (1) audited financial statements for 2014-15 through 2017-18; (2) second interim actuals for 2018-19; and (3) adopted budget for 2019-20. Please note: staff’s analysis of PESD’s financial performance, including the evaluation operating budget and liquidity, is based on the General Fund only.

Long Term Liabilities: As provided by the 2017-18 audited financial statements, the District has \$105,062,720 in long-term debt. The long-term liabilities are from the following governmental activities: \$31,210,266 payable in General Obligation (GO) Bonds; \$7,210,000 payable towards Certificates of Participation; \$57,105,782 in net pension liability, \$9,490,557 in net obligated in other post-employment benefits (OPEB), and \$46,115 payable in compensated absences. Payments for GO Bonds are made by the Bond Interest and Redemption Fund. Certificates of Participation payments are made by the General Fund and “Special Reserve Fund for Capital Outlay Projects” (Building Fund). OPEB costs are paid by the General Fund. Accumulated vacation and retirement incentive payments will be paid for by the fund for which the employee worked.

Private Contributions: PESD does not rely on any private contributions in the provided budget projections.

Summary of Financial Findings and Other Considerations: PESD indicated it will provide a lump sum contribution as a matching share for the IHCS project. This contribution is available in the “Charter School Special Revenue Fund” (Charter School Fund) and the Building Fund. As of July 30, 2018, the Charter School Fund had a balance of \$10,674,514 and the Building Fund has \$5,207,337. Per the 2017-18 audited financial statements, PESD’s Charter School Fund has \$8,189,489 already encumbered for IHCS modernization.

PESD’s General Fund balance as of June 30, 2018 is \$14,540,855 with \$13,308,525 in unrestricted funds per audited financial statements. PESD has been certified by the CDE as able to meet its financial obligations for years 2015-16 through 2017-18 and is expected to meet its financial obligations for 2018-19 through 2020-21. PESD’s General Fund operated with a deficit in one of the five years of actual financial statements reviewed. It should be noted, the single year of the actual operating deficits, 2018-19, is expected to end with - \$2,244,171 in net income, this is 18.6% of the General Fund’s total balance, which is expected to have \$5,072,325 in unappropriated funds and \$3,393,550 in funds designated for economic uncertainties. Standard and Poor’s rating services assigned an insured rating of AA- and an underlying rating of A+ to PESD’s 2017 GO Bond refunding.

Staff reviewed IHCS’s financials to ensure the school was financial viable to continue operations since IHCS is funded through the Charter School Fund. Staff reviewed the audited financial statements from 2014-15 through 2017-18 and the Second Interim Report for 2018-19. The average annual net operating income is \$2,144,685 and it should be noted, IHCS averages a fund balance of \$7,565,989 from 2014-15 through 2017-18 with an averaged 32% annual growth over the four years reviewed. Per the 2017-18 audited financial statements, PESD’s Charter School Fund had \$1,836,136 encumbered for IHCS’s operation in addition to the traditional sources of income.

Major funding sources for IHCS from its 2018-19 Second Interim Report include the following: LCFF income sources accounts for approximately 91% of IHCS’s revenue; other state revenue sources, such as Mandate Cost Reimbursements, and Lottery Funds, account for approximately 5% of revenue; and other local revenue sources, such as After School Program Revenue account for approximately 1% of IHCS’s current revenue.

Strengths, Weaknesses and Mitigants:

- + PESD’s General Fund balance, as of June 30, 2018, is \$14,540,855 with \$13,308,525 in unrestricted funds per the audited financial statement.
- + PESD will be providing a lump sum contribution as the matching share. Staff has confirmed funds available in the designated funds.
- + Standard and Poor’s rating services assigned an insured rating of AA- and an underlying rating of A+ to PESD’s 2017 GO Bond refunding.

+/- PESD projects its General Fund performing at a deficit from 2018-19 through 2021-22, although PESD has an adequate fund balance at the end of each of these years, in addition to the additional criteria reviewed listed in “Summary of Financial Findings and Special Considerations”.

Staff Recommendation: Staff recommends the California School Finance Authority Board determine Perris Elementary School District, on behalf of Innovative Horizons Charter School, is financially sound for the purposes of Charter School Facilities Program Preliminary/Advance Apportionment. This determination, as it relates to Preliminary/Advance Apportionment, is in place for twelve months and assumes no financial, operational, or legal material findings within this time. This recommendation is contingent upon Perris Elementary School District, on behalf of Innovative Horizons Charter School, providing a lump sum contribution as the matching share. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.