

Date: August 21, 2018
To: California Charter Schools
From: California School Finance Authority
RE: Charter School Facility Grant Program Update

The following update is being provided by staff of the California School Finance Authority (Authority). *This memo is for information purposes only.* Should you have any questions regarding the information presented, or need additional information, please feel free to contact Ian Davis or Anne Osborne at (916) 651-7710.

The Governor's 2018-19 Budget included new provisions that affect Charter School Facility Grant Program (Program or SB740 Program) awards. The 2018-19 Budget proposed several changes to the Program, including an increase in funding and amendments to Education Code 47614.5 which governs the Program. The 2018-19 Budget provided \$21.1 million in one-time funding to backfill the 2017-18 funding round, bringing the total 2017-18 appropriation to \$133 million. The 2018-19 funding level was increased to \$137 million, and is projected to fund lease costs, but other costs may be pro-rated (see 2018-19 funding round). Finally, 2018-19 Budget included three amendments to Education Code 47614.5 will affect current and future award calculations:

1. Reimbursable facility rent or lease costs cannot exceed prior year costs on file with the Authority as of 2016-17, subject to an adjustment of the annual K-12 cost of living adjustment (COLA Index).
2. Rent or lease costs of new facility agreements must be at or below market rate, based on an Independent Appraisal paid for by the Applicant.
3. When the Program is oversubscribed, lease and rent costs are prioritized over maintenance and building improvement costs (Other Costs).

Eligible Lease Costs

Beginning with the 2017-18 funding round, facility rent or lease costs shall be subject to one of the following conditions:

- Applicants requesting reimbursement of New Facility Agreements will need to submit an Independent Appraisals. If the Independent Appraisal finds the rent exceeds Fair Market Rent, then costs will be based on Fair Market Rent as determined by the Independent Appraisal (Appraisal Cap)
 - "New Facility Agreement" shall mean either 1) a rental or lease agreement for a facility not previously occupied by the charter school; 2) a rental or lease agreement that includes additional square footage not included in the previous year's agreement; or 3) a new agreement for existing facilities or square footage when the existing lease is up for renewal or expires.¹
- All other reimbursable lease or rent costs will be subject to an adjustment of the COLA Index (COLA Cap). Below are the rates these lease or rent costs will be subject to:
 - 2017-18 Funding Round – 1.56% COLA Index
 - 2018-19 Funding Round – 2.71% COLA Index

¹ Proposed Charter School Facility Grant Program Regulations Section 10170.2(s)

2017-18 Funding Round – Award Review

Authority staff are currently reviewing 2017-18 True-up Awards. In the coming weeks, staff will be reaching out to eligible applicants with New Facility Agreements to request Independent Appraisals for those sites. Until the Independent Appraisal is received, the Authority will be unable to disburse funds to these applicants. For this reason, the Authority is requesting all Independent Appraisals be submitted by October 31, 2018. If the applicant is not able to meet the stated deadline, then email SB740@treasurer.ca.gov and include the date the Independent Appraisal will be submitted. The Program will award **\$1,117** per unit of classroom-based Average Daily Attendance (ADA), up to 75% of the applicant's annual (reimbursable facilities rent and lease costs + Other Costs).

2017-18 Funding Round – Disbursement of Funds

The Authority projects the additional \$21.1 million in one-time funding for the 2017-18 funding round will be enough to nearly, if not fully, award all Grantees. If the Program is oversubscribed, lease costs are evaluated first. If funds remain, the Authority shall determine the pro rata share for each Grantees' Other Costs by calculating the percentage of the remaining funds available as compared to the funds needed to award all Grantees eligible Other Costs. This percentage shall be applied to the Grantee's eligible Other Costs (see example calculator below). Since there is a chance Other Costs will be prorated, the SB740 Program will first disburse funds to applicants with no Other Costs. Grantees with Other Costs will receive a Notice of Eligible Facility Costs and will have 30 days to review, sign, and return the notice to the Authority. The SB740 Program will disburse funds to Grantees with Other Costs once the Authority has confirmed either (1) all Grantees with Other Costs have returned a signed copy of the Notice of Eligible Costs or (2) there is enough funding to fully award all Grantees. The Authority anticipates Lease Cost only Grantees will receive their disbursements notices in September and Other Cost Grantees will receive disbursement notices in October. Awards are mailed to the Grantee's mailing address and generally arrive 5-7 weeks later.

2018-19 Funding Round – Award Review

The Authority will begin reviewing 2018-19 Initial Apportionments in mid to late September. As with 2017-18 award calculations, the Authority will request Independent Appraisals from eligible applicants with New Facility Agreements. Applicants will be given 45 calendar days to complete this request. Applicants that renew their lease annually may use the 2017-18 Independent Appraisal. Subsequent renewals will require a new Independent Appraisal. The Program will award **\$1,147** per unit of classroom-based Average Daily Attendance (ADA), up to 75% of the applicant's annual (reimbursable facilities rent and lease costs + Other Costs).

2018-19 Funding Round – Disbursement of Funds

While it is still too early for the Authority to determine whether there is enough funding to fully award all Grantees' lease and Other Costs, the Authority can confirm there is enough to fully award each Grantee's lease costs. The Initial and Second Apportionments will not be prorated since these are solely based on reimbursement of lease costs. The Authority anticipates Grantees will receive disbursements notices in late October – early December. Awards are mailed to the Grantee's mailing address and generally arrive 5-7 weeks later.

Example 2017-18 True-up Calculator

School:		ABC Charter School
CDS Code:		12123451234567
Mailing Address		601 S. Figueroa St. 4th Fl. Los Angeles, CA 90017
Sites Seeking Reimbursement:		
1234 School Lane Los Angeles, CA 95817	COLA Cap	\$123,400.00
4567 School Lane Los Angeles, CA 95817	COLA Cap	\$75,600.00
8987 School Lane Ste. 100 Los Angeles, CA 95817	Appraisal Cap	\$155,500.00
SB740 2017-18 Lease Costs		\$354,500.00
Other Costs		\$80,123.00
Other Costs pro rata share	87%	\$69,707.01
Subtotal		\$424,207.01
75% of Annual Facility Costs:		\$318,155.26
Award per P-2 (ADA x \$1,117)	435.20	\$486,118.40
2017-18 Total Eligible Award (Lesser of the Two)		\$318,155.26
Initial Apportionment (Lease Only)		\$132,900.00
Second Apportionment (Lease Only)		\$66,450.00
Final Apportionment (Lease & Other costs)		\$118,805.26