

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2008**

Applicant/Obligor:	Twin Rivers Charter School
Project School:	Twin Rivers Charter School
CDS (County – District – School) Code:	51-71464-0107318
Project Location:	Not yet determined
Type of Project:	New Construction
County:	Sutter County
District in which Project is Located:	Yuba City Unified School District
Charter Authorizer:	Yuba City Unified School District
Total OPSC Project Cost:	\$13,649,938
State Apportionment (50% Project Cost):	\$6,824,969
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$6,824,969
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	5.50%
Estimated Annual CSFP Payment:	\$469,595
First Year of Occupancy of New Project:	2008-09

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Twin Rivers Charter School (TRCS) is not financially sound for the purposes of a Preliminary Apportionment under the Charter School Facilities Program (Program). Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.

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

Criteria	Comments
Eligibility Criteria	TRCS met all Program eligibility criteria: 1) currently in its fourth year of operations; 2) has a valid charter in place until June 2009; and 3) is in good standing with its authorizer and is in compliance with the terms of its charter.
Demographic Information	TRCS serves K through 8 th grade students in Yuba City. As of October 31, 2007, TRCS has 231 enrolled students and the school expects to reach full enrollment of 400 students within three years upon occupancy of the new CSFP facilities in 2008-09.

Debt Service Coverage	Based on school projections, coverage is projected to be 39.7% in 2008-09, the first year of CSFP payments, and is projected to be 59.7% and 97.3% for the next two years.
Other Financial Factors	<ol style="list-style-type: none"> 1. CSFP obligation as % of revenues projected at 22% in 2008-09; 20% in 2009-10; 18% in 2010-11. 2. Contributions as a % of revenues is negligible 3. Net working Capital/Expenses: 5.2% in 2005-06; 6.9% in 2006-07.
Student Performance	TRCS met AYP in school year 2004-05 and 2006-07 but not in 2005-06. It met API school wide growth target in 2006-07 but not in 2005-06 as API score decreased from 729 in 2004-05 to 703 in 2005-06.

Program Eligibility: In August 2007, verification was received from the Superintendent's Office of the Yuba City Unified School District, confirming that TRCS is (1) in compliance with the terms of its charter agreements, and (2) in good standing with its chartering authority. The school's charter will not expire until June 30, 2009.

TRCS opened in August 2004 and is currently in its fourth year of operations. Theresa Costa Johansen, Superintendent and Principal of TRCS, has more than two years of experience in school management and operations in California.

Legal Status Questionnaire: Staff reviewed the applicant's responses to the questions contained in the Legal Status portion of the application. TRCS is currently involved in a civil litigation with a former director regarding "wrongful termination" and "stress". The applicant states that if the former director is awarded damages, the financial condition of TRCS may be impacted. Staff has requested additional information from TRCS's counsel in order to quantify the potential losses to the school should the plaintiff prevail.

Project Description: TRCS has requested funding for a new construction of a permanent elementary school (K-8) facility to accommodate a maximum of 400 students by 2011-12. The site for the new facility has not yet been decided, but will be located on approximately 10.1 acres of land within the boundaries of the Yuba City Unified School District. The new facility will replace a temporary leased facility at 840 Cooper Avenue, Yuba City, and will include 18 instructional classrooms. If successful in obtaining funding from the State, TRCS expects to complete the CSFP project and occupy the new facility during the 2008-09 school year. Therefore, its CSFP payment obligation would begin with that school year.

Organizational Information: TRCS is a public charter school located in Yuba City, California. The school was opened in August 2004 to serve kindergarten through 8th-grade students. In addition to providing the necessary knowledge in content areas such as English Language, Arts, Mathematics, History-Social Science, Science, Art and P.E. in accordance with the California State Board of Education Contents Standards, TRCS also adopts the Core Knowledge Curriculum developed by E. D. Hirsch Jr., author of *Cultural Literacy and the Schools We Need*, to focus on identifying and teaching a body of solid, sequenced, specific and shared knowledge to students.

For the three years from 2004-05 through 2006-07, TRCS enrolled 191, 252, and 263 students in grades K through 8, based on California Department of Education (CDE) data.

As of October 31, 2007, TRCS reports 231 enrolled students and three potential students on the school's waiting list. TRCS reports average ADA of 94% for the three years ending 2006-07.

Educational Management Organization: Not applicable.

School Management: Theresa Costa Johansen, currently the Superintendent and Principal of TRCS, has served in her current position since August 2005. Prior to joining TRCS, Ms. Johansen served as the Principal of Challenge Charter High School in Oroville, California for more than five years, and was a full-time classroom teacher serving 7–8th grade students at Palermo Middle School in Palermo, California for 11 years. Ms. Johansen possesses a total of 23 years of public school teaching and administration experience and has eight years of charter school management experience. She holds a Master's Degree in Education Administration from the California State University, Chico and also obtained an Administrative Credential, Tier I and Tier II from the California State University at Chico and the Simpson College, respectively.

Board Experience: TRCS's application does not indicate any applicable previous experience on the part of the school's board with respect to school management or administration.

Management Experience for Schools Open Less than Two Years: Not applicable, as TRCS began instructional operations during the 2004-05 school year, exceeding two years of instruction.

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.

TRCS received a 2004-05 Academic Performance Index (API) growth score of 729. This score fell to 703 in 2005-06 and then rose to 713 in 2006-07. TRCS failed to meet its API growth targets in 2005-06 and 2006-07. The school's API base statewide rank also shows a decline from 5 (out of 10) in 2005 to 3 out of 10 in 2006. TRCS's Similar School Rank has been 1 in the past two years since inception, suggesting poor API performance relative to similar schools. The school met all applicable Adequate Yearly Progress (AYP) requirements in 2004-05 and 2006-07, but failed to meet the Mathematics proficiency standards in 2005-06. School academic performance is viewed by staff as a potential leading indicator of enrollment demand by a school's area; TRCS's low similar school rank, combined with the school's low 3-student waitlist (as of September 14, 2007) creates concern that the school may be unable to grow to meet its projected enrollment targets.

Twin Rivers Charter School	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?		Yes	No	Yes
Criteria Met / Required Criteria	/	9 / 9	12 / 13	15 / 15
Met API Indicator for AYP?		Yes	Yes	Yes
Met Graduation Rate?		N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?			No	Yes
Met Comparable Improvement Growth Target?			No	No
Met Both Schoolwide & CI Growth Targets?			No	No
API Base Statewide Rank (10 = best)		5	3	
API Base Similar Schools Rank (10 = best)		1	1	
School's Actual Growth			-26	13
Similar Schools Median of Actual Growth			6	1
Did School's Growth Exceed Median?			No	Yes

Financial Analysis: Below we have highlighted selected financial data and credit indicators to evaluate TRCS's ability to meet its CSFP obligation. Staff's review of TRCS's financial performance is based on three years of audited financial statements (2004-05 through 2006-07), the school's 2007-08 1st interim budget and financial projections from 2008-09 through 2010-11 as provided by TRCS in its application. The school proposes that it would complete and occupy the CSFP project in 2008-09, by which time TRCS expects enrollment to have increased to 300 students from 263 students in 2006-07. TRCS has a stated goal of reaching full enrollment of 400 students within three years of occupancy of the new CSFP facility.

Twin Rivers Charter School	Actual FY 2005-06	Estimated FY 2006-07	Projected FY 2007-08	Projected FY 2008-09	Projected FY 2009-10	Projected FY 2010-11
ENROLLMENT PROJECTIONS						
Enrollment	252	263	231	300	328	356
Average Daily Attendance	240	243	219	282	308	335
Average Daily Attendance (%)	95%	92%	95%	94%	94%	94%
FINANCIAL PROJECTIONS						
Total Revenues Available for CSFP Lease Payment	\$ 1,603,061	\$ 1,742,205	\$ 1,673,171	\$ 2,142,955	\$ 2,399,437	\$ 2,673,146
Total Expenses Paid Before CSFP Lease Payment	1,557,519	1,636,419	1,844,994	1,976,446	2,134,186	2,231,120
Accounting Adjustments	25,888	25,888	41,138	20,000	15,000	15,000
Net Revenues Available for CSFP Lease Payment	\$ 71,430	\$ 131,674	\$ (130,685)	\$ 186,509	\$ 280,251	\$ 457,026
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ 469,595	\$ 469,595	\$ 469,595
Net Revenues After CSFP Lease Payment	\$ 71,430	\$ 131,674	\$ (130,685)	\$ (283,086)	\$ (189,344)	\$ (12,569)
FINANCIAL INDICATORS						
Net Revenues Available for CSFP Lease Payment	\$ 71,430	\$ 131,674	\$ (130,685)	\$ 186,509	\$ 280,251	\$ 457,026
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	39.7%	59.7%	97.3%
Contributions	\$ -	\$ -	\$ 20,000	\$ 15,500	\$ 15,500	\$ 15,500
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	36.4%	56.4%	94.0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	21.9%	19.6%	17.6%
Contributions / Revenues	N/A	N/A	1.2%	0.7%	0.6%	0.6%
Net Revenues After CSFP Lease Payment / Revenues	4.5%	7.6%	-7.8%	-13.2%	-7.9%	-0.5%
Revenues / ADA	\$ 6,689	\$ 7,168	\$ 7,624	\$ 7,599	\$ 7,782	\$ 7,988
Adjusted Expenses / ADA	\$ 6,391	\$ 6,626	\$ 8,220	\$ 8,603	\$ 8,396	\$ 8,026
Net Revenues After CSFP Lease Payment / ADA	\$ 298	\$ 542	\$ (596)	\$ (1,004)	\$ (614)	\$ (38)
Net Working Capital	\$ 81,471	\$ 113,145				
Net Working Capital / Expenses	5.2%	6.9%				

Outstanding Long-Term Liabilities: As of June 30, 2007, TRCS reports outstanding long-term liabilities of approximately \$250,000 in the form of a \$150,000 charter school revolving loan from the California Department of Education and \$100,000 in notes payable to private parties. The projected aggregate annual commitments on these liabilities are \$100,000 for fiscal years 2007-08 through 2008-09, and \$50,000 for fiscal year 2009-10. These liabilities

are expected to be repaid by June 30, 2010. Payments due under these obligations are senior to the CSFP payments. TRCS's projections do not indicate that new long-term debt will be incurred for any purpose other than the CSFP Program.

Changes in Net Assets: Based on its audited financial statements, TRCS incurred an operating loss in 2004-05 of \$87,000 on an accrual basis, on revenues of \$1.13 million and expenditures of \$1.22 million. In the 2005-06 fiscal year, TRCS increased revenues to \$1.60 million based on a 33% enrollment increase, resulting in an increase in net assets of \$46,000 before adjustments. Based on an increase in State per-ADA block grant funding and minimal expenditure growth, TRCS's 2006-07 audited financials show an increase in net assets of \$106,000 for the year on an accrual basis, on revenues of \$1.74 million and expenditures of \$1.64 million.

Due to an unexpected decrease of 34 students from the original adopted budget, TRCS projects to decrease revenues from \$1.74 million in 2006-07 to \$1.67 million in 2007-08. The revenue projections in FY 2007-08 assume general purpose block grant of \$5,589 per ADA for K through 3rd-grade students, \$5,673 per ADA for 4th through 6th-grade students, \$5,835 per ADA for 7th and 8th grade students, and \$6,765 per ADA for 9th through 12th grade students, which are in line with CDE block grant rate estimates for the current year. Starting in 2007-08, TRCS anticipates providing health and welfare insurance coverage to its employees, and as a result, annual expenditures for employee benefits are expected to increase from \$87,000 in 2006-07 to \$156,000 in 2007-08, resulting in an increase in expenditures from \$1.64 million in 2006-07 to \$1.84 million in 2007-08. As a result of the decrease in enrollment and increase in expenditures, the ending fund balance of TRCS is expected to decrease from (\$15,206) in 2006-07 to (\$187,029) in 2007-08.

Based on student enrollment growth from 300 students in 2008-09 to 328 students in 2009-10 to 356 students in 2010-11, TRCS projects additional increases in revenues from \$2.12 million in 2008-09 to \$2.38 million in 2009-10 to \$2.66 million in 2010-11 (assuming a relatively aggressive annual COLA of about 4%). However, at a 5.5% interest rate the CSFP payment beginning 2008-09 would increase annual facility costs from approximately \$150,000 (based on current temporary facility costs) to approximately \$470,000 per year. After this adjustment, TRCS would see annual net asset decreases of (\$303,000) in 2008-09, (\$204,000) in 2009-10, and (\$28,000) in 2010-11 respectively.

Contributions/Fundraising: TRCS indicated that the school did not obtain any material funds raised from private parties in the past three years of operations. From 2007-08 through 2010-11, TRCS projects receiving private grants and donations of approximately \$20,000 in 2007-08 and \$15,500 per year thereafter, representing about 1% of revenues in each year.

Projected Debt Service Coverage: Based on OPSC's estimated project cost of \$13,649,938, TRCS's financial projections indicate that the school would not be able to afford the projected annual CSFP payment of \$470,000 starting in the 2008-09 school year, as evidenced by the debt service coverage ratios of 39.7%, 59.7% and 97.3% calculated for fiscal years 2008-09 through 2010-11. In 2008-09, the CSFP payment is expected to equal about 21.9% of projected revenues, or approximately \$1,700 per ADA. Facility costs of roughly 10-15% of revenues are more typical for charter schools, suggesting the projected

CSFP payments for TRCS are relatively large and may significantly reduce the school's financial position and flexibility.

TRCS indicates that the school anticipates reaching a maximum enrollment of 400 students within three years of project occupancy – at a 94% ADA, the CSFP payment would fall to approximately \$1,200 per ADA. At 2010-11 projected revenue per ADA of \$7,988, facility costs would fall to 17.6% of revenues. This represents a more affordable, if still comparatively high, facility cost. However, given the school's projections combined with a low fund balance and lack of guarantor, we believe it suggests that TRCS would experience significant financial difficulties in the first two to three years of CSFP facility payments while approaching maximum occupancy. TRCS's unexpected drop in student enrollment in 2007-08 further suggests that growing to 400 students (a 70% increase from current levels) may also present difficulties for the school. The rate on the CSFP facilities would need to fall to approximately 1.5% per annum in order for TRCS to reach 1x debt service coverage in 2009-10, and even at 0% TRCS would not be able to meet its 2008-09 CSFP payment based on its financial projections.

Staff notes that TRCS's aggressive CSFP facility occupation goal of 2008-09, before the school achieves full anticipated growth, is the major factor in the school's low starting debt coverage levels. Delaying occupation to 2010-11 or beyond may produce more favorable coverage levels. However, the school's current enrollment situation, legal challenge, and weak net asset position provide significant near-term challenges to TRCS's financial soundness for purposes of a CSFP preliminary apportionment.

Liquidity: As of June 30, 2006, TRCS had outstanding cash and cash equivalents of \$42,942, representing 2.8% of its total expenditures of \$1,557,519 and 21.2% of its outstanding current liabilities of \$202,188 of the year. On June 30, 2007, TRCS's audited financials report cash and cash equivalents of \$207,967, equivalent to approximately 12.7% of total expenditures and 75.4% of expected current liabilities of \$275,672. Combined with the school's negative ending asset position in both years and projected financial results, staff believes that the school's liquidity and net asset position do not suggest a significant safety net will be available to make TRCS's CSFP payments in the event of a revenue shortfall.

Strengths, Weaknesses and Mitigants

- + TRCS demonstrated annual revenue surpluses in 2005-06 and 2006-07, the school's third and fourth years of instruction. As start-up schools frequently see operating deficits in their initial years, this reflects well on TRCS's conservative financial management.
- Despite its 2005-06 and 2006-07 operating surplus, TRCS carried a negative fund balance in each of the past three fiscal years and projects an operating loss in 2007-08, which represents a concern to CSFA staff for its ability to make CSFP payments in the event of a revenue shortfall. Financial projections indicate that TRCS will not be able to afford its annual CSFP payments in the first three years of project occupancy, as evidenced by the debt service coverage ratios of 39.7%, 59.7% and 97.3% calculated for fiscal years 2008-09 through 2010-11.

- With CSFP payments averaging 20% of projected revenues or \$1,530 per ADA for the first three years of project occupancy, staff believes that the CSFP obligation is large relative to the projected school size, and may significantly reduce the school's financial position and flexibility for the initial term of CSFP repayment.
- The civil litigation that TRCS is involved in could have a financial impact on the school's ability to continue operating.
- TRCS student performance (as measured by API scores) is weak relative to similar and statewide schools.
- TRCS student enrollment decreased from 263 students in 2006-07 to 231 students in 2007-08 school year, and has a very short (3-person) waiting list. TRCS's ability to increase student enrollment to meet financial projections may be limited.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Twin Rivers Charter School is not financially sound for the purposes of the Charter School Facilities Program Preliminary Apportionment. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.