

## MEMORANDUM

**Date:** July 30, 2009

Staff Summary No. 5

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

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

**Subject:** Resolution No. 09-09  
Financially Sound Status of College Ready Academy High #8

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Consideration of Resolution No. 09-09, approving that College Ready Academy High #8 (CRAH8) has maintained a financially sound status for purposes of an Advance Apportionment under the Charter School Facilities Program (Program).

**Background:**

At its May 28, 2008 meeting, the State Allocation Board awarded CRAH8 a preliminary apportionment of \$33,050,312 through the Charter School Facilities Program (Program). When the California School Finance Authority (Authority) Board found CRAH8 financially sound in April 2008, Authority staff structured its recommendation with a six-month expiration date on our findings. Therefore, when CRAH8 came in late October 2008 (outside the six-month window for our initial determination) for an advance apportionment, staff was compelled to conduct a cursory review of CRAH8 and brought the school back to the board in November 2008 for a financial soundness determination. Staff has conducted a subsequent analysis of CRAH8 in light of the time lapse between our November review and school's current request for funding. CRAH8 is seeking an advance apportionment in the amount of \$3,009,255 for design costs.

**School Operations:**

CRAH8 operates as an independent charter school developed and managed by the Alliance for College-Ready Public Schools (Alliance), an education management organization and non-profit corporation governed by a board of parents, educators and other community members. As part of the determination of financial soundness for preliminary apportionment, staff reviewed the financial performance of ten Alliance charter schools that have been in operation, as well as student performance at eight Alliance schools for which reported information was available. The Alliance currently operates 8 high schools and 3 middle schools, and plans to grow to 11 high schools and 5 middle schools by the 2009-10 academic year. CRAH8 is planning to commence instructional operations during the 2009-10 academic year.

API rankings are currently available for 6 of the Alliance schools. All schools with more than one year of data are shown to have improving trends. The Alliance schools' AYP performance started low in each school's first year of operation, which the organization reports is related to the schools' 9<sup>th</sup> grade student performance being based on the CST

rather than the CAHSEE. Improvement has been shown by five of the six schools in subsequent years of operation.

**Recent Request for Advance Apportionment:**

Authority staff contacted CRAH8 seeking information about additional material financial and/or operational changes. Pursuant to staff's request, representatives of CRAH8 and Alliance reported that there have been no material changes since staff's most recent evaluation in November 2008 except for the following:

1. Revisions to General Purpose Block Grant per ADA funding levels
2. Postponement of occupancy date to from 2009-10 to 2011-12
3. Reduction in debt service coverage ratios

Alliance reports that aggregate financial projections assume comparable revenue and expense drivers so those used in our financial analysis performed for the April 2008 report. Current aggregate projections do not include the recent adjustments made to CRAH8's projections and therefore were not analyzed for reasonableness. According to Alliance, no other material changes have occurred.

Below we have highlighted areas of our review for Board consideration:

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	CRAH8 has met all Program eligibility criteria: 1) the Alliance has been in operations since 2003-04; 2) CRAH8's charter is in place through 2012; and 3) CRAH8 is in good standing with its chartering authority, and in compliance with the terms of its charter.
<b>Demographic Information</b>	CRAH8 will serve grades 9-12. The school expects to open in 2009-10. By occupancy of the Project in 2011-12, total enrollment is projected at 425 students.
<b>Debt Service Coverage</b>	Projected debt service coverage levels are 85.9% and 83.9% for 2012-13 and 2013-14, respectively, assuming the Alliance management fee is subordinate to the CSFP payment. On a stand-alone basis, CRAH #8 doesn't meet 100% coverage but coverage improves substantially when calculated for all of Alliance's operations. The debt service coverage levels for all schools supported by the Alliance are 171.3% and 185.6% for 2012-13 and 2013-14, respectively.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. The projections for CRAH8 include contributions from private sources for 2009-10, but none are included thereafter when the CSFP payment is required to be met.</li> <li>2. Projected ratios of CSFP payments to total revenues are high at 20.0% in 2012-13, and 20.4% in 2013-14.</li> <li>3. CSFP payment would be supported by Alliance as co-borrower.</li> </ol>
<b>Student Performance</b>	CRAH8 does not have any AYP or API data available as the school is opening in the 2009-10 academic year.

**Recommendation:**

Staff recommends that the California School Finance Authority Board determine that CRAH8 is financially sound for the purposes of the Charter School Facilities Program

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Advance Apportionment, and approve Resolution 09-09. Given the reliance on Alliance revenues to meet debt service coverage, staff is recommending that Alliance execute a co-borrower or guarantor agreement with CRAH8 prior to any fund release. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction regarding this determination.