

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2010**

Applicant/Obligor:	Newcastle Elementary School District
Project School:	Newcastle Charter School
CDS (County – District – School) Code:	31-66852-0109827
[Proposed] Project Location:	8951 Valley View Drive, Newcastle 95658
Type of Project:	New Construction
County:	Placer
District in which Project is Located:	Newcastle Elementary School District
Charter Authorizer:	Newcastle Elementary School District
Total OPSC Project Cost:	\$3,040,630
State Apportionment (50% Project Cost):	\$1,520,315
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$1,520,315
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$77,565
First Year of Occupancy of New Project:	2012-13

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Newcastle Elementary School District (NESD), applying on behalf of Newcastle Charter School (NCS), is financially sound for the purposes of Charter School Facilities Program (Program) Preliminary and Advance Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the Authority Board direct staff to 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 NESD. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	NCS meets all eligibility criteria, including two years of instructional operations, a charter in place through 2011-12, good standing with its chartering authority, and in compliance with the terms of its charter.

Demographic Information	<ol style="list-style-type: none"> 1. NCS began instructional operations in 2005-06 with 107 students in grades K-8, and currently serves 187 students in grades K-8. NCS projects growth to 227 students during the first year of project occupancy, 2012-13, and to 235 and 244 during 2013-14 and 2014-15, the first two years of CSFP payments. NCS' year-to-year student retention rates for 2008-09 and 2009-10 were 88% and 95%, respectively, and NCS' average daily attendance for each of the past three years was 97%. 2. With the anticipated enrollment growth of NCS and two other charter schools, NESD anticipates overall student enrollment to grow from 462 students for the current year to 655 and 668 students for 2013-14 and 2014-15, respectively, the first two years of CSFP payments.
Debt Service Coverage	<p>NESD's projected debt service coverage ratios have met the minimum requirement of 100.0% at 260.2% in 2013-14 and 407.7% in 2014-15.</p>
Other Financial Factors	<ol style="list-style-type: none"> 1. NESD does not rely on contributions from private sources. 2. NESD's projected ratios of CSFP payments to total revenues are 1.4% for both 2013-14 and 2014-15, which is within the preferred maximum range of 10-15%. 3. NESD's net working capital for 2008-09 of \$1.12 million represented 31.8% of total expenses, which exceeds the preferred minimum of 5.0%.
Student Performance	<p>NCS met all AYP criteria as well as its API growth target for each of the past four years. In addition, NCS had API growth scores of 892, 867, and 883 for 2006-07, 2007-08, and 2008-09, respectively, and based on its API base score for 2008-09, was ranked "9" statewide and "4" against similar schools ("10"=best).</p>

Program Eligibility: On October 13, 2009, the Authority received verification from the Superintendent of Newcastle Elementary School District confirming that NCS is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. It should be noted that the Superintendent of NESD and Principal of NCS are the same person, Kathleen Daugherty.

Legal Status Questionnaire: Staff reviewed NCS' responses to the questions contained in the Legal Status Questionnaire (LSQ). NCS answered "NA" to all LSQ questions, indicating no disclosures to provide regarding material information relating to legal or regulatory proceedings or legal action in which it or any of its affiliates is a named party.

Project Description: NESD has requested funding for new construction that would add four new teaching stations to its existing facility for NCS. The school is currently located at 8951 Valley View Drive, Newcastle, CA 95658 and shares a site with Newcastle Elementary School. Upon project occupancy, which is anticipated in 2012-13, NCS anticipates enrollment of 270 students.

Organizational Information: NCS commenced its operations in 2005-06 with 107 students in grades K-8, and currently serves approximately 187 students in grades K-8. NCS operates as a district-sponsored dependent charter school within NESD. NCS

received its first charter with NESD in 2005, which was subsequently renewed in 2007 and is currently scheduled to expire in 2012.

NESD is currently comprised of three schools, NCS, Newcastle Elementary School (NES), and Creekside Cooperative Charter School (CCCS), which began instructional operations during the current 2009-10 academic year. An additional charter school, Harvest Ridge Cooperative Charter School (HRCCS), whose charter NESD approved on March 4, 2010, is anticipated to commence instructional operations in 2010-11.

Based on the application materials, NCS provides an alternative educational choice for parents with children in grades K-8 with a focus on Project based learning and fine arts. The school's major goal is to create optimal learning through a standards-based/inquiry core, skill-building curriculum which will enable pupils to become self-motivated, competent, and lifelong learners who will be capable of applying their acquired skills in real-life situations outside of the school environment within the community. NCS has a standards-based core curriculum, which has been fully aligned with the California State Content Standards.

Management Experience: NCS' management team demonstrates professional, experienced and qualified individuals serving in key capacities within the organization, as described below.

Kathleen Daugherty has served as Superintendent of Newcastle Elementary School District since 2003 along with her role as Principal of Newcastle Elementary School. Prior to her current role, Ms. Daugherty served in several administrative roles since 1979, including Principal of Redwood Middle School within Napa Valley Unified School District (1995-2003), Principal of Penngrove Elementary School within Petaluma City Schools (1992-95), and Principal of Fairview Elementary School within Fairfield-Suisun Unified School District (1985-92). Ms. Daugherty has received several awards as a distinguished administrator, including ACSA State Superintendent Principal of the Year (2009). Among several credentials, Ms. Daugherty holds a California Administrative Services Credential from California State University, Sacramento.

Board Experience: NESD's governing board consists of six members as set forth in the table below.

Board Member	Occupation	County of Residence	Term
Kathleen Daugherty	Superintendent	Placer	Ex-officio
Sam Moore	Business Owner	Placer	2008-12
Micahel Leydon	Business Owner	Placer	2006-10
John Fenner, Chair	President, Placer Financial Group LLC	Placer	2004-10
Tara Odell	Senior Consultant, Kaiser Permanente	Placer	2004-10
'Ken Hansen	Retired High School Administrator	Placer	2009-10

The Board's responsibilities include, but are not limited to: approving all operations relating to NCS; developing annual goals for the school and long range plans with input from the NESD Superintendent, teachers, and parent committee; reviewing reports from the Superintendent; serving as the key agent relative to NCS' charter approval/renewal; and

regularly assessing NCS' educational performance and financial fitness. In addition to the NESD governing board, NCS has its own School Site Council, comprised of NCS teachers, the Superintendent, and community members. The Council advises the NESD Board regarding proposed changes to the charter and directions for program improvement based on its regular evaluation regarding charter school program effectiveness.

Management Experience for Schools Open Less than Two Years: Not applicable. NCS began instructional operations in 2005-06 and exceeds the minimum instructional requirement of two years.

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.

NCS has more than four years of reported API scores, allowing a review of progress and comparison to similar schools. The following table summarizes the school's trends in student performance.

Newcastle Charter School	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	Yes	Yes	Yes
Criteria Met / Required Criteria	5 / 5	7 / 7	9 / 9	9 / 9
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	N/A	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	N/A	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	N/A	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	N/A	8	10	9
API Base Similar Schools Rank (10 = best)	N/A	N/A	N/A	4
School's Actual Growth	N/A	50	-24	17
Similar Schools Median of Actual Growth	N/A	N/A	N/A	12
Did School's Growth Exceed Median?	N/A	N/A	N/A	Yes

NCS met all AYP criteria as well as its API growth target for each of the past four years. In addition, NCS had API growth scores of 892, 867, and 883 from 2006-07 to 2008-09, respectively, and based on its API base score for 2008-09, was ranked "9" statewide and "4" against similar schools ("10"=best).

Enrollment and Retention Rates: Since NCS' commencement of operations in 2005-06, NCS has demonstrated consistent growth, growing from 107 students in grades K-8 to its current enrollment of 187 students in grades K-8. NESD anticipates continued enrollment

growth for NCS to 227 students by the year of project occupancy, 2012-13, and to 235 and 244 students for 2013-14 and 2014-15, respectively. NCS' year-to-year retention rates for 2008-09 and 2009-10 were 88% and 95%, respectively. NCS' average daily attendance (ADA) rate for each of the past three years was 97%.

For the current academic year, NESD has 462 students across three schools, NES, NCS, and CCCS, and anticipates growth to 635 students across four schools, NES, NCS, CCCS, and HRCCS, by the year of project occupancy, 2012-13. NESD is projecting further total enrollment growth across the four schools to 655 and 668 for 2013-14 and 2014-15, respectively, the first two years after project occupancy (first two years of CSFP payments). NESD's aggregate year-to-year student retention rates for 2008-09 and 2009-10 were 93% and 95.6%, respectively.

Financial Analysis: As NESD is the financial obligor for the CSFP project on behalf of NCS, highlighted in this section are financial data and credit indicators used to evaluate NESD's ability to meet its CSFP obligations. The table below summarizes key aspects of NESD's past and projected financial performance. Staff notes that NESD's financial analysis is based on the performance of the District's general and charter school funds.

Staff's analysis of financial performance includes adjustments for capital outlay and loan repayment; therefore, our results may differ from audited figures presented by school representatives.

Newcastle Elementary Charter School District	Actual FY 2007/08	Actual FY 2008/09	Budget FY 2009/10	Projected FY 2010/11	Projected FY 2011/12	Projected FY 2012/13	Projected FY 2013/14	Projected FY 2014/15
ENROLLMENT PROJECTIONS								
Enrollment	345	361	462	557	608	635	655	668
Average Daily Attendance	336	351	446	540	591	618	638	650
Average Daily Attendance (%)	97%	97%	97%	97%	97%	97%	97%	97%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 3,468,390	\$ 3,772,364	\$ 3,949,289	\$ 4,576,065	\$ 4,917,008	\$ 5,092,367	\$ 5,356,812	\$ 5,592,698
Total Expenses Paid Before CSFP Payment	\$ 3,277,970	\$ 3,529,579	\$ 4,131,906	\$ 4,709,783	\$ 4,878,549	\$ 5,017,756	\$ 5,164,977	\$ 5,286,463
Accounting Adjustments	15,735	64,999	18,054	18,054	40,000	10,000	10,000	10,000
Net Revenues Available for CSFP Payment	\$ 206,155	\$ 307,784	\$ (164,563)	\$ (115,664)	\$ 78,459	\$ 84,611	\$ 201,835	\$ 316,235
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,565	\$ 77,565
Net Revenues After CSFP Payment	\$ 206,155	\$ 307,784	\$ (164,563)	\$ (115,664)	\$ 78,459	\$ 84,611	\$ 124,270	\$ 238,670
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ 206,155	\$ 307,784	\$ (164,563)	\$ (115,664)	\$ 78,459	\$ 84,611	\$ 201,835	\$ 316,235
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	260.2%	407.7%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	260.2%	407.7%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	1.4%	1.4%
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Payment / Revenues	5.9%	8.2%	-4.2%	-2.5%	1.6%	1.7%	2.3%	4.3%
Revenues / ADA	\$ 10,323	\$ 10,747	\$ 8,855	\$ 8,474	\$ 8,320	\$ 8,240	\$ 8,396	\$ 8,604
Expenses / ADA	\$ 9,756	\$ 10,056	\$ 9,264	\$ 8,722	\$ 8,255	\$ 8,119	\$ 8,217	\$ 8,252
Surplus (Deficit) / ADA	\$ 567	\$ 692	\$ (409)	\$ (248)	\$ 65	\$ 121	\$ 179	\$ 352
Net Working Capital	\$ 941,104	\$ 1,123,394						
Net Working Capital / Expenses	28.7%	31.8%						

Staff's review of NESD is based upon review of the following documents: (1) three years of audited financial statements (2006-07 through 2008-09), (2) the most recent budget for 2009-10; (3) multi-year budget projections for 2010-11 through 2014-15; and (4) enrollment projections through 2014-15.

NESD's financial projections are based upon the following assumptions: (1) project occupancy in 2012-13; (2) increases in enrollment as described above under "Enrollment and Retention Rates"; (4) 2010-11 funding rates for charter school general purpose block

grant (based on reducing CDE's reported rate by \$190/ADA) of \$4,792, \$4,867, and \$5,012 for grades K-3, 4-6, and 7-8, respectively; (5) projected ADA rates of 97%, which is consistent with NESD's historical performance; (6) cost of living adjustments (COLAs) on general purpose block grant of 0% for 2010-11, 1.8% for 2011-12, 2.4% for 2012-13, 2.8% for 2013-14; 3.1% for 2014-15 (for all years, rates are reduced by \$190/ADA after the COLA adjustments based on CDE's recommended methodology); and (7) COLAs on certified and non-certified salaries, and benefits, of 1.0% annually, beginning in 2009-10 and all years thereafter. NESD expects to maintain a student to teacher ratio between 18-21 students to 1. Expense categories other than salaries and benefits, such books and supplies, services and miscellaneous expenses increase for the effects of enrollment growth. Staff also notes that NCS does not rely on any private contributions, and no such contributions have been reported as revenues.

Staff notes that the expenses for NCS are determined each year based on enrollment, and the school is retrospectively billed a "tuition fee" based on its percent of the district enrollment as it relates to total district expenditures. Therefore, it is not possible to accurately break out the individual expenditure items for NCS (i.e., certified salaries, books and supplies, etc.). These "tuition fees" appear under "Other Outgo" in the audited financial statements and multi-year budget projections.

Financial Performance: As of June 30, 2009, NESD's long term liability consisted of: \$290,000 in general obligation bonds; \$121,913 in a lease purchase agreement obligation; \$7,193 in post-employment benefits; and \$5,473 in compensated absences. NESD has already made its payment on the lease purchase agreement for the current fiscal year, 2009-10 (\$42,000 from the general fund and the remainder from special non-major funds) and anticipates paying the remaining two payments (2010-11 and 2011-12) out of its special non-major funds.

Based on the audited financial statements, for 2006-07, NESD increased net assets by \$40,594 resulting from \$3.33 million in revenues and \$3.29 million in expenses. In 2007-08, NESD increased net assets by \$150,099 with \$3.47 million in revenue and \$3.32 of expenses. In 2008-09, NESD increased net assets by \$164,931 on \$3.77 million in revenues and \$3.61 million in expenses. Based on the current year's budget and multi-year budget projections, for 2009-10 and 2010-11, NESD anticipates net deficits of \$164,563 and \$115,664, respectively, on revenues of \$3.95 million and \$4.58 million, and expenses of \$4.13 million and \$4.71 million, respectively. NESD projects an operating surplus in 2011-12 of \$38,459 resulting from \$4.92 million in revenues and \$4.88 million in expenses. During the first year of project occupancy, 2012-13, NESD projects net revenues of \$78,459. During the first two years of CSFP payments, 2013-14 and 2014-15, NESD projects net revenues of \$201,835 and \$316,235, respectively. Hence, although NESD projects a net deficit for 2009-10 and 2010-11, it projects a consistent operating surplus for all further projected years, primarily due to the enrollment growth of the two currently operating schools, and the addition of a new charter school in 2010-11.

Projected Debt Service Coverage of CSFP Payments: Assuming a 3.0% interest rate and 30-year repayment period, as well as an estimated project cost of \$3,040,630, NESD's annual CSFP payment will be \$77,585, beginning in 2013-14. NESD's projected available net revenues of \$201,835 and \$316,235 (after adjusting for capital outlay) for 2013-14 and

2014-15, respectively, would provide debt service coverage of 260.2% and 407.7%, which is substantially above the minimum Program requirement of 100%. The CSFP payments during these years would represent 1.4% of projected revenues, which is well within the preferred maximum range of 10-15%.

Liquidity – On June 30, 2009, NESD reported holding \$934,361 in cash. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. NESD's NWC for 2007-08 was \$941,104, or 28.7% of total expenses, and increased to \$1.12 million for 2008-09, or 31.8% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

- + NESD projects debt service coverage of 260.2% and 407.7% for 2013-14 and 2014-15, respectively, the first two years of CSFP payments.
- + NCS met all AYP criteria as well as its API growth target for each of the past four years. In addition, NCS had API growth scores of 892, 867, and 883 for 2006-07, 2007-08, and 2008-09, respectively, and based on its API base score for 2008-09, was ranked "9" statewide and "4" against similar schools ("10"=best).
- + NESD does not rely on private contributions to meet its CSFP obligation.
- + NCS has achieved consistent enrollment growth since its commencement of instructional operations in 2005-06, growing from 107 students to 187 students in grades K-8, representing an average annual growth of 15%. In addition, NCS' year-to-year student retention rates for 2008-09 and 2009-10 were 88% and 95%, respectively.
- + NESD's Superintendent has served in her position since 2003 and has over 30 years of administrative experience with California public schools.
- +/- NESD projects aggressive enrollment growth by increasing existing school's enrollment and opening new schools. Given its conservative expense assumptions, NESD anticipates being able to offset any moderate variance to its projected enrollment.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that NESD, applying on behalf of NCS, is financially sound for the purposes of Charter School Facilities Program (Program) Preliminary and Advance Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.