

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND 2009
STAFF SUMMARY REPORT – APRIL 2010**

Applicant/Obligor:	Perris Union High School District
Project School:	California Military Institute
CDS (County – District – School) Code:	33-67207-0101170
Proposed Location:	755 North A St., Perris, CA 92570-1958
Type of Project:	New Construction
County:	Riverside
District in which Project is Located:	Perris Union High School District
Charter Authorizer:	Perris Union High School District
Total OPSC Project Cost:	\$6,644,318
State Apportionment (50% Project Cost):	\$3,322,159
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$3,322,159
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$169,494
First Year of Occupancy of New Project:	2011-2012

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Perris Union High School District (PUHSD) on behalf of California Military Institute (CMI) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Preliminary and Advance Apportionment, but not for purposes of Final 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 CSFA Board direct staff to notify the Office of Public School Construction (OPSC) 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 CMI. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	CMI has met all Program eligibility criteria: 1) a charter is in place; 2) CMI has at least two years of instructional operations; and 3) CMI is in compliance with the terms of its charter and in good standing with its chartering entity.
Demographic Information	CMI currently serves 540 students in grades 7 to 12 and projects enrollment to increase to 730 in 2010-11 when CMI adds service to the 6 th grade. Enrollment is expected to remain static in the foreseeable future.
Debt Service	CMI's projected debt service coverage ratios have met the minimum

Coverage	Program requirement of 100% at 578.7% and 616.0% for the first two years of CSFP payments in 2012-13 and 2013-14. As a PUHSD operated charter school, CMI does not rely on contributions to meet the minimum debt service coverage requirement.
Other Financial Factors	1. Projected ratios of CSFP payments to total revenues are 2.8% and 2.9% in 2012-13 and 2013-14, which is within the preferred maximum range of 10-15%. 2. Net working capital for 2008-09 of \$1.13 million represented 28.7% of total expenses, which exceeds the preferred minimum of 5.0%.
Student Performance	Although CMI did not meet all AYP criteria in 2006-07, all AYP criteria was met in 2007-08 and 2008-09. In 2008-09, CMI met its school-wide API growth target but not is comparable improvement target with an API score of 760. CMI's API base rankings for 2008-09 were 6 out of 10 statewide and 8 out of 10 among similar schools.

Program Eligibility: On October 15, 2009, staff received verification from PUHSD, CMI's charter authorizer, confirming that CMI is: 1) in compliance with the terms of its charter agreement, and 2) is in good standing with its chartering authority. PUHSD approved CMI's original charter in 2003, and approved a renewed charter in 2008, which is set to expire in 2013.

Legal Status Questionnaire: Staff reviewed CMI's responses to the questions contained in the Legal Status Questionnaire (LSQ). CMI responded that it does not have any civil or criminal matters to report and answered "No" to the questions.

Project Description: CMI has requested funding for new construction of a new school facility that will provide 9 teaching stations along with educational support facilities. The new facility of approximately 20,000 square feet would serve as an expansion project to CMI's existing facilities. The expansion project will be located at 755 North "A" St., Perris, CA 92570. CMI expects to complete the facility in time for occupancy by the start of 2011-12. If awarded a CSFP award, CMI anticipates utilizing proceeds from the sale of Qualified School Construction Bonds (QCSBs) for its local matching share as a lump sum payment. If the District is unable to sell QCSBs, the CSFP lease option will be used to meet the local match share. Staff has evaluated PUHSD and CMI assuming the 30-year lease option is exercised.

Organizational Information: CMI, a locally-funded, dependent charter school of PUHSD, has been in operations since August 2003 and currently serves 540 students in grades 7 through 12. According to information provided by the applicant, CMI provides a unique educational experience by combining high academic expectations and standards with a military-style environment. The military environment is modeled after the Oakland Military Institute and is affiliated with the California Cadet Corp. Students are called "cadets" and cadets are expected to have a minimum 2.0 grade point average and be free of behavioral issues. CMI operates on the values of honor, courage, and commitment. The program is designed for students that seek structure within a high quality disciplined learning environment.

Management Experience: The resumes of CMI key personnel demonstrate many years of education and management experience. Mr. Richard Wallis has served as Principal/Commandant of CMI since 2005. Mr. Wallis has a B.A. in Criminal Justice, and a

Master of Science in Instructional Leadership. Mr. Wallis served as a Sergeant in the Marine Corps, and presently is a Major California Cadet Corps, a Commandant of Cadets, and a Brigade Advisor (9th Brigade). Superintendent of the PUHSD, Jonathan Greenberg, Ed.D., has a B.A. degree from U.C.L.A., and other degrees from the University of La Verne, and has 20 years of teaching and school administration experience. Candace Reines, Assistant Superintendent (Business Services) of PUHSD, has worked in Fiscal/Business Services for PUHSD for the last four years. Ms. Reines received a B.S. from Azusa Pacific University. Mary Perea currently serves as Director of Fiscal Services at PUHSD. Ms. Perea’s prior positions with the Riverside County Office of Education and Moreno Valley Unified School District indicate her extensive educational background. Ms. Perea earned a post graduate degree from California State University San Bernardino along with receiving a B.A. from National University.

Board Experience: CMI’s Board of Trustees is a five-member board. The trustees are listed in the table below.

NAME	OCCUPATION	ROLE
Joan Cooley	Retired Educator	President
Carolyn Twyman	Retired Educator	Vice President
Randy Williams	Business Industry	Clerk
William Hulstrom	Retired Educator	Member
Eric Kroencke	Business Owner	Member

Management Experience for Schools Open Less than Two Years: Not applicable. CMI began instructional operations in 2003-04 and exceeds the minimum instructional requirements 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 1 funds.

The following table summarizes the school’s trends in student performance.

California Military Institute	FY 2006/07	FY 2007/08	FY 2008/09
ADEQUATE YEARLY PROGRESS (AYP)			
Met All AYP Criteria?	No	Yes	Yes
Criteria Met / Required Criteria	9 / 10	14 / 14	18 / 18
Met API Indicator for AYP?	No	Yes	Yes
Met Graduation Rate?	Yes	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)			
Met Schoolwide Growth Target?	N/A	N/A	Yes
Met Comparable Improvement Growth Target?	N/A	N/A	No
Met Both Schoolwide & CI Growth Targets?	N/A	N/A	No
API Base Statewide Rank (10 = best)	3	N/A	6
API Base Similar Schools Rank (10 = best)	1	N/A	8
School's Actual Growth	N/A	N/A	6
Similar Schools Median of Actual Growth	N/A	N/A	6
Did School's Growth Exceed Median?	N/A	N/A	No

Although CMI did not meet all AYP criteria in 2006-07, all AYP criteria was met in 2007-08 and 2008-09. According CDE, CMI failed to test a significant proportion of students who were not exempt from testing in 2006-07. This accounts for the lack of API scoring in this period. In 2008-09, CMI met its school-wide API growth target but not its comparable improvement target with an API score of 760. CMI's API base rankings for 2008-09 were 6 out of 10 statewide and 8 out of 10 among similar schools.

Enrollment: In 2003-04, CMI began instructional operations with 50 cadets in the 7th grade. From 2004-05 to 2008-09, CMI consistently increased its enrollment through the addition of a new grade each year, achieving enrollment in 2008-09 of 410 students in grades 7-12. For the current academic year, 2009-10, CMI has continued to show growth with a student enrollment of 540 students. CMI projects enrollment to increase to 730 in 2010-11 as the school anticipates serving the 6th grade in addition to grades 7-12. CMI does not expect any more student growth after 2010-11 with student enrollment remaining static throughout the foreseeable future. CMI anticipates meeting its enrollment projection of 730 students for the 2010-11 school year.

Retention data provided by CMI has indicated adequate retention with 92% of the cadets from 2008-09 returning for 2009-10. CMI has indicated that this is the first year in which this metric has been recorded.

Financial Analysis:

Below we have highlighted selected financial data and credit indicators to evaluate CMI's ability to meet its CSFP obligation.

Perris Union High School District	Actual FY 2006/07	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
ENROLLMENT PROJECTIONS								
Enrollment	227	333	410	540	730	730	730	730
Average Daily Attendance	216	312	382	513	694	694	694	694
Average Daily Attendance (%)	95%	94%	93%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 2,381,253	\$ 3,297,072	\$ 3,922,822	\$ 4,102,278	\$ 5,047,478	\$ 5,793,455	\$ 5,928,395	\$ 6,087,762
Total Expenses Paid Before CSFP Payment	2,490,796	3,273,974	3,922,689	4,087,295	4,595,320	4,905,915	4,997,456	5,093,628
Accounting Adjustments	-	-	43,847	16,000	75,000	50,000	50,000	50,000
Net Revenues Available for CSFP Payment	\$ (109,543)	\$ 23,098	\$ 43,980	\$ 30,983	\$ 527,158	\$ 937,540	\$ 980,939	\$ 1,044,134
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 169,494	\$ 169,494
Net Revenues After CSFP Payment	\$ (109,543)	\$ 23,098	\$ 43,980	\$ 30,983	\$ 527,158	\$ 937,540	\$ 811,445	\$ 874,640
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ (109,543)	\$ 23,098	\$ 43,980	\$ 30,983	\$ 527,158	\$ 937,540	\$ 980,939	\$ 1,044,134
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	578.7%	616.0%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	578.7%	616.0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	2.9%	2.8%
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Payment / Revenues	-4.6%	0.7%	1.1%	0.8%	10.4%	16.2%	13.7%	14.4%
Revenues / ADA	\$ 11,040	\$ 10,568	\$ 10,269	\$ 7,997	\$ 7,278	\$ 8,354	\$ 8,549	\$ 8,778
Expenses / ADA	\$ 11,548	\$ 10,494	\$ 10,269	\$ 7,967	\$ 6,626	\$ 7,074	\$ 7,451	\$ 7,589
Surplus (Deficit) / ADA	\$ (508)	\$ 74	\$ 0	\$ 29	\$ 652	\$ 1,280	\$ 1,098	\$ 1,189
Net Working Capital	\$ 1,111,207	\$ 1,158,883	\$ 1,126,523	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	44.6%	35.4%	28.7%	N/A	N/A	N/A	N/A	N/A

Performance/Change in Net Assets: Staff's review of CMI's financial performance is based on audited financial statements for fiscal years 2005-06 through 2008-09, 2009-10 budgeted projections, and financial projections from 2010-11 through 2014-15, as provided by CMI. Highlighted in this section are financial data and credit indicators used to evaluate CMI's ability to meet its CSFP obligations. Please note that the revenue, expenditure and changes to net assets recorded in financial audits and provided in CMI's financial projections have been modified by staff, where necessary, to include capital outlays, operating leases and repayment of debt and other significant obligations, and to exclude non-cash items such as depreciation. To evaluate CMI's financial performance, staff analyzed the Charter School Fund maintained by PUHSD. Staff notes that the Charter School Fund does include the operations of Choice 2000, an online public school operated by PUHSD.

As of June 30, 2009, the Charter School Fund in PUHSD's audited financial statements indicated no outstanding debt obligations. The District had \$101.32 million in outstanding long-term obligations consisting of bonds and certificates of participation, among others.

In 2005-06, CMI increased net assets by \$269,734 due to revenues of \$2.47 million and expenses of \$2.20 million. For the period, CMI enrolled 221 cadets. In 2006-07, CMI saw a reduction in net assets of \$109,543 based on revenues of \$2.38 million and expenses of \$2.49 million. During 2007-08, both revenues and expenses increased as CMI continued to add grades. CMI saw a small increase in net assets of \$23,098 from \$3.30 million in revenues and \$3.27 million in expenses. In 2008-09, revenues and expenditures were roughly identical at \$3.92 million, resulting in an increase to net assets of \$43,980 after accounting adjustments.

The conservative 2009-10 ADA funding rates of \$5,003 (grades 7 to 8) and \$5,845 (grades 9 to 12) were used as a base when determining projected future funding rates. Staff notes that this funding rate is conservative in comparison to the CDE funding rates of \$5,268 \$6,118 for the respective grades as of February 19, 2010. CMI assumed growth of 0.5%, 2.3%, 2.5%, and 3.0% in years 2010-11 through 2013-14 to the general purpose block grant per ADA funding rates. Salary expense is expected to grow by 1.2% annually while maintaining a student to teacher ratio of 25 to 1 throughout projected years. Operating expenses expect growth of 5% in all years.

CMI's projections assume 95% ADA rates in all years. Although slightly higher than the three year average of 94%, staff evaluated CMI's future projections with the provided assumption.

Debt Service Coverage: Assuming a 3.0% interest rate and 30-year repayment period, CMI's total annual CSFP lease payment is projected to be \$169,494 beginning in 2012-13. This payment would represent, on average, 2.8% of projected revenues in 2012-13 and 2013-14. CMI's projected 2012-13 net revenues of \$980,939 would provide debt service coverage of 578.7% in its first year of occupancy. For 2013-14, CMI projected net revenues of \$1.11 million would provide debt service coverage of 616.0%.

Asset Position and Liquidity: As of June 30, 2009, CMI had \$1.30 million in deposits and investments. Liquidity is also measured in terms of net working capital (NWC). NWC is calculated by subtracting current liabilities from current assets. CMI at June 30, 2009 had \$1.13 million in NWC, or 28.7% of total expenses which had decreased from the prior year's \$1.16 million at June 30, 2008, or 35.4% of total expenses. As staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient, CMI's most recent audited financials and cash balances indicate sufficient liquidity positions. The District provides a strong source of liquidity to CMI.

While our financial analysis has indicated CMI as financially sound on a stand-alone basis, PUHSD is serving as obligor and has an established history of credit-worthiness supported by their current investment-grade general fund credit rating of Baa1 from Moody's Investor Service.

Strengths, Weaknesses and Mitigants

- + PUHSD is serving as obligor, investment grade general fund rating
- + Projections comfortably meet debt service coverage threshold of 100%
- + CMI has met all AYP criteria over past two years
- Potentially aggressive enrollment projections

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that the Perris Union High School District on the behalf of California Military Institute is financially sound for the purposes of the Charter School Facilities Program Preliminary and Advance Apportionment, but not for purposes of Final 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 Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.