

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

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| Applicant/Obligor: | The Rocklin Academy |
| Project School: | Western Sierra Collegiate Academy |
| CDS (County – District – School) Code: | 31-76570-0119487 |
| Proposed Project Location: | TBD |
| Type of Project: | New Construction |
| County: | Placer |
| District in which Project is Located: | Rocklin Unified School District |
| Charter Authorizer: | State Board of Education |
| Total OPSC Project Cost: | \$22,702,950 |
| State Apportionment (50% Project Cost): | \$11,351,475 |
| Lump Sum Contribution: | \$0 |
| Total CSFP Financed Amount: | \$11,351,475 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 3.00% |
| Estimated Annual CSFP Payment: | \$579,144 |
| First Year of Occupancy of New Project: | 2013-14 |

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that the Rocklin Academy (RA) on the behalf of Western Sierra Collegiate Academy (WSCA) is financially sound for the purposes of the Charter School Facilities Program (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 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 RA on behalf of WSCA. Detailed information is contained in the body of the report.

| Criteria | Comments |
|--------------------------------|--|
| Eligibility Criteria | Although WSCA doesn't meet the eligibility criteria of having two years of operations as it opened in 2009-10, RA satisfies this requirement with the operations of its two other schools since 2001-02. WSCA was granted its charter in March 2009, which is in place through 2014. WSCA is currently in good standing with its chartering authority, and is in compliance with the terms of its charter. |
| Demographic Information | WSCA serves grades 7-9 and currently has 150 students. As of 2009-10, RA serves kindergarten through 9 th grade with 690 students on three campuses. RA anticipates serving 1,158 students in grades K-12 in 2015-16. |
| Debt Service | RA's projected debt service coverage ratios meet the minimum |

| | |
|--------------------------------|---|
| Coverage | requirement of 100.0% with 182.6% in 2014-15 and 219.8% in 2015-16. |
| Other Financial Factors | <ol style="list-style-type: none"> 1. RA does not rely on contributions from private sources. 2. Projected ratios of CSFP payments to total revenues are on average 7.4% in 2014-15 and 2015-16, which is within the preferred maximum range of 10-15%. 3. Net working capital for 2008-09 of \$1.33 million represented 35.7% of total expenses, which is well above the preferred minimum of 5.0%. |
| Student Performance | As WSCA has no student performance history, RA Turnstone Way is serving as evidence of RA's student performance. According to AYP criteria and API growth scores/rankings, RA Turnstone Way has had exceptional student performance. RA Turnstone Way has met all AYP criteria the past four years along with ranking 10 out of 10 statewide and among similar schools in every year, as well. |

Program Eligibility: On December 11, 2009, the Authority received verification from the State Board of Education confirming that WSCA is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Legal Status Questionnaire: Staff reviewed WSCA responses to the questions contained in the Legal Status Questionnaire (LSQ). WSCA answered yes to one of the LSQ questions, in regard to the now settled legal dispute between RUSD and RA.

WSCA's charter was initially denied by RUSD. After an appeal by RA, the matter was heard by the Placer County Board of Education but resulted in a tie vote of board members. The State Board of Education (SBE) voted in favor of granting a charter to WSCA, as the reasons for denial were deemed unsubstantiated. RUSD filed suit against the SBE and withheld facilities granted under Prop. 39 from WSCA. In response, WSCA filed a claim against RUSD. In January 2010, RUSD and RA came to agreement and settled their legal disputes. As part of the settlement, RUSD would "engage in good-faith negotiations regarding long range facility planning for WSCA" in lieu of Prop. 39 facilities. RA approximates funding of roughly \$1 million from RUSD, although the timing of receipt is dependent on when RA procures the necessary additional financing for the facility.

Project Description: WSCA has requested funding \$22,702,950 for construction of a new facility with 22 classrooms, restroom facilities, administrative offices and multi-purpose space. WSCA currently uses interim facilities located at 6880 Destiny Dr., Rocklin, CA 95677. The location of the project has not been identified other than its general location in Placer County within the boundaries of Rocklin Unified School District. RA has elected to finance the local match share of 50% of project costs to a long-term lease through CSFP.

Organizational Information: WSCA is operated by The Rocklin Academy (RA), a California nonprofit public benefit corporation, incorporated in 2000, and was formed by experienced educators and dedicated parents. RA implements the Core Knowledge Curriculum Sequence which provides a solid, coherent foundation of learning; it is also flexible to meet local needs. RA established and currently operates two very successful schools that serve students in K-6th grade, Rocklin Academy Turnstone Way and Rocklin Academy Meyers Street and strongly believe the need to develop a small college preparatory school to serve students in grades 7th – 12th. RA will provide a strong base for the efficient and successful development of WSCA.

WSCA is the third school operated by RA. WSCA was approved on appeal on March 12, 2009 and had its first day of class on August 18, 2009, with an initial enrollment of 150 students in grades 7, 8 and 9. WSCA will operate autonomously from the chartering entity, with the exception of the supervisory oversight as required by statute and other contracted services. Under the leadership of the RA's experienced ED, WSCA will operate under the management of the RA Executive Team, which consists of ED, Principal and Business Manager. WSCA will offer the Core Knowledge Curriculum in grades 7 and 8, and an A – G based curriculum in grades 9 - 12, that will be engaging and rigorous, meeting and exceeding California state standards.

Management Experience: Dr. David Patterson is the Executive Director and founder of Rocklin Academy. Dr. Patterson has a Doctorate in Education, Administration and Policy from the University of Southern California. Prior to Rocklin Academy, Dr. Patterson served for five years as the Director of Governmental Relations and Advocacy and Executive Director for the California Network of Educational Charters (CANEC). Dr. Patterson also served as an education program consultant with CDE for ten years and assisted in the development of charter school facility, including fiscal assessment, curriculum and special education.

Steven Carney is the Principal/Director of Education. Mr. Carney has a Masters in Educational Administration from National University. Mr. Carney brings experience as a classroom teacher, school administrator, County Office of Education coordinator/director of curriculum, instruction and staff development.

Board Experience: There are currently seven voting board members and three non-voting teacher members. The seven members of the Board have a variety of experience ranging from careers in education and finance.

| NAME | OCCUPATION | TERM |
|---------------------|-------------------------------------|--------|
| Wendy Boyd | Charter Developer | 1-year |
| Dr. David Patterson | Executive Director | 1-year |
| Stephen Siler | Health Systems Analyst | 1-year |
| Roy Beckhorn | Financial Aid Supervisor | 1-year |
| Jarrett Black | High School English Teacher | 1-year |
| Melissa Garrido | Doctoral Student/Homemaker | 1-year |
| Jeff Nicolaysen | CFO, CA Correctional Officers Union | 1-Year |

Management Experience for Schools Open Less than Two Years: Because WSCA began operations in 2009-10, the two year requirement of operations is met through the management experience of RA.

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.

As WSCA has no student performance history, staff evaluated four years of reported API scores from the RA Turnstone Way and available student performance data for RA Meyers Street. The following table summarizes RA Turnstone Way's trends in student performance.

| Rocklin Academy (Turnstone Way) | 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 | 9 / 9 | 9 / 9 | 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? | Yes | Yes | Yes | Yes |
| Met Comparable Improvement Growth Target? | Yes | Yes | Yes | Yes |
| Met Both Schoolwide & CI Growth Targets? | Yes | Yes | Yes | Yes |
| API Base Statewide Rank (10 = best) | 10 | 10 | 10 | 10 |
| API Base Similar Schools Rank (10 = best) | 10 | 10 | 10 | 10 |
| School's Actual Growth | 11 | -3 | 5 | 9 |
| Similar Schools Median of Actual Growth | 9 | 5 | 1 | 15 |
| Did School's Growth Exceed Median? | Yes | No | Yes | No |

According to API and met AYP criteria for RA Turnstone Way over the past four years, student performance has been stellar. RA Turnstone Way had API growth scores of 943, 938, 942, and 948 from 2005-06 through 2008-09, respectively, resulting in 10 out of 10 rankings for both statewide and among similar schools. In addition, RA Turnstone Way met all nine AYP criteria in every year evaluated. RA Turnstone Way's superb academic performance is a positive credit indicator for RA.

RA Meyers Street has limited student performance data with one year of API growth scores and two years of AYP criteria. For 2007-08 and 2008-09, RA Meyers Street met all AYP criteria and had an API growth score of 923 in 2008-09.

Enrollment and Retention Rates: For its first year of operations WSCA has enrolled 150 students in 2009-10. As no established attendance history can be given for WSCA, staff evaluated RA's enrollment trends and projections. RA, which operates three campuses, currently enrolls 690 students in grades K-9. RA began operations of RA Turnstone Way in 2001-02. RA's enrollment has grown substantially from 2008-09 to 2009-10 with the addition of students enrolled at WSCA. RA is expecting for enrollment to continue to grow as additional grades are added into operations. RA expects to enroll 1,158 students in 2015-16 serving grades K-12. Staff finds the enrollment projections of RA as somewhat aggressive given roughly 35% of projected enrollment in 2015-16 will belong to grades that have not be opened for operations as of 2009-10.

RA has shown strong average daily attendance (ADA) rates for the past three years, averaging 99%, which supports RA's conservative assumed ADA rate of 96% for its financial projections. RA's year-to-year retention rate for the current 2009-10 academic year was 95.0% and also serves as a positive indicator.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the applicant's ability to meet its CSFP obligations. Although WSCA represents

the project school for CSFP, RA is serving as financial obligor and therefore is evaluated for financial soundness. The table provided excerpted from the financial model summarizes key aspects of RA's past and projected financial performance.

Staff's financial review of RA is based on four years of audited financial statements (2005-06 through 2008-09), 2009-10 1st Interim Budget, and financial projections from 2010-11 through 2015-16, as provided by RA.

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.

| Rocklin Academy (Western Sierra Collegiate Academy) | Actual FY 2007/08 | Actual FY 2008/09 | 1st Interim FY 2009/10 | Projected FY 2010/11 | Projected FY 2011/12 | Projected FY 2012/13 | Projected FY 2013/14 | Projected FY 2014/15 | Projected FY 2015/16 |
|---|----------------------|----------------------|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| ENROLLMENT PROJECTIONS | | | | | | | | | |
| Enrollment | 389 | 484 | 690 | 783 | 883 | 983 | 1,083 | 1,133 | 1,158 |
| Average Daily Attendance | 388 | 484 | 687 | 751 | 846 | 941 | 1,036 | 1,093 | 1,117 |
| Average Daily Attendance (%) | 100% | 100% | 100% | 96% | 96% | 96% | 96% | 96% | 96% |
| FINANCIAL PROJECTIONS | | | | | | | | | |
| Total Revenues Available for CSFP Payment | \$ 2,934,685 | \$ 3,814,382 | \$ 4,505,258 | \$ 4,842,622 | \$ 5,399,818 | \$ 6,174,862 | \$ 7,061,754 | \$ 7,636,926 | \$ 8,024,766 |
| Total Expenses Paid Before CSFP Payment | 2,607,507 | 3,715,795 | 4,592,512 | 4,827,506 | 5,287,618 | 5,860,087 | 5,946,888 | 6,579,223 | 6,751,528 |
| Accounting Adjustments | - | - | - | - | - | - | - | - | - |
| Net Revenues Available for CSFP Payment | \$ 327,178 | \$ 98,587 | \$ (87,254) | \$ 15,116 | \$ 112,200 | \$ 314,775 | \$ 1,114,866 | \$ 1,057,703 | \$ 1,273,238 |
| CSFP Payment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 579,144 | \$ 579,144 |
| Net Revenues After CSFP Payment | \$ 327,178 | \$ 98,587 | \$ (87,254) | \$ 15,116 | \$ 112,200 | \$ 314,775 | \$ 1,114,866 | \$ 478,559 | \$ 694,094 |
| FINANCIAL INDICATORS | | | | | | | | | |
| Net Revenues Available for CSFP Payment | \$ 327,178 | \$ 98,587 | \$ (87,254) | \$ 15,116 | \$ 112,200 | \$ 314,775 | \$ 1,114,866 | \$ 1,057,703 | \$ 1,273,238 |
| Debt Service Coverage by Net Revenues | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 182.6% | 219.8% |
| Contributions | \$ - | \$ - | \$ 295,000 | \$ 175,000 | \$ 25,000 | \$ - | \$ - | \$ - | \$ - |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 182.6% | 219.8% |
| CSFP Lease Payment / Revenues | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 7.6% | 7.2% |
| Contributions / Revenues | N/A | N/A | 6.5% | 3.6% | 0.5% | N/A | N/A | N/A | N/A |
| Net Revenues After CSFP Payment / Revenues | 11.1% | 2.6% | -1.9% | 0.3% | 2.1% | 5.1% | 15.8% | 6.3% | 8.6% |
| Revenues / ADA | \$ 7,564 | \$ 7,881 | \$ 6,561 | \$ 6,450 | \$ 6,384 | \$ 6,563 | \$ 6,818 | \$ 6,987 | \$ 7,185 |
| Expenses / ADA | \$ 6,720 | \$ 7,677 | \$ 6,688 | \$ 6,430 | \$ 6,252 | \$ 6,229 | \$ 5,741 | \$ 6,549 | \$ 6,564 |
| Surplus (Deficit) / ADA | \$ 843 | \$ 204 | \$ (127) | \$ 20 | \$ 133 | \$ 335 | \$ 1,076 | \$ 438 | \$ 621 |
| Net Working Capital | \$ 1,298,613 | \$ 1,327,558 | | | | | | | |
| Net Working Capital / Expenses | 49.8% | 35.7% | | | | | | | |

Long-term Liabilities: At June 30, 2009, the school had a note payable in the amount of \$43,981. The note carries an interest rate of 6.75% per annum with principal and interest due in March 2012.

Financial Performance: In 2006-07, RA recorded an increase in net assets of \$500,098 on revenues of \$2.68 million and expenses of \$2.18 million. Operations for 2007-08 resulted in a surplus of \$327,178 on revenues and expenses of \$2.93 million and \$2.61 million, respectively. Revenues of \$3.62 million and expenses of \$3.72 million in 2008-09 resulted in a deficit of \$96,734. However, RA transferred in \$195,321 in reserves to cover the shortfall, ending 2008-09 with a surplus of \$98,587. In all years prior to 2008-09, RA has shown the ability to successfully operate its schools while increasing net assets and reserves with virtually no reliance on contributions.

RA's financial projections are based upon the following assumptions: (1) project occupancy in 2013-14; (2) increases in enrollment as described above; (3) per ADA funding rates for general purpose block grants of \$4,770, \$4,840, \$5,240, and \$6,084, respectively, beginning in 2009-10; (4) projected ADA rates of 96% (5) revenue growth (cost of living adjustments on State Aid) of 0.9% in 2010-11, 2.4% in 2011-12, 2.5% in 2012-13, and 3.0% in subsequent years; and (6) average annual growth in salaries and benefits of 10.0% annually, beginning in 2011-12 to 2014-15. Expense categories other than salaries and

benefits, such as books and supplies, services and miscellaneous expenses, are expected to increase due to the effects of enrollment growth.

In addition to 2008-09, RA anticipates operating at a net loss based on school operations in 2009-10 and 2010-11. For 2009-10 and 2010-11, RA projects net losses of \$637,931 and \$272,561, respectively, before transfers of reserves or contributions. Inclusive of transfers from reserves and contributions, RA projects ending these periods without a shortfall. As discussed below, RA maintains healthy reserve balances and plans to use these funds to meet any operating deficits due to the decrease in state funding and RA's continued growth needs. From 2011-12 through 2015-16, RA expects operating surpluses of \$112,200, \$314,775, \$1,114,866, \$478,559, and \$694,094 with little to no reserve transfers or contributions. This is attributable to the projected increases in the general purpose block grant funding rates and better maintenance of expenses.

The projected increase to salary expenses is attributable to the increase in student enrollment. Although salaries on an aggregate basis increase in the projected years, the average teacher salary is actually expected to decrease. RA anticipates the per teacher salary to decrease with the addition of new teachers. RA expects to maintain student to teacher ratio of 30 to 1 for the foreseeable future.

Projected Debt Service Coverage of CSFP Payments – RA's financial projections indicate the school will be able to afford the projected annual CSFP payments. Debt service coverage ratios for CSFP are calculated using net revenues available after payment of debt service on any existing and projected indebtedness, with any expenses for capital outlay and depreciation added back as net revenues. In its application, RA stated that it would fund its upfront local matching amount with the lease option, repaying 50% of the local matching share with a long term-lease.

Assuming a 3.0% interest rate and 30-year repayment period, RA's annual CSFP payment would be \$579,144 beginning in 2014-15. This is one year following expected occupancy of the project. RA's projected net revenues of \$1.06 million would provide debt service coverage of 182.6% in 2014-15. For the following year, projected debt service coverage is 219.8% based on net revenues of \$1.27 million. The CSFP payment would represent, on average, 7.4% of projected revenues in 2014-15 and 2015-16.

To account for the potentially aggressive (lower) projected certified salary levels, staff evaluated the salary expense if it were to increase at an inflationary rate per projected teacher. If RA were to assume an annual 3% COLA rate for certified salaries while maintaining established student to teacher ratios, projected debt service coverage would decrease to 106.3% and 142.8% in 2014-15 and 2015-16, respectively. The adjusted debt service coverage still meets staff's minimum requirement of 100% given the more conservative salary expense assumption.

Contributions – RA anticipates receiving contributions of approximately \$16,500-\$33,000 annually in projected years through Parent School Partnerships fundraising at all three campuses. However, these contributions were excluded from the financial projections to provide a more conservative outlook for RA's financial projections. The contributions included in RA's financial projections represent the start-up grant funds to be received for WSCA.

Liquidity – As of June 30, 2009, RA maintained a cash balance of \$1.20 million and \$1.57 million in unrestricted net assets. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. RA's NWC for 2007-08 was \$1.30 million, or 49.8% of total expenses and has \$1.33 million for 2008-09, or 35.7% of total expenses. Although RA anticipates using its reserve balances to cover projected operating losses over the next three years, RA has demonstrated strong liquidity along with healthy cash and reserve balances. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

- + RA has projected debt service coverage of 182.6% and 219.8% for 2014-15 and 2015-16, respectively, the first two years of CSFP payments.
- + RA met all AYP criteria over the past four years. RA has strong student performance indicated in strong API growth scores, 10 out of 10 statewide ranking, and 10 out of 10 similar school ranking.
- + RA doesn't rely on private contributions to meet its CSFP obligation.
- Aggressive enrollment projections and reductions in teacher salaries in projected years.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that the Rocklin Academy on behalf of Western Sierra Collegiate Academy is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary and Advance Apportionment, but not for purposes of Final Apportionment under the Program. 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 immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.