

**CHARTER SCHOOL FACILITIES PROGRAM
PROP 1D FUNDING ROUND 2009
STAFF SUMMARY REPORT – MAY 2010**

Applicant/Obligor:	Sebastopol Independent Charter School
Project School:	Sebastopol Independent Charter School
CDS (County – District – School) Code:	49-70938-6113039
Proposed Location:	1080 & 1088 Hurlbut Avenue, Sebastopol, CA
Type of Project:	New Construction
County:	Sonoma
District in which Project is Located:	Sebastopol Union School District
Charter Authorizer:	Sebastopol Union School District
Total OPSC Project Cost:	\$8,655,616
State Apportionment (50% Project Cost):	\$4,327,808
Lump Sum Contribution:	\$2,400,000
Total CSFP Financed Amount:	\$1,927,808
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$98,355
First Year of Occupancy of New Project:	2012-2013

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Sebastopol Independent Charter School (SICS) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) 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 SICS. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	SICS has met all eligibility criteria for the Program: 1) two years of operations, 2) a charter in place through 2014-15, 3) SICS is in good standing with its chartering authority, and 4) being in compliance with the terms of its charter, Sebastopol Union School District.
Demographic Information	SICS serves grades Kindergarten through eighth. For 2008-09, SICS had 257 students in grades K-8, and for both 2009-10 and 2010-11, total enrollment of 260 and 266 students is expected. By occupancy of the project in 2011-12, total student enrollment is projected at 275 students.
Debt Service Coverage	SICS' projected debt service coverage ratios have exceeded the minimum requirement of 100% at 114.8%, and 110.1% in 2013-14 and 2014-15, respectively.

Other Financial Factors	SICS states to have at least two guarantors, their foundation and a lender, but did not provide information and will do so after awarded a preliminary apportionment.
Student Performance	SICS met all AYP criteria in each of 2005-06, 2006-07, 2007-08 and 2008-09. Although SICS did not meet its API school-wide growth target for 2005-06, 2006-07, and 2007-08 it did meet its API school-wide growth target for 2008-09.

Program Eligibility: On December 09, 2009, the Authority received verification from the Superintendent’s Office of Sebastopol Union School District confirming that SICS 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 SICS responses to the questions contained in the Legal Status Questionnaire (LSQ). SICS answered “None” to all LSQ questions.

Project Description: SICS has requested funding for new construction of a school facility. The project is a 10 acre unified campus to replace the two current campuses. The new site will house the entire school of 270 students and include a working farm and outdoor athletic space. The site is proposed to be located at 1080 & 1088 Hurlbut Avenue, Sebastopol, CA 95472. This project consists of 14 classrooms, an art studio, music room, and other multi-use rooms. SICS expects to complete the facility in time for occupancy by the start of the 2011-12 school year.

Organizational Information: SICS has been in operations since 1995 and currently has 260 students enrolled in grades K-8. SICS operates as an independent California non-profit corporation governed by a board of parents, educators, a District representative, and other community members. SICS received its first charter from Sebastopol Union School District on January 12, 1995 and has been renewed since and is valid through June 30, 2015.

SICS is known to many in the Waldorf education movement as the strongest Waldorf charter school in the country. Outside of state funding, SICS has strong support from their educational foundation. The Charter Foundation is supported by parents via fundraising events and a monthly pledge program.

Management Experience: Because SICS is a small school, Ms. Olson serves as Executive Director, Principal, and CFO under oversight from the SICS Board. Ms. Susan Olson holds an M.A. in Geography from the University of California, Los Angeles and an M.S. in Human Resources Design from Claremont Graduate University. Ms. Olson also has a Foundation Studies Certificate in Waldorf Education. Ms. Olson has over 22 years of teaching and administrative experience.

Board Experience: The five members of the Board have a variety of experience ranging from careers in small business, City Administration, and Engineering. The names, occupations, and terms of the Board members are as follows: Mr. Nick Sanders (President), Owner of West County Cycle Service; Zac Douch (Vice-President), Business Owner and school parent; Joe Schwall (Treasurer), Plant Manager for City of Santa Rosa, school parent; Alysson Baker (Secretary), Business Owner and school parent; Marc Solomon, Principal Engineer at Winzler and Kelley in Santa Rosa, an alumni parent.

Management Experience for Schools Open Less than Two Years: Not applicable. SICS began instructional operations in 1995-96 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.

SICS achieved API growth scores of 815, 776, 779, 768 for 2005-06, 2006-07, 2007-08, 2008-09, respectively. During 2008-09, SICS met both school wide and CI growth target. With respect to academic rankings, out of a best possible rank of 10, SICS ranked 6, 6 and 5 statewide during 2006-07, 2007-08, 2008-09, respectively. SICS consistently met all AYP criteria from 2005-06 to 2008-09.

Sebastopol Independent Charter School	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
<u>ADEQUATE YEARLY PROGRESS (AYP)</u>				
Met All AYP Criteria?	Yes	Yes	Yes	Yes
Criteria Met / Required Criteria	9 / 9	5 / 5	9 / 9	9 / 9
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	No	NA	NA	NA
<u>ACADEMIC PERFORMANCE INDEX (API)</u>				
Met Schoolwide Growth Target?	No	No	No	Yes
Met Comparable Improvement Growth Target?	No	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	No	No	No	Yes
API Base Statewide Rank (10 = best)	8	6	6	5
API Base Similar Schools Rank (10 = best)	1	1	6	1
School's Actual Growth	-35	4	-10	94
Similar Schools Median of Actual Growth	12	-2	8	22
Did School's Growth Exceed Median?	No	Yes	No	Yes

Enrollment and Retention Rates: For the current 2009-10 academic year, grade K-8 enrollment totaled 260 students (based on CBEDS information). According to SICS's projections; the student enrollment is expected to grow to 273 by 2012-13. SICS enjoys full enrollment and waiting lists for most grades every year. SICS enjoys solid retention and rarely have openings except in kindergarten. SICS currently has about 50 students in the wait lists at various grade levels except 8th. SICS' student retention rate for the last four years averaged at 92%. SICS' average daily attendance (ADA) rate for the past three years has ranged from 95% to 99%, which supports their assumed ADA rate of 96% for its financial projections.

Financial Analysis: Below we have highlighted selected financial data and credit indicators to evaluate SICS' ability to meet its CSFP obligation.

Sebastopol Independent Charter School	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	261	257	260	266	275	273	273	275
Average Daily Attendance	242	244	250	255	264	262	262	265
Average Daily Attendance (%)	93%	95%	96%	96%	96%	96%	96%	96%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 1,838,866	\$ 1,936,463	\$ 1,633,408	\$ 1,809,710	\$ 1,845,878	\$ 1,871,359	\$ 1,896,209	\$ 1,938,297
Total Expenses Paid Before CSFP Payment	1,809,512	1,791,403	1,859,230	1,803,455	1,847,135	1,740,410	1,783,289	1,830,057
Accounting Adjustments	-	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 29,354	\$ 145,060	\$ (225,822)	\$ 6,255	\$ (1,257)	\$ 130,949	\$ 112,920	\$ 108,240
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,355	\$ 98,355
Net Revenues After CSFP Payment	\$ 29,354	\$ 145,060	\$ (225,822)	\$ 6,255	\$ (1,257)	\$ 130,949	\$ 14,565	\$ 9,885
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ 29,354	\$ 145,060	\$ (225,822)	\$ 6,255	\$ (1,257)	\$ 130,949	\$ 112,920	\$ 108,240
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	114.8%	110.1%
Contributions	\$ 132,000	\$ 146,900	\$ 150,000	\$ 222,000	\$ 222,000	\$ 222,000	\$ 222,000	\$ 222,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	less than 0%	less than 0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	5.2%	5.1%
Contributions / Revenues	7.2%	7.6%	9.2%	12.3%	12.0%	11.9%	11.7%	11.5%
Net Revenues After CSFP Payment / Revenues	1.6%	7.5%	-13.8%	0.3%	-0.1%	7.0%	0.8%	0.5%
Revenues / ADA	\$ 7,599	\$ 7,936	\$ 6,534	\$ 7,097	\$ 6,992	\$ 7,143	\$ 7,237	\$ 7,314
Expenses / ADA	\$ 7,477	\$ 7,342	\$ 7,437	\$ 7,072	\$ 6,997	\$ 6,643	\$ 7,182	\$ 7,277
Surplus (Deficit) / ADA	\$ 121	\$ 595	\$ (903)	\$ 25	\$ (5)	\$ 500	\$ 56	\$ 37
Net Working Capital	\$ 829,307	\$ 769,333						
Net Working Capital / Expenses	45.8%	42.9%						

Staff's review of SICS' financial performance is based on two years of audited financial statements (2007-08 through 2008-09), financial projections from 2010-11 through 2014-15 as provided by SICS' consultant Goodell, Porter, Sanchez & Bright, LLP. Please note that the revenue, expenditure and changes to net assets recorded in financial audits and provided in SICS' 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.

SICS' financial projections are based upon the following assumptions: (1) project occupancy in 2012-13; (2) increases in enrollment as described above; (3) per ADA funding rates for general purpose block grants of \$4,789, \$4,861, and \$4,999, for grades K-3, 4-6, 7-8, respectively, beginning in 2010-11; (4) projected ADA rates of 96%; (5) growth in salaries and benefits of 2% annually, beginning in 2012-13. Other expenses categories, like books and supplies, services and miscellaneous expenses are also projected to increase due to the effects of enrollment growth and 2.0% inflation over the five year term from 2010-11 through 2014-15; (6) lump sum payment of \$2.4 million to meet debt service coverage threshold; and (7) additional funding from their foundation, The Charter Foundation, to \$222,000 per year after the building is paid off.

Assets/Liabilities: As of June 30, 2009, SICS had no long-term liabilities and unrestricted net assets of \$804,228. By July 1, 2010, SICS is scheduled to pay off the building mortgage in its entirety at 200 S. Main Street and will be officially owned by the Charter Foundation.

Financial Performance/Change in Net Assets: In 2007-08, SICS increased net assets by \$29,354 based on revenues of \$1.84 million and expenses of \$1.81 million. Revenues for 2007-08 included \$132,000 in contributions from the Charter Foundation. In 2007-08, net assets increased by \$145,060, principally due to \$146,900 in contributions. This was as a result of \$1.79 million in revenues and expenses.

Without accounting for contributions, SICS is projecting ending 2009-10 through 2014-15 with net deficits averaging \$118,000. Contributions of \$222,000 annually are expected from the Charter Foundation and help increase SICS' projected net assets in 2010-11, 2012-13, and 2013-14. SICS' staff has indicated that the Charter Foundation will more likely contribute approximately \$300,000 in projected years but staff's financial analysis of SICS includes the more conservative contribution assumptions.

Projected Debt Service Coverage of CSFP Payments: In its application, SICS stated that it would fund its upfront local matching amount with a lump sum payment and lease option. SICS will repay its 50% local matching share with a lump sum payment of \$2.4 million and the remaining balance with a long-term lease. According to the application, the \$2.4 million lump sum is to come from the proceeds of the sale of school property that its foundation, the Charter Foundation, owns, or from an equity loan on the property that the Rudolf Steiner Foundation has agreed to guarantee on behalf of the foundation. Upon further discussion with the Authority, SICS has indicated that it anticipates a pledge of \$2.4 million from the Rudolf Steiner Foundation (guaranteeing the equity loan) as source of the lump-sum payment. Staff was informed that the equity loan from the Rudolf Steiner Foundation would carry an interest rate of 6.0%. Given that it is staff's finding that SCIS would be financially overburdened in borrowing for its 50% share from the CSFP program at an estimated 3.0%, we would in turn reach similar findings if SICS were to borrow a portion of their upfront share at 6.0%. Proceeds for the sale of property would have to be pledged as SICS' upfront contribution. However, staff finds the recently appraised value sufficient in order to make a financial soundness recommendation.

Assuming project costs of \$8,655,616, an interest rate of 3.0%, a lump sum payment of \$2.4 million and a 30-year repayment period, SICS' annual CSFP payment will be \$98,355 beginning in 2013-14. For 2013-14 and 2014-15, projected debt service coverage is 114.8% and 110.1% based on net revenues of \$112,920 and \$108,240, respectively. These levels are slightly above the program threshold coverage of 100%. The CSFP payments would represent, on average, 5.2% of projected revenues for 2013-14 and 2014-15. Projected debt service coverage excluding contributions would result in coverage ratios below 0%.

Liquidity: As of June 30, 2009, SICS maintained \$654,476 in cash. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. SICS' NWC for 2008-09 was \$829,307 or 45.8% of total expenses.

Strengths, Weaknesses and Mitigants

- + SICS has continually met all Academic Performance Index (API) and Adequate Yearly Progress (AYP) from 2005-06 through 2008-09
- + SICS' Charter Foundation has a demonstrated history of raising funds on behalf of the school.
- + SICS' Charter Foundation will own (as of July 2010) the facility in which SICS is housed. This facility's recent appraisal value is \$2.6 million.
- SICS' ability to meet the debt service coverage threshold is contingent with the lump sum payment of \$2.4 million
- SICS has high reliance on its contributions in order to meet the 100% debt service coverage requirement.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Sebastopol Independent Charter School (SICS) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Advance Apportionment, but not for purposes of Final Apportionment. This recommendation is based on a \$2.4 million cash contribution to the Project. 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.