

MEMORANDUM

Date: July 14, 2010

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 10-20 Approving Determination of Elk Grove Unified School District's Financial Soundness for Purposes of a Final Apportionment under the Charter School Facilities Program

Consideration of Resolution No. 10-20, approving that Elk Grove Unified School District (EGUSD) on behalf of Elk Grove Charter School (Elk Grove Charter) has maintained a financially sound status for purposes of Final Apportionment under the Proposition 55 funding round of the Charter School Facilities Program (Program).

Background:

In 2004, the California School Finance Authority (Authority) found EGUSD financially sound for preliminary apportionment, but not for advance or final apportionment, under the Proposition 55 funding round. EGUSD funded the Elk Grove Charter project internally, and Elk Grove Charter anticipates occupying the facility in Fall 2010.

Recent Request for Final Apportionment:

EGUSD has recently applied for release of funds for final apportionment in the amount of \$2,671,258 for the Elk Grove Charter project. The final apportionment funds would serve as reimbursement to EGUSD as the District funded all of the project costs of \$5,342,516. Elk Grove Charter operates as a district dependent charter school developed and managed by EGUSD. The Authority maintains its determination that EGUSD is financially sound for final apportionment although material financial changes have occurred.

Staff is recommending that EGUSD on behalf of Elk Grove Charter be found financially sound for final apportionment. Below are the highlights for EGUSD and Elk Grove Charter.

Criteria	Comments
Eligibility Criteria	Elk Grove Charter has met all eligibility criteria. The school has been open since 1999-00, meeting the Program's requirement for two years of charter school experience in California. Elk Grove Charter's current charter will expire in 2014. Elk Grove Charter School is in good standing with its authorizer and in compliance with the terms of its charter.
Demographic Information	EGUSD currently serves 62,172 students ranging from grades K-12. The District serves Sacramento County with 63 schools in the area of Elk Grove. Elk Grove Charter serves grades 7-12. The school has grown from serving 229 students in 2006-07 to 302 students in 2009-10.

Criteria	Comments
Debt Service Coverage	Debt service coverage is not applicable as EGUSD has already funded its match share with funding all of the project costs including the Prop 55 grant apportionment.
Other Financial Factors	<ol style="list-style-type: none"> 1. EGUSD is projecting sizable decreases in net assets through 2011-12 2. EGUSD anticipates negative general fund balances beginning in 2011-12 excluding interfund transfers
Student Performance	Elk Grove Charter did not meet all AYP criteria in 2008-09 but did meet the criteria in the last three years. The school missed its schoolwide API growth targets in the past two years but met the comparable improvement growth targets from 2005-06 through 2008-09. The school's API similar schools ranking was 8 and 7 (out of 10) in 2005-06 and 2008-09, with statewide rankings between 3 and 5 (out of 10) over the past four years.

Material Changes:

EGUSD is currently facing financial challenges. The District has a rapidly declining general fund balance as a result of large operating deficits for 2008-09 and 2009-10 of \$11.69 million and \$31.78 million, respectively. The District expects this trend to continue through 2011-12 with deficits of \$9.16 million and \$21.32 million in 2010-11 and 2011-12, respectively. In addition, the District's general fund doesn't appear able to withstand these large losses and is projected to depend on interfund transfers to avoid a negative general fund balance.

Even though EGUSD appears to be struggling financially, it would have no material impact on the Authority's determination of financial soundness. The Authority assumes no risk of default as the District is only requesting reimbursement of final apportionment grant funds. In addition, California school districts maintain protection from bankruptcy if the District were to become insolvent. For these reasons, staff is in favor of recommending that EGUSD is financially sound for purposes of a Proposition 55 Final Apportionment.

Recommendation:

Staff recommends that the California School Finance Authority Board determine that EGUSD, on behalf of Elk Grove Charter, is financially sound for the purposes of the Charter School Facilities Program Final Apportionment, and approve Resolution 10-20. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction regarding this determination.