

**CHARTER SCHOOL FACILITIES PROGRAM  
2010 LOTTERY FUNDING ROUND  
STAFF SUMMARY REPORT – MARCH 2011**

<b>Applicant/Obligor:</b>	Chico Country Day School
<b>Project School:</b>	Chico Country Day School
<b>CDS (County – District – School) Code:</b>	04 61424 6113773
<b>[Proposed] Project Location:</b>	102 West 11 <sup>th</sup> Street, Chico
<b>Type of Project:</b>	Rehabilitation of District Facilities
<b>County:</b>	Butte
<b>District in which Project is Located:</b>	Chico Unified School District
<b>Charter Authorizer:</b>	Chico Unified School District
<b>Total OPSC Project Cost:</b>	\$8,437,062
<b>State Apportionment (50% Project Cost):</b>	\$4,218,531
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$4,218,531
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$215,226
<b>First Year of Occupancy of New Project:</b>	2012-13

**Staff Recommendation:** Staff recommends that the California School Finance Authority (CSFA) Board determine that Chico Country Day School (CCDS) is financially sound for the purposes of the Charter School Facilities Program (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 CCDS. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	CCDS has met all the Program eligibility criteria including: 1) a charter is in place; 2) Program's requirement having of 2 years of instructional operations has been met; and; 3) CCDS is in compliance with the terms of its charter, and in good standing with its chartering authority.
<b>Demographic Information</b>	CCDS currently serves 548 students in grades K-8. The school projects enrollment to increase to 558 students during its first year of CSFP facilities occupancy in FY

	2012-13, and ultimately grow to 569 students by 2014-15. Staff deems this enrollment growth reasonable given the school's enrollment growth to date.
<b>Debt Service Coverage</b>	CCDS 's debt service coverage ratios have met the 100% Debt Service Coverage Ratio threshold by having 166.4% in FY 2013-14 (one year after CSFP facility occupancy), 180.2% for FY 2014-15.
<b>Other Financial Factors</b>	<ul style="list-style-type: none"> <li>▪ Although CCDS has achieved contributions in excess of \$100,000 per year for each of the past three years, CCDS does not rely on contributions to meet the CSFP debt service coverage requirement.</li> <li>▪ CSFP payments represent 5.1% of revenues, and the school will have a long-term debt besides the CSFP obligation, however, the yearly obligation is minimal. Staff considers a lease burden (lease payments divided by revenues) of 10% or less to be an affordable long-term commitment.</li> <li>▪ CSFP payments are projected to be 5.1% and 5.0% of total revenues for FY 2013-14 and FY 2014-15, which are well below the 10-15% threshold levels.</li> <li>▪ Fundraising/contributions are not a revenue item for CCDS' core instructional operations.</li> </ul>
<b>Student Performance</b>	CCDS has met all its API and AYP goals since 2003-04. In 2009-10, CCDS has a state rank of 8, and a similar schools rank of 2. CCDS continues to have higher API scores in comparison to its Local Education Area.

**Program Eligibility:** In December 2010 staff received notification from the Superintendent's Office at Chico Unified School District (District) that CCDS is: 1) in compliance with the terms of its charter agreement, and 2) is in good standing with its chartering authority. CCDS' charter is in place and will expire in 2015. The District has renewed CCDS' charter three times since the school opened in 1996.

**Legal Status Questionnaire:** Staff reviewed CCDS' responses to the questions contained in the Legal Status Questionnaire (LSQ). CCDS answered "No" to all LSQ questions.

**Project Description:** CCDS has requested financing for a rehabilitation project for its current school facilities, which are being provided by the District through Proposition 39. The project consists of: replacing seven re-locatable classrooms, and two bathrooms; remodeling four bathrooms, the multi-purpose room, two classrooms, and an office to bring them up to Americans with Disabilities Act compliance; and relocating two classrooms to make room to construct a new pick-up/drop-off loading zone. CCDS also plans to construct a new two-story classroom building that will house up to fifteen classrooms, offices and a new library. CCDS anticipates project occupancy in 2012-13.

CCDS served 543 students in 2009-10 in grades K-8 and currently serves 548 students in grades K-8. Instructional operations commenced in 1996-97, with 81 students in grades K-

7. CCDS anticipates serving 562 students in the 2013-14, and by 2014-15, projects are anticipated to serve 569 students in grades K-8.

**Organizational Information:** Prior to 2004, CCDS was not incorporated as a separate non-profit entity, but was a district-operated charter school. CCDS is currently organized as a nonprofit, public-benefit corporation with 501(c)(3) status. CCDS also is fully accredited by the Western Association of Schools and Colleges. CCDS started instructional operations in September 1996 and is currently in its fourteenth year of operations.

Based on information provided by school representatives, CCDS offers a broad and enriched education, emphasizing integrated teaching based on the California State Teaching Standards, and on the Integrated Thematic Instruction (ITI), which weaves subjects together based on a thematic year-long theme and also Lifeskills and Lifelong Guidelines. The school also offers music, including Strings, band, classroom music, art and drama, Environmental Science, an Afterschool program, and a Preschool. Additionally, CCDS has also partnered with River Partners in learning about restoration and habitat along the wetlands in Butte County.

A CCDS education is differentiated in two ways: 1) by the foundation of skills its students will have developed to cope with change, diversity, and a rapidly increasing body of knowledge, and 2) by the breadth of the exposure its students will have to the larger world. While maintaining the highest standards throughout the curriculum, CCDS will develop ways others in the world think and communicate.

CCDS' targeted population surrounds the "Barber Yard" area in Chico, which draws from schools such as Chapman, Rosedale or Parkview (all low-performing public elementary schools). About 75% of the new students are from this area, and it currently has 85 (15%) students on the Free and Reduced priced lunch. CCDS marketing plans focuses on three phases: 1) building community awareness of the school through public relations and activities throughout the area, website development, advertisement in local publications, and newspapers, 2) enlisting dedicated individuals and community organizations who are interested in becoming key participants in CCDS by volunteering time and services, and 3) recruiting families with children who are currently attending public schools with an API state ranks of 2, such as Rosedale, Chapman, and Parkview Elementary Schools.

**Educational Management Organization:** CCDS is an independent charter and is not run by an EMO.

**Management Experience:** The resumes of the school's personnel and the management team demonstrate professional, experienced, and qualified individuals serving in key capacities within the organization.

For example, Margaret Reece, Executive Director of CCDS and board member, has a Masters in Public Administration, and has a Bachelor of Arts from the University of Wisconsin. Prior to CCDS, Ms. Reece worked for a non-profit health advocacy organization in Chico, and at an environmental firm in Phoenix.

**School Management:** Paul Weber, Principal of CCDS (since 2005) and board member, has a Masters in Educational Administration, and was Principal at Mountain Ridge Middle School and St. Thomas the Apostle Elementary School.

**Board Experience:** CCDS is governed by a Board of Directors, composed of the charter school's Principal and sixteen other trustees. The primary responsibilities of the Board of Directors are to build the boards leadership, strengthen fiscal policies for the school, and implement the school's Strategic Plan. Based on information provided by CCDS representatives, the trustees of the Board of Directors appear to possess a wealth of experience in social work, education, finance, management, and construction.

Board composition includes but is not limited to, retired Chief of Police Michael A. Dunbaugh, Cal State Chico Professor Kate McCarthy, Parent Alicia Ahlswede, Contractor and Business Owner Don Brashears, Attorney Matt Juhl-Darlington, CCDS Teacher Karin Daverson, Knudsen Marketing Director Shayne Law, CCDS Teacher Shayne Law, CCDS Teacher John Garrett, Butte College Professor Katherine MacKinnon, Cal State Chico Professor Matthew Meuter, Investment Manager Kevin Murray, CCDS Executive Director Margaret Reece, Butte Office of Education Karen Rose, Restaurant Owner Darien Sterling, M&T Construction Owner Chuck Tatreau, Mortgage Broker Charles Thompson, and CCDS Principal Paul Weber.

In addition to the Board of Directors, the charter school also has a Parent Board, which is responsible for all volunteer activities associated with the school's programs.

**Management Experience for Schools Open Less than Two Years:** Not applicable. CCDS has been opened since 1996, which exceeds the two-year operational requirement.

**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 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.

CCDS met 13 out of 13 AYP criteria for FY 2009-10 and met all AYP criteria for each of the past seven years. CCDS has seven years of reported API scores, allowing a review of progress and comparison to similar schools. CCDS met its API growth target for each of the past seven years and received base API scores of 834, 838, and 861 for FY 2007-08, FY 2008-09, and FY 2009-10, respectively.

Staff sought an explanation for a drop of 27 points in 2006-07 API scores; CCDS responded to staff that the drop was due to a variety of factors. CCDS experienced enrollment growth of 20% and received a large influx of new students particularly into grades 6-8. A large number of these new students scored *below basic* or *far below basic* compared to the

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overall student population. However, since the 2006-07, the base API scores have increased with CCDS base API still in the 800's which indicates strong academic performance. The following table summarizes CCDS' student performance for the past seven years.

Chico Country Day School	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>							
Met All AYP Criteria?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Criteria Met / Required Criteria	/	9 / 9	9 / 9	13 / 13	13 / 13	13 / 13	5 / 5
Met API Indicator for AYP?		Yes	Yes	Yes	Yes	Yes	Yes
Met Graduation Rate?		0	0	0	0	0	0
<b>ACADEMIC PERFORMANCE INDEX (API)</b>							
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	6	8	8	9	8	8	8
API Base Similar Schools Rank (10 = best)	1	1	1	6	2	2	2
School's Actual Growth	43	10	58	-27	-1	33	2
Similar Schools Median of Actual Growth	-1	15	7	-6	7	16	5
Did School's Growth Exceed Median?	Yes	No	Yes	No	No	Yes	No

**Enrollment Information:** There were 479 students enrolled at CCDS during the 2008-09 school year and 543 in 2009-10. There are 548 students for the current 2010-11 school year, with projections of 549 students for 2011-12, and 558 students for FY 2012-13. The waiting list for all grades is approximately 170 students. The student retention rate for FY 2007-08 to FY 2008-09 was 96%, which is an acceptable rate.

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

Staff's review of CCDS' financial performance is based on six years of audited financial statements (FY 2004-05 through FY 2009-10), 2010-11 first interim projections, 4-year projections, and cash flow statements. CCDS hopes to begin the project in 2011, by which time their enrollment will have increased to 549 students in grades K-8. CCDS' multi-year projections are based on an assumed ADA rate of 96% for all projected years and cost of living adjustments to the general purpose block grant rate of 0%, 1.9%, 2.0%, and 2.4% for 2011-12, 2012-13, 2013-14, and 2014-15, respectively.

Chico Country Day School	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Actual FY 2008-09	Actual FY 2009-10	Actual FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15
<b>ENROLLMENT PROJECTIONS</b>										
Enrollment	306	359	427	479	543	548	549	558	562	569
Average Daily Attendance	291	330	412	461	519	530	522	530	534	541
Average Daily Attendance (%)	95%	92%	96%	96%	96%	97%	95%	95%	95%	95%
<b>FINANCIAL PROJECTIONS</b>										
Total Revenues Available for CSFP Payment	\$ 2,130,619	\$ 2,747,864	\$ 3,193,458	\$ 3,910,412	\$ 3,795,840	\$ 3,929,874	\$ 3,918,742	\$ 4,087,697	\$ 4,200,862	\$ 4,320,447
Total Expenses Paid Before CSFP Payment	2,210,458	2,485,055	2,996,138	3,240,665	3,381,568	3,718,879	3,740,399	3,809,438	3,999,003	4,092,513
Accounting Adjustments	784	-	10,783	17,242	18,252	76,300	61,300	64,300	156,336	159,865
Net Revenues Available for CSFP Payment	\$ (79,055)	\$ 262,809	\$ 208,103	\$ 686,989	\$ 432,524	\$ 287,295	\$ 239,643	\$ 342,559	\$ 358,195	\$ 387,799
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215,226
Net Revenues After CSFP Payment	\$ (79,055)	\$ 262,809	\$ 208,103	\$ 686,989	\$ 432,524	\$ 287,295	\$ 239,643	\$ 342,559	\$ 142,969	\$ 172,573
<b>FINANCIAL INDICATORS</b>										
Net Revenues Available for CSFP Payment	\$ (79,055)	\$ 262,809	\$ 208,103	\$ 686,989	\$ 432,524	\$ 287,295	\$ 239,643	\$ 342,559	\$ 358,195	\$ 387,799
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	166.4%	180.2%
Contributions	\$ -	\$ -	\$ 115,473	\$ 150,588	\$ 165,557	\$ 113,000	\$ 101,500	\$ 128,000	\$ 128,000	\$ 128,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	107.0%	120.7%
CSFP Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5.1%	5.0%
Contributions / Revenues	N/A	N/A	3.6%	3.9%	4.4%	2.9%	2.6%	3.1%	3.0%	3.0%
Net Revenues After CSFP Payment / Revenues	-3.7%	9.6%	6.5%	17.6%	11.4%	7.3%	6.1%	8.4%	3.4%	4.0%
Revenues / ADA	\$ 7,322	\$ 8,327	\$ 7,751	\$ 8,482	\$ 7,314	\$ 7,415	\$ 7,514	\$ 7,711	\$ 7,868	\$ 7,993
Adjusted Expenses / ADA	\$ 7,599	\$ 7,530	\$ 7,298	\$ 7,067	\$ 6,551	\$ 7,161	\$ 7,289	\$ 7,308	\$ 8,186	\$ 8,265
Net Revenues After CSFP Payment / ADA	\$ (277)	\$ 796	\$ 453	\$ 1,415	\$ 763	\$ 254	\$ 224	\$ 404	\$ (318)	\$ (272)
Net Working Capital	\$ (20,354)	\$ 227,450	\$ 237,329	\$ 799,414	\$ 1,185,923	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	N/A	9.2%	7.9%	24.7%	35.1%	N/A	N/A	N/A	N/A	N/A

**Assets/Liabilities:** During the FY 2008-09, CCDS refinanced a \$152,000 note obtained in FY 2007-08, and borrowed \$324,507 at an interest rate of 6.07% to finance the construction costs for a modular classroom and auxiliary buildings. The monthly payments of \$2,565.50 (yearly payment of \$30,786) will end in February 2021. However, CCDS still has the 100% coverage needed for the CSFP payment that begins in FY 2013-14.

**Changes in Net Assets:** In FY 2005-06, CCDS recorded a decrease in net assets of \$(79,055), on revenues of \$2.13 million and expenditures of \$2.21 million, and as a result the fund balance resulted in \$(18,166). In FY 2006-2007, CCDS recorded an increase in net assets of \$262,809, on revenues of \$2.74 million and expenditures of \$2.48 million, and as a result the fund balance resulted in \$244,643. The 2005-2006 increases in expenditures were due to a 51% increase in personnel salaries and benefits, along with a 100% increase in books and supplies. However, since the net loss in 2005-06, CCDS has shown net revenues from 2007-08 through 2009-10, and shows projected increases in the future.

CCDS' projected financial operations are characterized by positive net revenues. The school is projecting net revenues of \$287,295, \$239,643, \$342,559, \$358,195, and \$387,799 for FY 2010-11 through 2014-15, respectively.

**Contributions/Fundraising:** CCDS demonstrated having received contributions in the amounts of \$115,473, \$150,588, and \$165,557 for FY 2007-08, FY 2008-09, and FY 2009-10, respectively. CCDS has a fundraising plan that includes school-level fundraising, such as an Annual Giving Campaign, Scrip, and a gala auction. Additional fundraising resources are only used as supplemental funding that purchases or supports specific programs. These revenues do not cover salaries or critical aspects of the operations of the school. CCDS expects to operate the core instructional responsibilities of the school based on local, state, and federal revenues. Currently, there is no anticipated income from third party entities, including foundations, philanthropists, governmental entities, or any other sources. However, CCDS does have plans to launch a Capital Campaign to raise funds specifically for paying down the CSFP rehabilitation project upon approval of a Proposition 1D award. Notwithstanding CCDS' fundraising experience and initiatives, CCDS does not rely on contributions to meet the CSFP debt service coverage requirement.

**Projected Debt Service Coverage:** The school plans to fund the 50% local matching share through a long-term 30-year CSFP funding agreement. Assuming an interest rate of 3.00%, annual CSFP payments of \$215,226 are expected to commence FY 2013-14.

CCDS financial projections indicate that the school will produce surpluses for each year of operations. In 2013-14, the first year after CSFP occupancy, the school is projected to have debt service coverage of 166.4%, and 180.2% for FY 2014-15. Without contributions, CCDS still meets the minimum CSFP requirement with debt service coverage of 107.0% and 120.7% for FY 2013-14 and FY 2014-15, respectively. CSFP payments are expected to average approximately 5% of projected revenues. CCDS's demonstrated success in achieving contributions in excess of \$100,000 per year for each of the past three years, and projections to continue this trend should serve to mitigate lower than expected enrollment during the projected years.

**Liquidity:** Liquidity is measured in terms of net working capital (NWC), which is calculated by subtracting current liabilities from current assets. CCDS' NWC for FY 2008-09 was \$799,414 or 24.7% of total expenses, and increased to \$1,185,923 for FY 2009-10, or 35.1% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. As of June 30, 2010, CCDS held \$755,131 in cash, with \$1.26 million in accounts receivable, offset by \$905,207 in current liabilities.

**Strengths, Weaknesses and Mitigants**

- + CCDS has shown improvements in its API and AYP scores for each year of instructional operations for the past 11 years, but did experience a decline in its API score in the 2006-07 academic year. CCDS continues to have base API scores above 800 and higher API scores in comparison to its Local Education Area and to the State. CCDS has met its API growth target and all AYP criteria for each of the past seven years, 2003-04 through 2009-10.
- + Projected debt service coverage is 166.4% and 180.2% for the first two years after occupancy, 2013-14 and 2014-15, respectively.
- + CCDS does not rely on contributions to meet the CSFP debt service coverage requirement, with debt service coverage without contributions of 107.0% and 120.7% for the first two years after project occupancy, 2013-14 and 2014-15, respectively
- +/- CCDS currently has a long term liability that is currently being paid off. However, the coverage for the CSFP payment is still above 100%.

**Staff Recommendation:** Staff recommends that the California School Finance Authority Board determine that Chico Country Day School is financially sound for the purposes of the Charter School Facilities 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 Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.