

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2011**

Applicant/Obligor:	Ocean Charter School
Project School:	Ocean Charter School
CDS (County – District – School) Code:	19 64733 0102335
Proposed Project Location:	Walgrove Ave. & Appleton Way, Los Angeles
Project Type:	New Construction
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$20,175,488
State Apportionment (50% Project Cost):	\$10,087,744
Lump Sum Contribution:	\$250,000
Total CSFP Financed Amount:	\$9,837,744
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$501,914
First Year of Occupancy of New Project:	2015-16

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Ocean Charter School (“Ocean” or “OCS”) is financially sound for purposes of the Charter School Facilities Program (“Program”) Preliminary and/or Advance Apportionments, but not for purposes of a Final Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes that State funding for additional Advance Apportionments becomes available, and also 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. This determination of financial soundness is contingent upon Ocean’s execution of an Implementation Agreement with CSFA, the State Controller’s Office and CDE, at the appropriate time, whereby CSFA will intercept the Ocean’s state-aid portion of its General Purpose Block Grant at regular intervals to satisfy the payment requirements of its CSFP obligations.

Application Highlights: Below staff has highlighted key criteria that were evaluated when conducting our financial soundness review of Ocean Charter School. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	Ocean has met all Program eligibility criteria, including: 1) having a charter in place; 2) fulfilling the requirement for two academic years of operations; and 3) being in compliance with the terms of its charter and in good standing with its chartering authorizer.
Demographic Information	Ocean currently serves 360 students in grades K-8, and has projected enrollment to increase to 440 students in 2015-16 and 2016-17 (first year of CSFP repayments). OCS has an average ADA rate of 96% for FY 2006-07 through 2010-11 (as reflected in the school's P1 report).
Debt Service Coverage	Projected debt service coverage ratios will meet the minimum Program requirement of 100% at 144.7% and 143.3%, when including contributions, for the first two years of CSFP payments commencing in 2016-17. Ocean will need to receive on average at least 26% (\$79,830) of expected contributions in 2016-17 in order to meet the 100% projected debt service coverage ratio threshold. In 2017-18, Ocean will need to receive at least 29% (\$86,863) to maintain 100% projected debt service coverage.
Other Financial Factors	<ol style="list-style-type: none"> 1. Projected ratios of CSFP payments to total revenues are 13.8% (2016-17) and 13.6% (2017-18), which is at the middle of the preferred maximum of 10-15%. 2. Net working capital for 2009-10 of \$1,229,497 represented 40.3% of total expenses, which greatly exceeds the preferred minimum of 5.0%.
Student Performance	Ocean has met all 9 of 9 AYP criteria for the past five years. In addition, API growth scores have increased each year from 802 in 2005-06 to 896 in 2008-09. Ocean's statewide and similar schools rankings were 9 and 3 (10 = best), respectively, in 2009-10.

Program Eligibility: On March 25, 2011, the Los Angeles Unified School District verified Ocean is: 1) in compliance with the terms of its charter agreement, and 2) in good standing with its chartering authority. The school confirmed the initial charter was approved in 2003 and renewed in 2008. The current charter is valid through June 2013.

Legal Status Questionnaire: Staff reviewed Ocean's responses to the questions contained in the Legal Status Questionnaire (LSQ). Ocean responded: "OCS has no known disclosures" to any civil or criminal matters.

Project Description: Ocean has requested total Proposition 1D funding for anticipated project costs of \$20,175,488. Ocean is seeking new construction of a 17-classroom facility in the West Los Angeles area to house up to 440 students in Kindergarten through 8th

grade. Ocean intends to develop a facility with approximately 35,000-40,000 square feet on 3 acres of land. The plans include the building of a special resource teaching space, administrative offices, a library, auditorium, gymnasium and cafeteria. Ocean is in discussions with the Los Angeles Unified School District to rehabilitate an existing district facility.

The school is currently divided between two locations. The South Campus is a leased, two-story building on Culver Boulevard in Los Angeles, which serves 180 students in grades K-3 and includes a small library, special resource room, and storage. The North Campus is shared space on the Walgrove Elementary School campus on Appleton Way, Los Angeles, and 192 serves students in grades 4-8. Capacity at the two locations is 420 students.

Organization Information: Ocean is a K-8 grade charter school with 501(c)(3) non-profit public benefit status as West LA Waldorf Method Charter School doing business as Ocean Charter School. The school received its first charter in 2003 and began instructional operations with the 2004-05 school year, with 194 students in grades K-6. The school currently serves 360 students in grades K-8 and plans enrollment to increase to 440 in 2016-17.

The school describes itself as the only Waldorf-informed charter school in the Los Angeles region and the largest of its kind in the United States. Its Whole Child Curriculum integrates the arts into every aspect of the program allowing children to learn academic content and meet California Academic Achievement Standards in an approach that is developmentally appropriate, meaningful, and multidimensional. The school further describes a vital element to their competitive advantage is the method of looping teachers in their two-year Kindergarten program, where the students' Kindergarten teacher remains a constant as they develop a community together and prepare for first grade. Teachers in grades 1-3 remain with their classes in those three years, allowing teachers a better understanding of each child's learning style and the advantage of adapting their own teaching style to each child. Likewise, teachers in grades 4 to 6 and grades 7 to 8, remain with their classes.

Educational Management Organization: Not applicable.

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.

Stephanie Edwards has served as Executive Director at Ocean since 2008. Previously she worked as a teacher for Capistrano Unified School District and Director/Teacher of Kindergarten at Journey School, a K-8 charter in San Clemente. Ms. Edwards earned her Bachelor of Arts in Liberal Studies at California State University, San Bernardino, and has a Multiple Subject Teaching Credential from the University of California, Irvine.

Kristy Mack-Fett, Director of Ocean's North Campus since 2009, previously served as Ocean's Assistant Director and Education Coordinator from August 2006. Ms. Mack-Fett earned a Bachelor's of Arts in Comparative Area Studies: Certificate in Women's Studies from Duke University, North Carolina and is in the process of earning a Doctorate in Education in Educational Leadership from the University of California, Los Angeles.

Board Experience: Ocean is governed by a Board of Trustees based on a consensus model involving key stakeholders such as parents, teachers, staff, and community members. Its Board Trustees, which may include 7–20 members, currently includes members with a variety of occupations and experiences, as noted below.

Board Member	Joined Board	Current Expiration	City of Residence	Occupation
Fran Montano, Chair	2009	2012	Westchester	CEO-The Actors Studio, North Hollywood, CA
Dean Kubani, Vice Chair	2008	2012	Santa Monica	Director, Office of Sustainability and the Environment-City of Santa Monica Founding Family Ocean Charter School
Lori Andrade, Board Secretary	2010	2013	Los Angeles	Senior Systems Analyst, Macerich Corp.
Charles Francis, Board Treasurer	2010	2013	Santa Monica	Director, DVD Budgeting/Estimating- Warner Brothers/Warner Premiere
Susan Addison	2008	2011	Los Angeles	Architect – Addison Schierbeek Architects, Founding Family Ocean Charter School
Elizabeth Brownlow	2009	2012	Culver City	Marketing & Communications Consultant, Nestle Director of Annual Giving, Scripps College
Stephanie Edwards, OCS Executive Director	NA	NA	San Clemente	Executive Director, Ocean Charter School Founding Director – Journey Charter School Credentialed Teacher
Jason Haas	2006	2012	Culver City	Attorney-at-Law, Theodora Oringher Miller and Richman PC
Joan Jaeckel	2009	2012	Studio City	Consultant, Board Member Rudolf Steiner College, Lead Developer El Rio Charter School, Facilitator Certificate prog. – The Work of Byron Katie
Kristy Mack-Fett	NA	NA	Los Angeles	Director, Ocean Charter School Credentialed Teacher
Romy Nourafchan	2010	2013	Los Angeles	Real Estate Finance, Bank of America
Nile Park	2010	2012	Los Angeles	Senior Director, Food Arts Group
Guillermo Modini	2010	2011	Beverly Hills	Information Technology, Dragon Digital Electronics

Management Experience for Schools Open Less than Two Years: Not applicable. Ocean began instructional operations in 2004, which exceeds the requirement for two years of management charter experience.

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.

Ocean has five years of reported API scores, allowing a review of progress and comparison to similar schools. Ocean met all 9 of 9 AYP criteria for each year from 2005-06 through 2009-10. Additionally, the school has met growth targets each year and achieved base scores of 802, 823, 847, and 896 between 2005-06 and 2008-09. However, Ocean experienced a 41 point drop in their 2009-10 API test scores. Ocean explained that the drop occurred due the transfer of students from a nearby charter school that had closed. The students were assessed upon enrollment and were found to be either below grade level or had not taken the exam. Additionally, some of the students that were accepted have learning disabilities, and did not test at a proficient level. Ocean has stated that they will remedy this decrease by hiring a special resource teacher for the students with disabilities, placing math teaching assistants in 6-8 grades, and a recognition program for students that are deficient to receive additional support from their teacher. The school received a statewide ranking of 9 and a similar schools ranking of 3 in 2009-10, the most recent year reported.

Ocean Charter School	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
ADEQUATE YEARLY PROGRESS (AYP)					
Met All AYP Criteria?	Yes	Yes	Yes	Yes	Yes
Criteria Met / Required Criteria	9 / 9	9 / 9	9 / 9	9 / 9	9 / 9
Met API Indicator for AYP?	Yes	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)					
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	7	7	8	8	9
API Base Similar Schools Rank (10 = best)	N/A	4	2	5	3
School's Actual Growth	25	24	28	54	-41
Similar Schools Median of Actual Growth	N/A	10	7	13	3
Did School's Growth Exceed Median?	N/A	Yes	Yes	Yes	No

Enrollment and Retention Rate Information: Ocean began instructional operations in 2004-05 with 194 students in grades K-6. In 2005-06, grade 7 was added and in 2005-06, grade 8 was added. Ocean has continued to show steady growth with student enrollment of 360 students in grades K-8 for the current academic year. Ocean has projected enrollment to consistently increase to 396, 420, 420, and 420, during 2011-12 through 2014-15, respectively. By 2015-16 (year of project occupancy), the enrollment is expected to level off at 440 students. OCS has recorded ADA rates of 97%, 96%, 95%, 95% and 96% for 2006-07 through 2010-11 (P1).

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate Ocean's ability to meet its CSFP obligation. The table on the following page summarizes key aspects of the school's past and projected financial performance. *Staff's analysis of financial performance includes adjustments for depreciation, capital outlay and loan repayment; therefore, our results may differ from audited figures.*

Staff's evaluation of Ocean's financial performance is based on review of the following documents: (1) Ocean's audited financial statements for 2007-08 through 2009-10; (2) Ocean's approved revised budget for 2009-10; (3) Ocean's budget projections for 2011-12 through 2017-18; and (4) Ocean's current enrollment for 2010-11 as well as projected average annual enrollment for 2011-12 through 2017-18.

Ocean's financial projections and projected debt service coverage are based upon the following assumptions: (1) an interest rate of 3.0% on the CSFP local matching share amortized over 30 years; (2) total project costs of \$20,175,488, as provided by the Office of Public School Construction; (3) a lump sum payment of \$250,000; (4) project occupancy by the 2015-16 school year; (5) increases in enrollment from 360 students for the current 2010-11 academic year to 420 students for 2015-16 (first year of project occupancy), and to 440 students by 2016-17 and 2017-18; (6) projected ADA rates of 96% for 2010-11 through 2017-18; (7) revenue growth (cost of living adjustments) to the general purpose block grant funding rate of -0.4% for 2010-11, 0.0% for 2011-12, 2.4% for 2012-13, 2.8% for 2013-14, and 3.0% for each year from 2014-15 through 2017-18; and (8) projected contributions in the amounts of \$368,342 for 2010-11, \$309,070 for 2011-12; and \$304,090 annually from 2012-13 through 2017-18.

Ocean Charter School	Actual FY 2007-08	Actual FY 2008-09	Actual FY 2009-10	Budgeted FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16	Projected FY 2016-17	Projected FY 2017-18
ENROLLMENT PROJECTIONS											
Enrollment	295	320	355	360	396	420	420	420	440	440	440
Average Daily Attendance	283	304	330	344	380	403	403	403	422	422	422
Average Daily Attendance (%)	96%	95%	93%	96%	96%	96%	96%	96%	96%	96%	96%
FINANCIAL PROJECTIONS											
Total Revenues Available for CSFP Payment	\$ 2,715,210	\$ 2,999,594	\$ 2,987,099	\$ 3,111,685	\$ 3,225,763	\$ 3,431,214	\$ 3,499,508	\$ 3,574,497	\$ 3,611,804	\$ 3,642,070	\$ 3,691,304
Total Expenses Paid Before CSFP Payment	2,411,951	2,649,344	3,048,400	3,118,755	2,937,226	3,069,863	3,125,482	3,183,605	2,885,246	2,937,364	2,993,631
Accounting Adjustments	29,584	28,905	30,374	22,199	21,468	21,468	21,468	21,468	21,468	21,468	21,468
Net Revenues Available for CSFP Payment	\$ 332,843	\$ 379,155	\$ (30,927)	\$ 15,129	\$ 310,005	\$ 382,819	\$ 395,494	\$ 412,360	\$ 748,026	\$ 726,174	\$ 719,141
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,914	\$ 501,914
Net Revenues After CSFP Payment	\$ 332,843	\$ 379,155	\$ (30,927)	\$ 15,129	\$ 310,005	\$ 382,819	\$ 395,494	\$ 412,360	\$ 748,026	\$ 224,260	\$ 217,227
FINANCIAL INDICATORS											
Net Revenues Available for CSFP Payment	\$ 332,843	\$ 379,155	\$ (30,927)	\$ 15,129	\$ 310,005	\$ 382,819	\$ 395,494	\$ 412,360	\$ 748,026	\$ 726,174	\$ 719,141
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	144.7%	143.3%
Contributions	\$ 424,316	\$ 424,968	\$ 425,089	\$ 368,342	\$ 309,070	\$ 304,090	\$ 304,090	\$ 304,090	\$ 304,090	\$ 304,090	\$ 304,090
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	N/A	84.1%	82.7%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13.8%	13.6%
Contributions / Revenues	15.6%	14.2%	14.2%	11.8%	9.6%	8.9%	8.7%	8.5%	8.4%	8.3%	8.2%
Net Revenues After CSFP Payment / Revenues	12.3%	12.6%	-1.0%	0.5%	9.6%	11.2%	11.3%	11.5%	20.7%	6.2%	5.9%
Revenues / ADA	\$ 9,588	\$ 9,867	\$ 9,052	\$ 9,046	\$ 8,489	\$ 8,514	\$ 8,684	\$ 8,870	\$ 8,559	\$ 8,630	\$ 8,747
Expenses / ADA	\$ 8,517	\$ 8,715	\$ 9,238	\$ 9,066	\$ 7,730	\$ 7,618	\$ 7,756	\$ 7,900	\$ 6,837	\$ 8,150	\$ 8,283
Surplus (Deficit) / ADA	\$ 1,071	\$ 1,152	\$ (186)	\$ (21)	\$ 759	\$ 897	\$ 928	\$ 970	\$ 1,722	\$ 481	\$ 464
Net Working Capital	\$ 904,779	\$ 1,277,755	\$ 1,229,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	37.5%	48.2%	40.3%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Projected Contributions: Over the last three years, Ocean received the following total amounts of private grants and contributions averaging \$424,791 per year: \$424,316 (2007-08), \$424,968 (2008-09), and \$425,089 (2009-10). The financial projections estimate the following donations averaging \$304,801 per year. Historically, fundraising annual receipts averaged 14.2% of revenues in 2008-09 and 2009-10, but this average is expected to decrease to 8.7% from 2011-12 through 2017-18. The projected percentage of contributions to revenues is below the 15.0% threshold level employed by staff.

Ocean has stated that it bases its projection of contributed income on its proven track record, the percentage of growth from year to year, and the forecasted development plan for the upcoming year. Ocean does not budget more than 12% of their income as donations. The amount that is the current year budget is based on actual contributions. Given the current economic climate and the threat of mid-year cuts, Ocean launched an extremely rigorous annual pledge drive campaign and was able to reach their budgeted goal.

Ocean has initiated research into capacity building grants to allow them to hire a development director to oversee a capital campaign. Ocean expects to see a slight decrease in program fundraising as community members donate to both- the current program and the future facility. In this anticipation, Ocean agreed to keep the fundraised income constant and conservative for the next 5 years. Also of note, Ocean did not project the revenues of the capital campaign in the school budget projections.

Long Term Debt: According to Ocean's 2009-10 audited financial statements and approved 2010-11 budget report, Ocean does not have any long term debt. The only loan reported is that the school was accepted into the California Department of Education's Charter School Revolving Loan Program in 2004-05. The school received a loan in the amount of \$250,000 bearing an interest rate of 2.30 percent, which was repaid over four years with the final \$63,760 payment in 2008-09.

Financial Performance/Change in Net Assets: For 2007-08 through 2009-10, OCS recorded the following increases (decreases) to net assets: \$303,259, \$350,250, and (\$61,301). Excluding the contributions noted above, OCS would have recorded the following operating surpluses (deficits) in the same years: (\$101,059), (\$74,718), and (\$486,390). Based on the budget for 2010-11, OCS is expected to book an operating deficit of (\$7,070) which, when adjusted for anticipated contributions of \$405,692, would result in a decrease to net assets of (\$375,412). In 2015-16, when Ocean is scheduled to occupy the CSFP facility and cease making lease payments to LAUSD for its two existing facilities, net assets are forecast to increase by \$422,468, net of anticipated contributions of \$304,090. Prior to CSFP payments, which are expected to commence in 2016-17, Ocean forecasts the following annual increases to net assets: \$400,616 in 2016-17, and \$393,583 in 2017-18.

Projected Debt Service Coverage of CSFP Payments – Ocean's financial projections indicate the school will be able to afford the projected annual CSFP payments for the new construction project with its forecasts of contributions and enrollment growth, and an initial lump sum payment of \$250,000. Given a projected CSFP payment of \$501,914, Ocean's

net revenues (including contributions) of \$726,174 during the first year of CSFP payments, 2016-17, would provide debt service coverage of 144.7%. During the second year of CSFP payments, Ocean's net revenues would provide debt service coverage of 143.3%. Without contributions, Ocean's debt service coverage ratios for the first two years of CSFP payments would not meet the minimum 100.0% required by Program regulations. However, Ocean's is projecting contributions of \$304,090 annually. When looking at Ocean's historical average and future projections in regards to their contributions, it seems reasonable that the school will easily be able to raise approximately 27% of their projected contributions in the future, which will make them sufficient to cover the 100% coverage required by Program regulations. Ocean's annual CSFP payment of \$501,914 would annually average 13.7% of projected revenues, placing this indicator at the higher end of the preferred maximum target of 10-15%.

Liquidity: Liquidity is measured in terms of net working capital (NWC) and is calculated by subtracting current liabilities from current assets. Ocean's NWC for 2007-08 was \$904,779, or 37.5% of total expenses. In 2008-09, this figure increased to \$1,277,755, or 48.2% of total expenses. For 2009-10, NWC was \$1,229,497, or 40.3% of total expenses. Staff considers NWC equivalent of at least 5.0% of total expenses to be sufficient.

Ocean is pledging \$250,000 million in cash on hand toward its CSFP project cost in order to reduce the program loan amount to \$9,837,744. (Staff will require that these pledged funds become restricted assets of OCS.)

Strengths, Weaknesses and Mitigants:

- + Ocean met all AYP criteria for each of the past five years from 2005-06 to 2009-10, and its API growth scores grew steadily from 802 to 896 from 2005-06 to 2008-09, but decreased to 855 for 2009-10.
- + Ocean is projected to have debt service coverage ratios of 144.7%, and 143.3% including contributions, for the first two years after project occupancy.
- + Ocean has a strong fundraising track record raising an average of \$424,791 per year over the last three years.
- +/- Ocean would need to receive at least 26% of expected contributions 2016-17 and 29% of contributions in 2017-18 to maintain debt service coverage ratios of greater than 100.0%.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Ocean Charter School is financially sound for the purposes of the Charter School Facilities Program preliminary and advance apportionments. 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. This determination is contingent upon Ocean's execution of an Implementation Agreement with CSFA, the State Controller's Office and CDE, at the appropriate time, whereby CSFA will intercept the Ocean's state-aid portion of its General Purpose Block Grant at regular

intervals to satisfy the payment requirements of its CSFP obligation. Also the finding is based on the Ocean's Board restricting for the purposes of the CSFP, \$250,000. This set aside must be satisfied prior to any funds being released to Ocean for an Advance or Final Apportionment.