

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 55 FUNDING ROUND
STAFF SUMMARY REPORT – JANUARY 2013**

Applicant/Obligor:	CHIME Institute
Project School:	CHIME Charter School
CDS (County – District – School) Code:	19 64733 0101634
[Proposed] Project Location:	19722 Collier St., Woodland Hills
Type of Construction:	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:	\$7,658,864
State Apportionment (50% Project Cost):	\$3,829,432
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$3,829,432
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.0%
Estimated Annual CSFP Payment:	\$195,375
First Year of Occupancy of New Project:	2014-15

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that CHIME Institute (also known as CHIME Institute for Children of Special Needs) (CHIME) is financially sound for the purposes of the Charter School Facilities Program (“Program” or “CSFP”) Final Apportionment. This recommendation is contingent upon CHIME: (1) restricting \$100,000 by June 30, 2013 and an additional \$95,375 by June 30, 2014 (to be illustrated in the 2012-13 and 2013-14 audits) to cover the first estimated CSFP annual payment ; (2) extending the LISC loan final maturity through at least July 1, 2015; and (3) electing to have its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. All contingent actions must occur prior to the disbursement of additional funds. The restricted funds may be released upon the occurrence of one of the following: (1) repayment in full of debt associated with Chatsworth property; (2) demonstration of at least 125% debt service coverage in first year of CSFP payment per audited financials, or (3) demonstration of at least 100% debt service coverage for the first two years of CSFP payments per audited financials. This determination as it relates to a Final 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.

Background: On December 22, 2004, under Proposition 55, the Authority determined that CHIME was financially sound for purposes of a preliminary apportionment for Program

projects for CHIME Charter Middle School. On February 23, 2005, the State Allocation Board awarded a CHIME preliminary apportionment of \$3,264,680 for new construction. On May 25, 2005, the Authority found CHIME financially sound for Advance Apportionment for design in the amount of \$326,468, which was disbursed on July 5, 2005. CHIME is currently requesting Final Apportionment to support new construction for grades K-8 at 19722 Collier Street, Woodland Hills, a Los Angeles Unified School District-owned site, which CHIME Institute's Schwarzenegger Community School (CHIME Charter School) began occupying in 2003.

Based on CHIME's decision to expand CHIME Charter School to grades K-8 and to phase out CHIME Middle School, the charter petition for CHIME Charter School was amended in 2011 to include grades K-8, and the current charter petition for CHIME Middle School that was adopted in 2008 is going to be allowed to expire on June 30, 2013. During 2011-12, 2012-13, and 2013-14, CHIME Charter School has been and will be adding, and CHIME Middle School has been and will be eliminating, grades 6, 7, and 8, respectively, with CHIME Middle School eliminating its operations as of 2013-14. Effective 2014-15, the first year of project occupancy, all students will be under CHIME Charter School. Hence, the project will be housing students within grades 6-8 from CHIME Charter School rather than CHIME Middle School, as originally set forth in the CSFP application.

At the time of the Preliminary Apportionment, CHIME was leasing a temporary site in Northridge for CHIME Middle School. In 2005, CHIME Middle School moved to and leased a church-owned site at 22280 Devonshire St., Chatsworth, CA 91311. In 2006, CHIME purchased the Chatsworth site for CHIME Middle School using a loan issued by Local Initiatives Support Corporation (LISC) in the amount of \$2,054,582. The loan has a current maturity date of July 2013. However, CHIME is working on refinancing the loan to extend the maturity date or finding a purchaser of the property. However, in 2010-11, CHIME moved CHIME Middle School to the Woodland Hills campus and has since been seeking a purchaser of the Chatsworth site. The primary reason for CHIME's moving the middle school to the Woodland Hills site was to reduce the distance for travel of parents who had students in both the elementary and middle school and travel of parents of students who promoted from the elementary to the middle school.

On March 27, 2012, CHIME engaged Monarch Christian School (Monarch) in a five-year lease agreement with an option for a five-year renewal, which is to commence on June 1, 2012, and gives Monarch the option to purchase, the Chatsworth property. Under its current arrangement with Monarch, CHIME will be receiving a base rent of \$6,250 per month plus an additional \$360 for each student in excess of 75 students up to 100 students, and an increase of 4% on the base rent for each additional student above 100 students. Assuming that CHIME is able to refinance its loan with LISC, CHIME currently projects \$154,860 in annual debt service payments on the LISC loan to be offset by between \$78,750 and \$86,250 in annual lease revenue during the first two years of CSFP payments.

Staff notes that in its original application, CHIME requested that the CSFP project facilities be applied strictly to grades 6-8, and in April 2012, upon CHIME's request, the Office of Public School Construction approved the change that now allows CHIME to apply its CSFP project facilities to grades K-8 at CHIME Charter School.

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

Criteria	Comments
Eligibility Criteria	CHIME Charter School and CHIME Middle School have met all eligibility criteria. The schools are in good standing with their authorizer and in compliance with the terms of their charters. CHIME Charter School’s charter in place through 2016, and CHIME Middle School’s charter is in place through 2013. CHIME Charter School has been in operations since 2001 and CHIME Middle School has been in operations since 2003. CHIME Charter School, as a K-8 school, will supplant CHIME Middle School in 2013-14.
Demographic Information	<ol style="list-style-type: none"> 1. CHIME Charter School has shown a consistent increase in enrollment since its inception, growing from 79 students in grades K-4 in 2001-02 to 275, 325, 367, and 442 students in grades K-5 for 2007-08 through 2010-11, respectively. Enrollment grew to 543 students in grades K-6 for 2011-12 school year and to 653 students in grades K-7 for the current 2012-13 school year. 2. Notwithstanding the reduction in CHIME Middle School’s enrollment from 2006-07 to 2010-11, in combination, both schools have shown an average student enrollment growth of about 8% per year over the past six years (since 2006-07) with consistent growth each year, growing from 477 students in 2006-07 to 709 students for 2012-13.
Debt Service Coverage	<ol style="list-style-type: none"> 1. Under the assumption that CHIME will continue to receive revenues from its tenant through its lease agreement, CHIME would achieve debt service coverage levels of 90.2%, 142.7%, and 196.6% for 2015-16 through 2017-18, respectively (the first three years of CSFP payments). Pursuant to Section 10154(d)(8) of the Program regulations, CHIME would be allowed to meet the minimum 100% debt service coverage requirement for 2015-16 with allocation from its reserves to pay the projected shortfall \$19,234. 2. Staff also notes CHIME’s considerable reliance on contributions, and projects debt service coverage less than 0% for CSFP payments prior to applying projected contributions in 2015-16 through 2017-18. In 2016-17 and 2017-18, CHIME would need to raise 84% and 64%, respectively, of the \$524,682 projected contributions to maintain the minimum debt service coverage threshold of 100%.

Other Financial Factors	<ol style="list-style-type: none"> 1. CHIME has an outstanding loan with LISC resulting from its purchase of property in Chatsworth for CHIME Middle School, which is now occupied by a tenant. The LISC loan will mature in July 2013 with an outstanding balance of approximately \$1.7 million. CHIME is currently seeking a purchaser to defray the loan and has the option to refinance. The loan is free of any liens. The value of the Chatsworth property has been estimated at \$2.4 million, which is sufficient for staff to conclude that CHIME has a high likelihood of refinancing the loan in the event that it is unable to find a purchaser prior to its maturity. 2. In the event CHIME does not receive the lease revenues from its tenant, CHIME would achieve debt service coverage ratios of 47.9%, 98.6%, and 150.5% for 2015-16 and 2017-18, respectively. 3. As of June 30, 2012, CHIME had net working capital in the amount of \$36,976 and cash in the amount of \$655,107 along with undesignated reserves of -\$2.2 million.
Student Performance	CHIME Charter School met all of its AYP criteria in three of the past four years, and its API growth target in each of the past four years.

Program Eligibility: Verification was received from Los Angeles Unified School District, Innovations and Charter School Division, on December 4, 2012, confirming that both CHIME Charter School and CHIME Middle School are in compliance with the terms of their charter agreements, and is in good standing with their chartering authority, Los Angeles Unified School District (District). The Charters and Innovation Committee of LAUSD approved the renewal of CHIME Charter School’s charter to June 30, 2016. CHIME Middle School’s charter is effective through June 30, 2013.

Legal Status Questionnaire: Staff reviewed CHIME’s responses to the questions contained in the Legal Status Questionnaire (LSQ). CHIME answered “None” to all LSQ questions, indicating no disclosures to provide regarding material information relating to legal or regulatory proceedings or legal action in which it or any of its affiliates is a named party.

Project Description: CHIME has requested funding for new construction at the LAUSD-owned Woodland Hills site at 19722 Collier Street (APN #2164007900). CHIME proposes to construct a two-story 20,540-square foot classroom building with 16 new standard classrooms, 12 of which are to be dedicated to grades 6-8, as well as a library/media center, administrative offices, and an expanded portion of an existing parking lot. The CSFP portion of the proposed project is intended to house up to 237 students in grades 6-8. The remaining portion of the project, including the four classrooms for the earlier grade will be separately financed through fund raising activities.

CHIME will pay LAUSD a 3% facility fee in exchange for the land on the Woodland Hills site. The 3% fee, which has been accounted for in CSFA staff's financially sound determination, is calculated as 3% of CHIME's general purpose, categorical block, and in-lieu property tax revenues. CHIME anticipates initial project occupancy in 2014-15.

Organizational Information: CHIME is a nonprofit, public-benefit corporation with 501(c)(3) status. CHIME administers a center for educator development, a research center, and four inclusive learning communities. Like CHIME Institute's preschool founded in 1990 and its elementary charter school that began in 2001, the middle school is a demonstration school site of inclusive education for students with mild to significant disabilities in general education classrooms. CHIME commenced operations of CHIME Charter School in 2001-02 with 77 students in grades K - 2. Subsequently, CHIME commenced operations of CHIME Middle School in 2003-04 with 104 students in grades 6 and 7.

CHIME Institute's goal is that 15-20% of the students at each school are children with mild to severe disabilities. Each class of approximately twenty-eight students includes approximately two-to-four students with disabilities, one-to-two students with more severe disabilities that require intensive support, and twenty-two students without disabilities who are typically developing and/or considered to be gifted and high achieving.

The education program is based on constructivist approaches, and designed to engage students in problem solving activities at levels appropriate to their individual needs. In collaboration with California State University, Northridge (CSUN) and LAUSD, CHIME Institute's schools serve as a laboratory in which faculty and students investigate how children learn, and as a resource on inclusive education for educators, parents and policy makers.

Educational Management Organization: This section is not applicable. CHIME is not run by an EMO.

Management Experience: The management of CHIME demonstrates many years of education, management and bicultural experiences.

Erin Studer has served as Executive Director of CHIME since July 2011. Prior to this position, Mr. Studer served as High School Dean for Oakwood School (2006-11), Curriculum Coordinator and Program Principal for Pacific Ridge School (2003-06), and Special Education Teacher for Summit View School (1999-03). Mr. Studer holds an M.S. in Special Education from National University.

Jennifer Lockwood has served as Principal of CHIME Middle School since 2006 and was appointed as the Principal of CHIME Charter School beginning in 2011-12. Prior to her current position, Ms. Lockwood served as a teacher of dramatic and English language arts at CHIME Middle School from 2003 to 2006. During her tenure with CHIME, Ms. Lockwood collaborated with LAUSD to rewrite policies and procedures within the charter documents to conform with CHIME's program philosophy and was integral in effecting the renewal of the charter petitions for both schools. As a teacher at CHIME Middle School, Ms. Lockwood developed and implemented lesson plans that incorporated modifications for special needs students, both gifted and disabled, and served as a master teacher, providing training to other teachers, including serving as a new-teacher support liaison. During this period, she

also was an instructor of teachers in the education program at CSUN. Prior to her tenure with CHIME, Ms. Lockwood served as a teacher of English language arts at Sylmar High School from 2002-2003. During the summer prior to her assignment with Sylmar High School, Ms. Lockwood served as a UNICEF-sponsored teacher of girls in Ghana. Ms. Lockwood holds a Professional Clear California Teaching Credential, Single Subject, Language Arts Credential, and a Masters Degree in Educational Leadership and Policy Studies from CSUN.

Board Experience: The CHIME Board of Directors is represented by members with a breadth of business, community and educational experience, as shown in the following table.

NAME	OCCUPATION	RESIDENCE	TERM OF OFFICE (years)
Daniel Blake	Professor of Economics Emeritus, California State University, Northridge, and project economist for the Family Source Center Evaluation Study, a CSUN consulting group for the Community Development Department of the City of Los Angeles	Los Angeles	2010-13
Allison Cameron Gray	Journalist and Actress	Los Angeles	2010-13
Deborah Cours	Professor of Marketing, California State University, Northridge	Los Angeles	2011-13
Julie Fabrocini	Senior Program Officer, Bill and Melinda Gates Foundation	Los Angeles	2010-13
Michele Haney, Chair	Professor of Education, California State University, Northridge	Los Angeles	2011-13
Emmanuel Bernabe	Attorney	Los Angeles	2012-14
David Kretchmer	Professor of Education, California State University, Northridge	Los Angeles	2009-12
Joshua Mark	Interim Chief Operating Officer, CHIME	Los Angeles	2011-13
Patrick Smith	Law Partner at Beltran, Beltran, Smith, Oppel & MacKenzie, LLP, Burbank, California	Los Angeles	2011-13
Traci Myman	Attorney	Los Angeles	2012-14

Management Experience for Schools Open Less than Two Years: Not applicable. CHIME Charter School has been in operations since 2001 and CHIME Middle School has been in operations since 2003.

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 CHIME has been responsible for managing both CHIME Charter School and CHIME Middle School, staff has reviewed academic performance for both schools, including AYP and API for which multiple years of data are available for review of progress and comparison to similar schools. It is noteworthy, however, that because CHIME Charter School, with its expansion to grades K-8, will be supplanting CHIME Middle School beginning in 2013-14, staff is emphasizing the academic performance of CHIME Charter School. The tables below reflect academic performance data for CHIME Charter School and CHIME Middle School.

CHIME Charter School	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12
ADEQUATE YEARLY PROGRESS (AYP)					
Met All AYP Criteria?	No	Yes	Yes	Yes	No
Criteria Met / Required Criteria	7 / 9	9 / 9	9 / 9	13 / 13	13 / 16
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?	No	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	No	Yes	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	6	6	6	6	7
API Base Similar Schools Rank (10 = best)	1	1	1	1	1
School's Actual Growth	-5	25	3	34	17
Similar Schools Median of Actual Growth	4	14	4	11	1
Did School's Growth Exceed Median?	No	Yes	No	Yes	Yes

CHIME Middle School	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12
ADEQUATE YEARLY PROGRESS (AYP)					
Met All AYP Criteria?	No	No	No	No	No
Criteria Met / Required Criteria	15 / 17	10 / 13	12 / 13	12 / 13	5 / 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?	No	Yes	No	Yes	No
Met Comparable Improvement Growth Target?	No	Yes	No	Yes	No
Met Both Schoolwide & CI Growth Targets?	No	Yes	No	Yes	No
API Base Statewide Rank (10 = best)	6	5	6	5	6
API Base Similar Schools Rank (10 = best)	2	1	1	1	1
School's Actual Growth	-3	32	-21	30	-7
Similar Schools Median of Actual Growth	12	5	20	23	15
Did School's Growth Exceed Median?	No	Yes	No	Yes	No

CHIME Charter School met all of its AYP criteria in 2008-09, 2009-10, and 2010-11, but did not meet all of its AYP criteria during the most recent academic year, 2011-12 or during 2007-08. In addition, CHIME Charter School met its API growth target in each of the past four years. CHIME Charter School achieved API growth scores of 784, 802, 805, 839, and 858 for 2007-08 through 2010-12, respectively. Based on its API base score for the 2011-12 school year, CHIME Charter School ranked “7” statewide (“10” = best) and “1” against similar schools.

CHIME Middle School failed to meet all of its AYP criteria for each of the past five years and is currently on “Program Improvement” status (third year) per the federal No Child Left Behind Act of 2001. In addition, CHIME Middle School met its API growth target in two of the past five years, 2008-09 and 2010-11. CHIME achieved API growth scores of 750, 777, 756, 787, and 781 for 2007-08, through 2011-12, respectively. Based on its API base score for 2011-12, CHIME Middle School ranked “6” (“10” = best) statewide and “1” against similar schools.

In response to staff’s inquiry with CHIME regarding an explanation for the low “Similar Schools” rankings and the inconsistent academic performance of CHIME Middle School, CHIME’s Executive Director provided the following statements:

“One of the difficulties for the Similar Schools ranking and CHIME is that special education numbers are not disaggregated by level of disability. CHIME includes far more students with severe disabilities in general education classrooms (because of our inclusive model) than any of our ‘similar schools’, so while some schools may serve the same numbers of students with disabilities they do not serve the same number of students with severe disabilities. Therefore, our scores tend to be a bit lower because of the scoring formula for alternative testing (California Modified Assessment and California Alternative Performance Assessment) for students with significant disabilities. That said, CHIME continues to strive to educate all students and meet and exceed our academic goals. This year CHIME has invested in a new software based reading intervention and enrichment program (iStation), has expanded our use of the math enrichment program IXL, and dedicated 3 staff development session to utilizing our assessment data from NWEA (Northwest Evaluation Association) to guide instruction for all of our learners. We expect that all

of these efforts will not only continue our annual increases in API but will also increase our similar schools ranking regardless of the problematic nature of the calculation..."

"In the middle school we have also seen remarkable growth last year with a 29 point jump in API bringing the middle school to 786. The inconsistency that existed in the recent past seems at least in part due to the two campus moves that occurred since 2003. The middle school moved from a campus in Northridge then to Chatsworth and has now joined the elementary school in Woodland Hills. These moves represented change in student population as well. In effect the numbers for state testing were not measuring the same students year over year but instead were measuring newly enrolled students with each campus move. With the transition to the Woodland Hills campus, we expect our elementary retention rate will increase and our opportunity to work with and educate students over a nine year period will help all grades, but especially the middle school reach their academic targets, increase their API and raise their similar schools rank. Many of the steps taken above (IXL, NWEA, iStation) have also been applied to the middle school to help continue our recent pattern of growth. We also changed our math course offerings in 8th grade to include both Algebra and Algebra Readiness. This change allowed us to target the needs of all our middle school learners. This change should be reflected in increased facility with math on the part of all of our 8th grade students on their math CSTs. All of that said, it is important to note that the middle school AYP was not reached only because of missing one criterion out of thirteen. For the past two years this has been because of a single category becoming a newly statistically significant category and CHIME not meeting the goal or safe harbor target for that new criterion. Last year it was 'socioeconomically disadvantaged.' I believe that given the focus applied to this area via our NWEA evaluations and subsequent instructional changes, that group will meet its target or safe harbor for next school year."

CHIME Charter School has shown a trend of consistent improvement in its API growth score, and with its consistency in making AYP in three of the past four years and meeting its API growth target over the past four years, staff considers CHIME Charter School's academic performance to be sufficient to support a recommendation of financial soundness. Staff notes that, in response to inquiries with CHIME regarding CHIME Charter School's and CHIME Middle School's low "Similar Schools" rankings, staff was informed that the low rankings are due to the CDE's methodology in adjusting for the high prevalence of disabled students. Further, staff acknowledges the academic challenges faced by CHIME Middle School resulting from its move in 2010, as well as the Executive Director's explanation regarding CHIME's unique model involving inclusion of students with mild and severe disabilities in general education classrooms. Therefore, in consideration of these factors, staff regards CHIME's overall academic performance as supportive of a recommendation of financial soundness.

Staff notes that the percent-proficient threshold requirement for AYP, both for English-language arts and mathematics, in accordance with the Elementary and Secondary Education Act (ESEA), reflects increases each year and will continue to reflect increases until 2014. Therefore, with each successive year, public schools are increasingly challenged in "making AYP" (meeting all AYP criteria). This requirement applies to both

schoolwide performance and performance of each numerically significant subgroup within any school. As an example, since 2002, the percent-proficient requirements for English-language arts (elementary schools, middle schools, and elementary school districts) are as follows: 13.6% for each of 2001-02, 2002-03, and 2003-04; 24.4% for each of 2004-05, 2005-06, and 2006-07; 35.2% for 2007-08; 46.0% for 2008-09; 56.8% for 2009-10; 67.6% for 2010-11; and 78.4% for 2011-12. This specific requirement will increase up until 2014 with the following percent-proficient thresholds: 89.2% for 2012-13; and 100.0% for 2013-14. The English-language arts percent-proficient requirement for high schools shows a similar trend, as do the percent-proficient requirements for mathematics for both elementary schools and high schools. Given that each numerically significant subgroup within a school must meet the percent-proficient requirement in English-language arts and mathematics in order for the school to make AYP, and given the high prevalence of English-language learners in California, charter schools are faced with increasing difficulty in making AYP.¹

Student Enrollment and Retention Rates: CHIME Charter School has shown a consistent increase in enrollment since its inception, growing from 79 students in grades K-4 in 2001-02 to 275, 325, 367, and 442 students in grades K-5 for 2007-08 through 2010-11, respectively, to 543 students in grades K-6 for 2011-12, and to 653 students in grades K-7 for the current 2012-13 school year. While CHIME Middle School grew from 104 students in grades 6-7 in 2003-04 to 229 students in grades 6-8 in 2006-07, the school showed a reduction in enrollment to 189 students for 2010-11, representing a reduction of 17%. Notwithstanding the reduction in CHIME Middle School's enrollment from 2006-07 to 2010-11, in combination, both schools have shown an average student enrollment growth of about 8% per year over the past six years (since 2006-07), growing from 477 students in 2006-07 to 709 students for 2012-13. Project occupancy is anticipated for 2014-15 and would provide approximately 3-4 additional classrooms for grades 6-8, which would replace current modular facilities. CHIME projects enrollment growth to 732 students in 2013-14, 766 students in 2014-15, and 772 students in all subsequent years. Staff considers the overall projected increase in enrollment of 8.9% over five years to be reasonable.

CHIME Middle School achieved an average daily attendance (ADA) of 94%, 96%, and 95% for 2009-10 2010-11, and 2011-12, respectively, and CHIME Charter School achieved an ADA of 97%, 96%, and 97% for these same years, respectively.

CHIME Middle School had year-to-year retention rates of 78%, 90%, and 93%, and CHIME Charter School had year-to-year retention rates of 93%, 95%, and 94% for 2010-11, 2011-12, and 2012-13, respectively. Upon inquiring with CHIME's Financial Manager regarding the low rate for the middle school for 2010-11, staff was informed that the transition of the middle school from the Chatsworth site to the Woodland Hills site was the key factor for this low rate. Currently, CHIME Middle School currently has 89 students on its wait list, and CHIME Charter School has 599 students on its wait list.

Financial Analysis: Highlighted below are selected financial data and credit indicators used to evaluate CHIME's ability to sustain itself as an ongoing financially solvent concern. Staff's analysis of financial performance includes expenses for capital outlay and loan repayment; therefore, our results may differ from audited figures.

¹ Information regarding AYP requirements are derived from the California Department of Education's "2010 Adequate Yearly Progress Report Information Guide."

Staff’s review of CHIME’s financial performance is based on five years of audited financial statements (2006-07 through 2011-12), 2012-13 first interim budget, and financial projections from 2013-14 through 2016-17 as provided by CHIME. The school expects to occupy the project in 2014-15, by which time their enrollment is projected to have increased to 766 students (grades K-8) from the 709 students for the current 2012-13 academic year.

CHIME Institute	Actual FY 2009/10	Actual FY 2010/11	Actual FY 2011/12	Budgeted 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	574	631	672	709	732	766	772	772	772
Average Daily Attendance	553	607	647	674	695	727	733	733	733
Average Daily Attendance (%)	96%	96%	96%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Payment	\$ 5,977,199	\$ 5,866,681	\$ 5,939,991	\$ 6,168,665	\$ 6,327,197	\$ 6,561,578	\$ 6,709,833	\$ 6,819,673	\$ 6,932,186
Total Expenses Paid Before CSFP Payment	5,281,609	6,307,931	6,262,082	6,262,130	6,330,119	6,483,889	6,533,692	6,540,834	6,548,171
Accounting Adjustments	375,692	874,550	95,834	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 1,071,282	\$ 433,300	\$ (226,257)	\$ (93,465)	\$ (2,922)	\$ 77,689	\$ 176,141	\$ 278,839	\$ 384,015
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195,375	\$ 195,375	\$ 195,375
Net Revenues After CSFP Payment	\$ 1,071,282	\$ 433,300	\$ (226,257)	\$ (93,465)	\$ (2,922)	\$ 77,689	\$ (19,234)	\$ 83,464	\$ 188,640
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Payment	\$ 1,071,282	\$ 433,300	\$ (226,257)	\$ (93,465)	\$ (2,922)	\$ 77,689	\$ 176,141	\$ 278,839	\$ 384,015
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	90.2%	142.7%	196.6%
Contributions	\$ 372,810	\$ 454,563	\$ 524,682	\$ 524,682	\$ 524,682	\$ 524,682	\$ 524,682	\$ 524,683	\$ 524,684
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%	Less than 0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	2.9%	2.9%	2.8%
Contributions / Revenues	6.2%	7.7%	8.8%	8.5%	8.3%	8.0%	7.8%	7.7%	7.6%
Net Revenues After CSFP Payment / Revenues	17.9%	7.4%	-3.8%	-1.5%	0.0%	1.2%	-0.3%	1.2%	2.7%
Revenues / ADA	\$ 10,815	\$ 9,665	\$ 9,181	\$ 9,152	\$ 9,104	\$ 9,026	\$ 9,154	\$ 9,304	\$ 9,457
Expenses / ADA	\$ 9,557	\$ 10,392	\$ 9,679	\$ 9,291	\$ 9,108	\$ 8,919	\$ 9,180	\$ 9,190	\$ 9,200
Surplus (Deficit) / ADA	\$ 1,259	\$ (727)	\$ (498)	\$ (139)	\$ (4)	\$ 107	\$ (26)	\$ 114	\$ 257
Net Working Capital	\$ 762,484	\$ 353,506	\$ 36,796	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	14.4%	5.6%	0.6%	N/A	N/A	N/A	N/A	N/A	N/A

The financial projections for CHIME that staff has established for its financial soundness review, as derived from CHIME’s projections, are based upon the following assumptions: (1) project occupancy in 2014-15; (2) increases in enrollment from the current 672 students to 766 for 2014-15 (year of occupancy), and to a capacity of 772 for all subsequent years, as described in “Student Enrollment and Retention Rates” section above; (3) projected ADA rates of 95% for 2012-13 through 2016-17; (4) general purpose block grant funding rates for 2011-12 of \$5,077, \$5,153, and \$5,306 for grades K-3, 4-6, and 7-8, respectively; (5) 0% cost of living adjustment (COLA) to the general purpose block grant funding rates for 2012-13 through 2014-15, and a 2.5% COLA for 2015-16 through 2017-18; and (6) Private Contributions of \$524,682 for 2011-12 and all projected years.

Contributions: It is noteworthy that, although CHIME has forecasted an increase in private contributions up to approximately \$630,000 during the first three years after project occupancy, Staff deemed these contribution levels as high in relation to the 2011-12 contribution amounts collected of \$524,682. As such, staff has adjusted the projected contributions to be the same as the actual contributions in 2011-12. Staff notes that CHIME has previously achieved private contributions of between \$372,000 and \$524,000 during all years since 2007-08, and that although CHIME relies on contributions, the assumption of \$524,682 per year in future contributions is conservative. Staff also notes CHIME’s considerable reliance on contributions, and projects debt service coverage less than 0% for CSFP payments prior to applying projected contributions in 2015-16 through 2017-18. In 2016-17 and 2017-18, CHIME would need to raise 84% and 64%, respectively, of the \$524,682 projected contributions to maintain the minimum debt service coverage threshold of 100%. Assuming the contribution levels provided by CHIME (approximately \$630,000),

CHIME would need to raise 70% and 53% of projected contributions in 2016-17 and 2017-18 to meet the debt service coverage requirements.

Long Term Debt: As of June 30, 2012, CHIME's long term debt consisted of the following: (1) outstanding balance of \$1,785,766 on 84-month mortgage with Local Initiative Support Corporation (LISC) at 6.0% fixed rate per annum for the Chatsworth property; (2) balance totaling \$200,000 on two uncollateralized revolving credit lines with Bank of America; (3) two short-time working capital LISC loans in the amount \$250,343 and \$251,093, totaling \$501,436; and (4) balance of \$100,119 on loan through Life Insurance Company of the Southwest (LSW) for 2011-12 deferrals. CHIME provided staff with an amortization schedule for repayment for both the LISC loan and Bank of America credit balance.

CHIME paid \$44,730 of the LSW balance through its cash reserves during 2011-12, and intends to pay the remaining balance of \$97,770 due to LSW during 2012-13. The LISC working capital loans were paid off in-full during July and August 2012.

The LISC mortgage loan was originally structured to provide bridge financing for the Chatsworth property in anticipation of CSFP proceeds for that site. Hence, the loan was structured to include a "balloon" payment that is due at the end of the 84-month term. Staff notes that CHIME established an arrangement with LISC to pay only the interest on the loan during the period from May 2011 to March 2012, and to pay the principal of \$15,595 due for the 2011-12 fiscal year by June 30, 2012. While the LISC loan payments were modified to amortize principal over 20 years to 2032, the loan final maturity remains July 1, 2013. At that time, the outstanding principal amount of approximately \$1.7 million will need to be refinanced in the event that CHIME has not sold the Chatsworth property.

CHIME has recently been having discussions with LISC as well as other lenders regarding options to refinance the loan and has been informed that it has several options and that it is likely that refinancing would be accessible prior to, or upon maturity of the loan. Staff notes that the LISC loan does not include any encumbrances or liens on the property associated with the CSFP project, and does not forbid any pledges in the form of an intercept on the general purpose entitlement grant. In addition, staff received confirmation in a signed letter from LISC that the LISC loan does not have any Universal Commercial Code filings associated with it.

The Chatsworth property has been valued at \$2.4 million, including \$1.4 million for the land and \$1.0 million for the building. Based on this valuation, dated June 6, 2012, which shows the property value as \$600,000 above the LISC loan balance, staff believes that CHIME has a high likelihood of refinancing its loan in the event that it is unable to find a purchaser prior to the loan maturity date. Upon inquiring with CHIME's Executive Director as to the reason for not yet obtaining a purchaser, the Executive Director indicated that CHIME has needed to restrict its pool of potential purchasers to address the local zoning requirements and the preferences of the local community, and the current economy has placed constraints on the number of prospective purchasers and their ability to obtain financing. He also indicated that there is still a strong likelihood that the tenant would eventually purchase the property.

It is also noteworthy that CHIME has established a lease agreement with a tenant at its Chatsworth site wherein CHIME has incorporated rent revenues into its projections. As

such, below, staff has analyzed CHIME's ability to withstand the loss of such revenues in the event of the tenant's default.

Financial Performance/Change in Net Assets: For 2008-09, CHIME recorded a gain in net gain of \$232,736 on \$4.66 million in revenues, \$4.86 million in expenses, and \$432,305 in contributions. For 2009-10, CHIME recorded a gain in net assets of \$695,590 on \$5.98 million in revenues (inclusive of \$372,810 in contributions) and \$5.28 million in expenses. For 2010-11, CHIME recorded a net loss of \$481,328 on \$5.87 million in revenues and \$6.31 million in expenses. For 2011-12, CHIME incurred a net loss of \$322,091 on \$5.42 million in revenues, \$6.26 million in expenses, and \$524,682 in contributions. With the anticipated increases in enrollment, CHIME projects net losses of \$93,465 and \$2,922 for 2012-13 and 2013-14, respectively, and net gains of \$77,689, \$176,141, \$278,839, and \$384,015 for 2014-15 through 2017-18, respectively.

Debt Service Coverage/Local Matching Share – Assuming a 3.0% interest rate and 30-year repayment period, as well as an estimated project cost of \$7,658,864, CHIME's annual CSFP payment will be \$195,375 beginning 2015-16, the first year following project occupancy. CHIME's projected net revenues of \$176,141, \$278,839, and \$384,015 for 2015-16, 2016-17, and 2017-18, respectively, would provide debt service coverage levels of 90.2%, 142.7%, and 196.6%, respectively, the latter two years being above the minimum 100% requirement and the debt service coverage for 2015-16 representing a shortfall of 9.8% or \$19,234. The CSFP payments would represent 2.9%, 2.9%, and 2.8% of projected revenues for each of these years, which is well within the preferred maximum range of 10-15%.

Staff has conducted a stress test on CHIME's ability to withstand the loss of revenues stemming from its lease agreement with a tenant at its Chatsworth property. Without these revenues, CHIME's debt service coverage levels for the first three years of CSFP payments, 2015-16 through 2017-18, would be 47.9%, 98.6%, and 150.5%, respectively, reflecting shortfalls of \$101,734 and \$2,786 during 2015-16 and 2016-17.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. As of June 30, 2012, NWC was \$36,796, representing 0.6% of expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient and notes CHIME's liquidity as a weak financial indicator. Although CHIME had cash balances of \$655,107 for 2011-12, CHIME's liquidity position has weakened over the past two years with NWC for 2009-10 and 2010-11 at \$762,484 (14.4% of expenses) and \$353,506 (5.6% of expenses), respectively.

Strengths, Weaknesses and Mitigants

- + Under the assumption that CHIME will continue to receive revenues from its tenant through a lease agreement, CHIME would achieve debt service coverage levels of 90.2%, 142.7%, and 196.6% for 2015-16 through 2017-18, respectively (first three years of CSFP payments), and meet the necessary 100% debt service coverage requirement for 2015-16 through a one-time allocation from reserves in the amount of \$19,234.

- + CHIME Charter School met all of its AYP criteria in three of the past four years. In addition, CHIME Charter School met its API growth target in each of the past four years, 2008-09 through 2011-12, with API growth scores of 784, 802, 805, 839, and 858, respectively.
- + CHIME Charter School and CHIME Middle School, together, have demonstrated consistent enrollment growth over the past six years, with average growth of approximately eight percent per year.
- + CHIME Charter School had year-to-year retention rates of 93%, 95%, and 94% for 2010-11, 2011-12, and 2012-13, respectively.
- + CHIME has demonstrated consistent receipt of private contributions between \$372,000 and \$524,000 during all years since 2007-08.
- In the event that CHIME does not receive revenues from its tenant, CHIME would achieve debt service coverage ratios of 47.9%, 98.6%, and 150.5% for 2015-16 through 2017-18, respectively.
- Although CHIME has demonstrated the ability to raise substantial contributions in past years, Staff notes CHIME's strong reliance on contributions to maintain operations. Our projections indicate CHIME will need to raise at least 84% and 64% of projected contributions (\$524,682) in 2016-17 and 2017-18 to maintain minimum debt service coverage requirements.
- Net working capital (liquidity metric) has trended downward over past three years: NWC for 2009-10, 2010-11, and 2011-12 at \$762,484 (14.4% of expenses), \$353,506 (5.6% of expenses), and \$36,796 (0.6% of expenses), respectively. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient and notes CHIME's liquidity as a weak financial indicator.
- CHIME Middle School has failed to meet all of its AYP criteria for each of the past five years.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that CHIME is financially sound for the purposes of Program Final Apportionment. This recommendation is contingent upon CHIME: (1) restricting \$100,000 by June 30, 2013 and an additional \$95,375 by June 30, 2014 (to be illustrated in the 2012-13 and 2013-14 audits) to cover the first estimated CSFP payment ; (2) extending the LISC loan final maturity through at least July 1, 2015; and (3) electing to have its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. All contingent actions must occur prior to the disbursement of additional funds. The restricted funds may be released upon the occurrence of one of the following: (1) repayment in full of debt associated with Chatsworth property; (2) demonstration of at least 125% debt service coverage in first year of CSFP payment per audited financials, or (3) demonstration of at least 100% debt service coverage for the first two years of CSFP payments per audited financials. This determination as it relates to a Final 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.