

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – MAY 2013**

Applicant/Obligor:	Chico Country Day School
Project School:	Chico Country Day School
CDS (County – District – School) Code:	04 61424 6113773
Project Location:	102 West 11 th Street, Chico
Type of Project:	Rehabilitation of District Facilities
County:	Butte
District in which Project is Located:	Chico Unified School District
Charter Authorizer:	Chico Unified School District
Total OPSC Project Cost:	\$7,995,650
State Apportionment (50% Project Cost):	\$3,997,825
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$3,997,825
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	2.00%
Estimated Annual CSFP Payment:	\$178,503
First Year of Occupancy of New Project:	2015-16

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Chico Country Day School (CCDS) is financially sound for the purposes of the Charter School Facilities Program (“Program” or “CSFP”) Final Apportionment. This recommendation is contingent upon CCDS having its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the Authority members direct staff to notify the Office of Public School Construction (OPSC) 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.

Criteria	Comments
Eligibility Criteria	CCDS has met all the Program eligibility criteria including: 1) a charter is in place; 2) 2 years of instructional operations have been met; and; 3) CCDS is in compliance with the terms of its charter, and in good standing with its chartering authority.
Demographic Information	CCDS currently serves 553 students in grades K-8. The school projects enrollment to increase to 559 students during its first year of CSFP facilities occupancy in FY

	2015-16, and ultimately grow to 564 students by 2017-18. Staff deems this enrollment growth reasonable given the school's enrollment growth to date.
Debt Service Coverage	CCDS 's debt service coverage ratios have met the 100% Debt Service Coverage Ratio threshold by having 137.6% in FY 2016-17 (one year after CSFP facility occupancy), 158.2% for FY 2017-18. When including contributions for the first two years of CSFP payments commencing in 2016-17, CCDS will need to receive at least 57% (\$90,387) of expected contributions in 2016-17 in order to meet the 100% projected debt service coverage ratio threshold. In 2017-18, CCDS will need to receive at least 36% (\$59,540) to maintain 100% projected debt service coverage.
Other Financial Factors	<ul style="list-style-type: none"> ▪ CSFP payments represent 4.1% of revenues, and the school does not have long-term debt besides the CSFP obligation. Staff considers a lease burden (lease payments divided by revenues) of 10% or less to be an affordable long-term commitment. ▪ CSFP payments are projected to be 4.1% and 4.0% of total revenues for FY 2013-14 and FY 2014-15, which are well below the 10-15% threshold levels.
Student Performance	CCDS had met all its API and AYP goals beginning in 2003-04 through 2009-10. However, in the last two schools years, 2010-11 and 2011-12, CCDS has failed to meet their AYP and all API categories. In 2011-12, 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 March 2013 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 twenty 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 anticipates project occupancy in 2015-16.

CCDS served 551 students in 2011-12 in grades K-8 and currently serves 553 students in grades K-8. Instructional operations commenced in 1996-97, with 81 students in grades

K-7. CCDS anticipates serving 559 students in the 2015-16, and by 2017-18, CCDS anticipates serving 564 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 focus on three phases: 1) building community awareness of the school through public relations and activities throughout the area, website development, and 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 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.

Margaret Reece, Executive Director of CCDS (since 2003), has a Master's in Public Administration, and 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: Megan Neely, Principal of CCDS (since 2012), has a Master's in Educational Administration from California State University, Chico, and was Principal at

Corning Elementary School and classroom teacher at Oroville City Elementary School District.

Board Experience: CCDS is governed by a Board of Directors composed of at least five members and will include at least three parents, one community member, and two staff members. 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 experience in social work, education, finance, management, and construction. Board composition can be seen below in the table.

Name	Board Title	Term
Matt Darlington	Board Chair	2010-2013
Lowell Daun	Board Treasurer	2011-2014
Darien Sterling	Board Secretary	2011-2014
Jennifer LaBadie	Board Member	2012-2013
Charles Thompson	Board Treasurer	2010-2013
Jessika Lawrence	Board Member	2013-2016
Susan Efseaff	1st Grade Teacher	2012-2015
John Garrett	7/8 Grade Teacher	2011-2014

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 open 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.

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, charter schools are increasingly challenged in “making AYP” (meeting all AYP criteria). This requirement applies to both school wide 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, middles 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; and 56.8% for 2009-10.

This specific requirement will increase up until 2014 with the following percent-proficient thresholds: 67.6% for 2010-11; 78.4% for 2011-12; 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 AYP¹.

CCDS had met all AYP criteria for the years 2003-2004 through 2009-10, but has failed to meet AYP for the last two school years, 2010-11 and 2011-12, respectively. CCDS has nine 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 nine years and received base API scores of 863, 868, and 873 for FY 2009-10, FY 2010-11, and FY 2011-12, respectively.

Staff sought an explanation for a drop of 27 points in its 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 overall student population. However, since 2006-07, the base API scores have increased with CCDS' base API still in the 800's. The following table summarizes CCDS' student performance for the past nine 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	FY 2010-11	FY 2011-12
ADEQUATE YEARLY PROGRESS (AYP)									
Met All AYP Criteria?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Criteria Met / Required Criteria	/	9 / 9	9 / 9	13 / 13	13 / 13	13 / 13	13 / 13	11 / 13	10 / 13
Met API Indicator for AYP?		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)									
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
API Base Statewide Rank (10 = best)	6	8	8	9	8	8	8	8	8
API Base Similar Schools Rank (10 = best)	1	1	1	6	2	2	2	3	2
School's Actual Growth	43	10	58	-27	-1	33	2	5	5
Similar Schools Median of Actual Growth	-1	15	7	-6	7	16	5	5	10
Did School's Growth Exceed Median?	Yes	No	Yes	No	No	Yes	No	No	No

Enrollment Information: There were 515 students enrolled at CCDS during the 2010-11 school year and 551 in 2011-12. There are 553 students for the current 2012-13 school year, with projections of 557 students for 2013-14, and 559 students for FY 2014-15. The waiting list for all grades is approximately 99 students. The student retention rate for FY 2011-12 to FY 2012-13 was 97%, 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.

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

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Staff’s review of CCDS’ financial performance is based on three years of audited financial statements (FY 2009-10 through FY 2011-12), 2012-13 second interim projections, 5-year projections, and cash flow statements. CCDS hopes to begin the project in 2014, by which time their enrollment will have increased to 557 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% for FY’s 2013-14 and 2014-15, and 2.5% for 2015-16, 2016-17, and 2017-18, respectively.

Chico Country Day School	Actual FY 2009-10	Actual FY 2010-11	Actual FY 2011-12	2nd Interim 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	543	515	551	553	557	559	559	563	564
Average Daily Attendance	519	494	537	529	535	537	537	540	541
Average Daily Attendance (%)	96%	96%	97%	96%	96%	96%	96%	96%	96%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Payment	\$ 3,795,840	\$ 4,343,275	\$ 4,091,181	\$ 4,055,366	\$ 4,152,981	\$ 4,093,937	\$ 4,183,574	\$ 4,303,661	\$ 4,408,494
Total Expenses Paid Before CSFP Payment	3,381,568	3,655,675	3,888,486	3,909,092	3,993,868	3,959,574	4,011,845	4,089,727	4,157,713
Accounting Adjustments	18,252	15,783	31,682	31,682	31,682	31,682	31,682	31,682	31,682
Net Revenues Available for CSFP Payment	\$ 432,524	\$ 703,383	\$ 234,377	\$ 177,956	\$ 190,795	\$ 166,045	\$ 203,411	\$ 245,616	\$ 282,463
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 178,503	\$ 178,503
Net Revenues After CSFP Payment	\$ 432,524	\$ 703,383	\$ 234,377	\$ 177,956	\$ 190,795	\$ 166,045	\$ 203,411	\$ 67,113	\$ 103,960
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Payment	\$ 432,524	\$ 703,383	\$ 234,377	\$ 177,956	\$ 190,795	\$ 166,045	\$ 203,411	\$ 245,616	\$ 282,463
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	137.6%	158.2%
Contributions	\$ 165,557	\$ 170,725	\$ 129,236	\$ 109,500	\$ 125,500	\$ 140,500	\$ 145,500	\$ 157,500	\$ 163,500
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	49.4%	66.6%
CSFP Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.1%	4.0%
Contributions / Revenues	4.4%	3.9%	3.2%	2.7%	3.0%	3.4%	3.5%	3.7%	3.7%
Net Revenues After CSFP Payment / Revenues	11.4%	16.2%	5.7%	4.4%	4.6%	4.1%	4.9%	1.6%	2.4%
Revenues / ADA	\$ 7,314	\$ 8,785	\$ 7,619	\$ 7,666	\$ 7,767	\$ 7,629	\$ 7,796	\$ 7,963	\$ 8,142
Adjusted Expenses / ADA	\$ 6,551	\$ 7,426	\$ 7,300	\$ 7,449	\$ 7,528	\$ 7,437	\$ 7,535	\$ 7,956	\$ 8,067
Net Revenues After CSFP Payment / ADA	\$ 763	\$ 1,359	\$ 318	\$ 217	\$ 238	\$ 191	\$ 261	\$ 7	\$ 75
Net Working Capital	\$ 1,185,923	\$ 2,733,012	\$ 2,192,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	35.1%	74.8%	56.4%	N/A	N/A	N/A	N/A	N/A	N/A

Assets/Liabilities: During 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 will end in August 2013 with a balloon payment of \$132,353.49 due September 2013.

Changes in Net Assets: In FY 2009-10, CCDS recorded an increase in net assets of \$432,524, on revenues of \$3.8 million and expenditures of \$3.4 million. In FY 2010-11, CCDS recorded an increase in net assets of \$703,383, on revenues of \$4.3 million and expenditures of \$3.7 million. In FY 2011-12, CCDS recorded an increase in net assets of \$234,377, on revenues of \$4.1 million and expenditures of \$3.8 million.

CCDS’ projected financial operations are characterized by positive net revenues. The school is projecting net revenues of \$190,795, \$166,045, \$203,411, \$245,616, and \$282,463 for FY 2013-14 through 2017-18, respectively.

Contributions/Fundraising: CCDS demonstrated having received contributions in the amounts of \$165,557, \$170,725, and \$129,236 for FY 2009-10, FY 2010-11, and FY 2011-12, 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. When including contributions, for the first two years of CSFP payments commencing in 2016-17, CCDS will need to receive at least 57% (\$90,387) of expected contributions in 2016-17 in order to meet the 100% projected debt service coverage ratio threshold. In 2017-18, CCDS will need to receive at least 36% (\$59,540) to maintain 100% projected

debt service coverage. Based on CCDS's historical average of \$146,316 (FY's 2007-08 through 2011-12), staff believes that the donation projections are reasonable and attainable to pay Debt Service Coverage for the CSFP project. 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 2.00%, annual CSFP payments of \$178,503 are expected to commence FY 2016-17.

CCDS financial projections indicate that the school will produce surpluses for each year of operations. In 2016-17, the first year after CSFP occupancy, the school is projected to have debt service coverage of 137.6%, and is projected to have 158.2% for FY 2017-18. Without contributions, CCDS will not meet the minimum CSFP requirement with debt service coverages of 49.4% and 66.6% for FY 2016-17 and FY 2017-18, respectively. CSFP payments are expected to average approximately 4.1% of projected revenues. CCDS's demonstrated success in achieving contributions in excess of \$100,000 per year for each of the past five years, leads staff to believe that the contribution projections will be realized.

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 2009-10 was \$1.2 million or 35.1% of total expenses, and increased to \$2.7 million for FY 2010-11, or 74.8% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. As of June 30, 2012, CCDS held \$1.5 million in cash, with \$1.1 million in accounts receivable, offset by \$511,782 in current liabilities and a NWC of 56.4%.

Strengths, Weaknesses and Mitigants

- + CCDS had met all its API and AYP goals beginning in 2003-04 through 2009-10. However, in the last two school years, 2010-11 and 2011-12, CCDS has failed to meet their AYP and all API categories. In 2011-12, CCDS has a state rank of 8, and a similar schools rank of 2. 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 137.6% and 158.2% for the first two years after occupancy, 2016-17 and 2017-18, respectively.
- CCDS will have to rely on contributions to meet the CSFP debt service coverage requirement, with debt service coverage without contributions of 49.4% and 66.6% for the first two years after project occupancy, 2016-17 and 2017-18, respectively
- + CCDS currently has a long term liability that will be paid off by September 2013.

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 Final Apportionment. This recommendation is contingent upon CCDS having its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the Authority members direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.