

**CHARTER SCHOOL FACILITIES PROGRAM
2010 LOTTERY FUNDING ROUND
STAFF SUMMARY REPORT – AUGUST 2014**

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| Applicant/Obligor: | Santa Rosa City Schools |
| Project School: | Santa Rosa School for the Arts |
| CDS (County – District – School) Code: | 49-70912-0113530 |
| Type of Project: | New Construction |
| Proposed Project Location: | 756 Humboldt Street, Santa Rosa |
| County: | Sonoma County |
| District in which Project is Located: | Santa Rosa Elementary District |
| Charter Authorizer: | Santa Rosa City Schools |
| Total OPSC Project Cost: | \$5,908,152 |
| State Apportionment (50% Project Cost): | \$2,954,076 |
| Lump Sum Contribution: | \$0 |
| Total CSFP Financed Amount: | \$2,954,076 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 3.00% |
| Estimated Annual CSFP Payment: | \$150,715 |
| First Year of Occupancy of New Project: | 2016-17 |

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| Applicant/Obligor: | Santa Rosa City Schools |
| Project School: | Santa Rosa School for the Arts |
| CDS (County – District – School) Code: | 49-70912-0113530 |
| Type of Project: | Rehabilitation |
| Proposed Project Location: | 756 Humboldt Street, Santa Rosa |
| County: | Sonoma County |
| District in which Project is Located: | Santa Rosa Elementary District |
| Charter Authorizer: | Santa Rosa City Schools |
| Total OPSC Project Cost: | \$4,172,988 |
| State Apportionment (50% Project Cost): | \$2,086,494 |
| Lump Sum Contribution: | \$0 |
| Total CSFP Financed Amount: | \$2,086,494 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 3.00% |
| Estimated Annual CSFP Payment: | \$106,451 |
| First Year of Occupancy of New Project: | 2016-17 |

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Santa Rosa Charter School for the Arts (SRCSA) and Santa Rosa City Schools (District), which is serving as obligor for the school, are financially sound for purposes of the Charter School Facilities Program (Program) Final Apportionment. This determination as it relates to 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.

Application Highlights: Highlighted below are key criteria that were evaluated when conducting the financial soundness review of SRCSA and the District. Detailed information is contained in the body of the report.

| <i>Criteria</i> | <i>Comments</i> |
|--------------------------------|--|
| Eligibility Criteria | SRCSA meets Program eligibility criteria including 1) having a charter in place; 2) meeting two years of operating experience; and 3) being in compliance with the terms of its charter and in good standing with its charter authorizer. |
| Demographic Information | The school began instructional operations in 2007-08 and is currently serving 354 students in grades K–8. Enrollment is projected to be 382 students by project occupancy in 2016-17. Enrollment at the District has maintained an average of 16,440 from 2010-11 through 2013-14. |
| Debt Service Coverage | The District projects debt service coverage of 734.3% and 978.2% for 2017-18 and 2018-19, respectively, the first two years of CSFP payments, well in excess of the minimum debt service coverage of 100%. |
| Other Financial Factors | The District’s net working capital as a percentage of expenses at June 30, 2013 was 8.2% which exceeds the Program’s targeted sufficiency level of 5.0%. The CSFP payment as a percentage of revenues in 2017-18 and 2018-19 is on average projected to be 0.2% of revenues. |
| Student Performance | Over the past four years, SRCSA achieved API growth scores of 813, 839, 846, and 853 in 2009-10 to 2012-13, respectively. Although SRCSA has not met AYP criteria in four out the last four years, the school had statewide and similar school rankings of 7 and 4 in 2012-13, respectively. |

Program Eligibility: In April 2014, verification was received from the Superintendent, Santa Rosa City Schools, confirming SRCSA is: (1) in compliance with the terms of its charter agreement, and (2) in good standing with its chartering authority. The charter was initially approved in October 2006 and is currently valid through in June 2015.

Legal Status Questionnaire: Staff reviewed the applicant’s responses to the two requests for disclosure contained in the Legal Status Questionnaire (LSQs). No information was disclosed that would lead staff to question the financial or legal integrity of this applicant.

Project Description: Santa Rosa Charter School for the Arts (SRCSA) received Preliminary Apportionments of new construction and rehabilitation at the State Allocation Board meeting on May 28, 2008. In April 2011, SRCSA requested an advance fund release for design costs through the Program. At this time, SRCSA is seeking Final Apportionment for both new construction and rehabilitation projects, totaling \$5,908,152 and \$4,172,988, respectively. The planned project incorporates both new construction and rehabilitation of a District-owned school facility located on the former Fremont Elementary School campus, 756 Humboldt Street, Santa Rosa, California. The District describes the proposed project as construction of two 2-story buildings that will include the replacement of six classrooms and the addition of seven classrooms for a net addition of seven classrooms and the construction of two elevators. The project also consists of the replacement of the administration area, staff work room, restrooms, and small instruction areas.

Additionally, the District plans to demolish the east and west classroom wings and replace with multi-story buildings of permanent construction. The west wing currently has two teaching stations, restrooms, and office space. The west wing multi-story replacement building will add three teaching stations to this wing. The east wing currently has six classrooms (four standard classrooms and two small group instruction classrooms, administration and toilet area. The east wing multi-story replacement building will include four additional teaching stations. In total, the replacement buildings will provide seven additional teaching stations. The new student capacity is estimated to be 352 after the described improvements. In addition, there have been four portable classrooms added to the site bringing the total capacity for the campus to approximately 440 students. Occupancy of the CSFP-funded facility is targeted for August 2016.

Organizational Information: SRCSA is a district-run charter school serving 354 students in grades K through 8. The chartering authorizer and governing board, Santa Rosa City Schools (comprised of Santa Rosa City Elementary School District and Santa Rosa City High School District), is governed by a seven-member Board of Education and currently operates ten elementary schools, one satellite elementary, five middle schools, five comprehensive high schools, two continuation schools, three necessary small schools, and four charter schools.

Based on the materials provided by the applicant, SRCSA's mission is to provide K – 8 grade students from the Santa Rosa community with an innovative, high quality education that focuses on the arts through a challenging, integrated, standards-based academic program. The ultimate goal of the school is to give students a lifetime appreciation of learning through the lens of the visual and performing arts. SRCSA provides a basic framework for a standards-based core curriculum that infuses the arts at every level. The core contents areas of English-language arts, mathematics, science, and social science are to be standards-based to allow students to transition from the charter school to local high schools in the area. The charter will expire in 2015 and is currently in the process of renewal.

Management Experience for Schools Open Less than Two Years: Not applicable.

Educational Management Organization: Not applicable because the school has been operated by the Santa Rosa City Schools Board of Education since 2007.

School Management: SRCSA's and the District's key personnel and management team demonstrate professional, experienced and qualified individuals serving in key capacities within the organizations.

Key staff members include Dr. Socorro Shiels, Superintendent of Santa Rosa City Schools since July 2012; Dr. Rachel Monarrez, Assistant Superintendent since July 2013; and Ms. Anne Elizabeth Evans, who has served as principal of SRCSA since 2011.

Mr. Shiels has served as Superintendent of Santa Rosa City Schools since July 2012. His career includes experience as an Assistant Superintendent at the Morgan Hill Unified School District, and Program Director at the Santa Clara County Office of Education. Mr. Shiels anticipates earning his Doctorate in Educational Psychology from the University of California at Davis in December 2014. He holds an M.A. in Educational Leadership from California State University East Bay and a B.A. in Spanish from Bowdoin College.

Dr. Monarrez has served as Assistant Superintendent since July 2013. His experience includes serving as school a teacher and principal at the Ponomo Unified School District; and Director of English Learner Programs at Rialto Unified School District. Dr. Monarrez earned a Doctorate of Philosophy in Education from Claremont Graduate University, a Master of Arts in Education from Claremont Graduate University, and a Bachelor of Art in History from University of California Irvine.

Anne Elizabeth Evans has served as Principal of SRCSA since July 2011. Her experience includes serving as an assistant principal Elsie Allen High School and High School Summer School. Ms. Evans earned an M.A. in Interdisciplinary Art from San Francisco State University and a B. A. in Education from Missouri State University.

Board Experience: The seven members of the Board of Education of Santa Rosa City Schools are elected at-large to serve four-year terms. The board members are responsible for establishing district policy; adopting annual district budgets; approving expenditures; authorizing employment of all personnel; approving curricula and textbooks; and approving all contracts.

The District’s governing board members, occupational experience, and term expiration are listed below.

| Board Member | Occupational Experience | Term Expiration |
|------------------------------|--------------------------------|------------------------|
| Frank Pugh, President | Counselor and instructor | December 2014 |
| Larry Haenel, Vice-President | English instructor | December 2016 |
| Bill Carle, Clerk | Legal counsel | December 2014 |
| Laura Gonzalez | Instructor | December 2016 |
| Donna Jeye | Parent | December 2016 |
| Ron Kristof | Instructor and business | December 2014 |
| Jenni Klose | Attorney | December 2016 |

Enrollment and Student Retention: After substantial enrollment growth between 2007-08 and 2010-11, enrollment growth has stabilized as SRCSA reaches student capacity. SRCSA grew from 177 students in 2007-08 to 319 in 2010-11. Enrollment for 2013-14 was 354 and the school only anticipates enrollment growth after the occupancy of the CSFP facility with enrollment growing to 428 in 2018-19. Enrollment at the District has also stabilized with enrollment between 16,400 and 16,500 for the years 2010-11 through 2013-14. The District anticipates flat student enrollment growth district-wide through 2018-19.

SRCSA reported average daily attendance (ADA) of 298, 316, 329, and 341 over the years 2010-11 through 2013-14. This resulted in strong ADA rates of 94%, 95%, 95%, and 96% for the corresponding years. For 2014-15 and subsequent years, SRCSA projects ADA rates of 95%. The District recorded ADA rates of 96% over the years 2010-11 through 2013-14 and assumes ADA rates of 95% for all projected years.

Academic 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 1 funds.

| Santa Rosa School of the Arts | FY 2009/10 | FY 2010/11 | FY 2011/12 | FY 2012/13 |
|---|------------|------------|------------|------------|
| ADEQUATE YEARLY PROGRESS (AYP) | | | | |
| Met All AYP Criteria? | No | No | No | No |
| Criteria Met / Required Criteria | 15 / 17 | 14 / 17 | 16 / 17 | 10 / 17 |
| Met Graduation Rate? | N/A | N/A | N/A | N/A |
| ACADEMIC PERFORMANCE INDEX (API) | | | | |
| API Base Statewide Rank (10 = best) | 8 | 6 | 7 | 7 |
| API Base Similar Schools Rank (10 = best) | 8 | 2 | 3 | 4 |

*Item 7 – Santa Rosa Charter School for the Arts
Santa Rosa City Schools*

Based on data posted by the California Department of Education (CDE), SRCSA’s API growth scores have exceeded 800 for over the last four years of operations, with scores of 813 in 2009-10; 839 in 2010-11; 846 in 2011-12; and 853 for 2012-13. The previous table shows the API base score rankings over the past four years. Although the School is not in “Program Improvement”, SRCSA has not met all AYP criteria in four of the past four years. In 2012-13, SRCSA achieved API Statewide and Similar School ranks of 7 Statewide and 4 Similar Schools in 2012-13. Overall, staff considers SRCSA’s academic performance to be favorable for purposes of a recommendation for financial soundness.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the applicant’s ability to meet its CSFP obligations.

Financial Performance: SRCSA is a district-operated, dependent charter school. Therefore, the financial status of the District is relied upon to determine the financial soundness of the charter school. Highlighted below are selected financial data and credit indicators to evaluate the ability of the District to meet this CSFP obligation. The District’s audited financial statements for three years from 2010-11 through 2012-13; 2nd interim report for 2013-14; and its budgeted projections for 2014-15 through 2018-19 were used to determine financial soundness. Because Preliminary and Advance Apportionments were awarded for both “New Construction” and “Rehabilitation” components of the proposed project, the components have been combined for purposes of this determination of financial soundness for Final Apportionment.

The following table excerpted from the financial model created for each applicant summarizes key aspects of the District’s past and projected financial performance.

| Santa Rosa City Schools | Actual FY 2011/12 | Actual FY 2012/13 | Actual FY 2013/14 | Forecast FY 2014/15 | Projected FY 2015/16 | Projected FY 2016/17 | Projected FY 2017/18 | Projected FY 2018/19 |
|---|----------------------|----------------------|----------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| ENROLLMENT PROJECTIONS | | | | | | | | |
| Enrollment | 16,399 | 16,430 | 16,496 | 16,496 | 16,496 | 16,496 | 16,496 | 16,496 |
| Average Daily Attendance | 15,734 | 15,835 | 15,842 | 15,671 | 15,671 | 15,671 | 15,671 | 15,671 |
| Average Daily Attendance (%) | 96% | 96% | 96% | 95% | 95% | 95% | 95% | 95% |
| FINANCIAL PROJECTIONS | | | | | | | | |
| Total Revenues Available for CSFP Payment | \$ 130,850,149 | \$ 127,135,401 | \$ 134,413,980 | \$ 138,234,554 | \$ 142,102,946 | \$ 146,944,503 | \$ 152,470,917 | \$ 158,903,260 |
| Total Expenses Paid Before CSFP Payment | 130,468,358 | 130,928,350 | 137,399,615 | 135,802,402 | 139,487,784 | 144,800,055 | 150,846,606 | 156,651,654 |
| Accounting Adjustments | 312,069 | 191,304 | 283,158 | 264,020 | 264,019 | 264,019 | 264,019 | 264,019 |
| Net Revenues Available for CSFP Payment | \$ 693,860 | \$ (3,601,645) | \$ (2,702,477) | \$ 2,696,172 | \$ 2,879,181 | \$ 2,408,467 | \$ 1,888,330 | \$ 2,515,625 |
| CSFP Payment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 257,166 | \$ 257,166 |
| Net Revenues After CSFP Payment | \$ 693,860 | \$ (3,601,645) | \$ (2,702,477) | \$ 2,696,172 | \$ 2,879,181 | \$ 2,408,467 | \$ 1,631,164 | \$ 2,258,459 |
| FINANCIAL INDICATORS | | | | | | | | |
| Net Revenues Available for CSFP Payment | \$ 693,860 | \$ (3,601,645) | \$ (2,702,477) | \$ 2,696,172 | \$ 2,879,181 | \$ 2,408,467 | \$ 1,888,330 | \$ 2,515,625 |
| Debt Service Coverage by Net Revenues | N/A | N/A | N/A | N/A | N/A | N/A | 734.3% | 978.2% |
| Contributions | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A | N/A | N/A | N/A | N/A | N/A | 734.3% | 978.2% |
| CSFP Lease Payment / Revenues | N/A | N/A | N/A | N/A | N/A | N/A | 0.2% | 0.2% |
| Contributions / Revenues | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Net Revenues After CSFP Payment / Revenues | 0.5% | -2.8% | -2.0% | 2.0% | 2.0% | 1.6% | 1.1% | 1.4% |
| Revenues / ADA | \$ 8,316 | \$ 8,029 | \$ 8,484 | \$ 8,821 | \$ 9,068 | \$ 9,377 | \$ 9,729 | \$ 10,140 |
| Expenses / ADA | \$ 8,292 | \$ 8,268 | \$ 8,673 | \$ 8,666 | \$ 8,901 | \$ 9,240 | \$ 9,642 | \$ 10,013 |
| Surplus (Deficit) / ADA | \$ 24 | \$ (240) | \$ (188) | \$ 155 | \$ 167 | \$ 137 | \$ 87 | \$ 127 |
| Net Working Capital | \$ 14,523,550 | \$ 10,730,601 | | | | | | |
| Net Working Capital / Expenses | 11.1% | 8.2% | | | | | | |

Performance/Change in Net Assets: The District’s financial projections are based upon the following assumptions: (1) static enrollment growth as described above (under “Enrollment and Retention Rates”); (2) 2014-15 funding rates under the Local Control Funding Formula (LCFF) (3) LCFF gap funding of 28.05%, 17.0%, 20.0%, 25.0% in 2014-15 through 2017-18, respectively. (4) projected ADA rates of 95%, which is consistent with the District’s historical

performance; (5) cost of living adjustment (COLA) on and other State charter school entitlements of 0.86% in 2014-15 and 2.0% thereafter; (6) COLA to certified salaries of 1.3% for each of the projected years; and (7) COLA to all other expenses of an average of 2.5% for all projected years excluding utilities COLA of 5.0%.

The District recorded changes (decreases) in its audited general fund balances for the last three years of (\$3,510,579); \$381,791; and (\$3,792,949) for 2010-11 through 2012-13, respectively. In addition, the District projected net revenues for 2013-14 of (\$2,702,477); However, beginning in 2014-15, the District is projecting net changes each year through 2016-17 of \$2,696,172 \$2,879,181, and \$2,408,467.

Debt Service Coverage: Staff's financial analysis of the District's projections indicates that it will be able to afford the 50 percent local matching share through lease repayments. Debt service coverage ratios for CSFP are calculated using net revenues available after payment of debt service on any existing and projected indebtedness, with any expenses for capital outlay and depreciation added back as net revenues.

Assuming a 3.0% interest rate, 30-year repayment period, and total combined project costs of \$10,081,140, the annual CSFP payment would be \$257,166 beginning in 2017-18, the first year after project occupancy. The District's projected general fund net revenues available for the first two years of CSFP payments are \$1,888,330 and \$2,515,625, respectively, which would provide corresponding debt service coverage ratios of 734.3% and 978.2%, respectively.

Asset Position and Liquidity: As of June 30, 2013, the District's general fund held a total of \$14,416,127 in cash and cash equivalents; \$482,919 in accounts receivables; \$13,470,102 due from other funds; and \$45,555 in stores inventory; for a total of \$28,996,147 in current assets, offset by \$18,265,546 in current liabilities. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. The District's NWC percentage of expenses at June 30, 2013 was 8.2%, which is a drop from the NWC percentage of expense as of June 30, 2012 of 11.1%. Both of these, however, meet the targeted NWC sufficiency level of 5.0%.

Strengths, Weaknesses and Mitigants:

- + The District's financial projections indicate it will be able to afford the annual lease payments of \$257,166, as evidenced by the debt service coverage ratios of 734.3% and 978.2% projected for 2017-18 and 2018-19.
- + The District's NWC percentage of expenses at June 30, 2012 and June 30, 2013 were 11.1% and 8.2%, respectively, both of which meet the targeted NWC sufficiency level of 5.0%.
- /+ Over the past four years, SRCSA achieved API growth scores of 813, 839, 846, and 853 in 2009-10 to 2012-13, respectively. Although SRCSA has not met AYP criteria in four out the last four years, the school had statewide and similar school rankings of 7 and 4 in 2012-13.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) members determine that Santa Rosa Charter School for the Arts and Santa Rosa City Schools District, which is the obligor on behalf of the school, are financially sound for purposes of the Charter School Facilities Program Final Apportionment. This determination as it relates to 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 Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.