

MEMORANDUM

Staff Summary No. 6

Date: October 15, 2014

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution 14-26 – Approval of the Revolving Loan Fund Program Recommendation and Amount (Action Item)

Background: Pursuant to the California State Budget Act of 2013, commencing with the 2013-14 fiscal year, the administration of the Charter School Revolving Loan Fund Program (Program) (Sections 41365, 41366.5, 41366.7, and 41367 of the Education Code) was transferred from the California Department of Education (CDE) to the California School Finance Authority (Authority). The Program provides low-interest loans of up to \$250,000 to new charter schools.

In January 2014, the Board adopted emergency Program regulations. In early February 2014, CSFA notified all California charter schools of the availability of the 2013-14 Program funding round and required all applications to be submitted to the Authority by February 24, 2014 at 5:00 P.M. In total, sixty applications were received; however, 10 applications were received after the deadline. Per Authority board direction, Authority was tasked with reviewing the late applications only if funds were available after the 50 on-time applications were fully evaluated and vetted for funding.

Since February, our consultant, Sjoberg Evashenk Consulting, Inc. (SEC), and Authority staff have been assessing the 50 loan applications. Authority followed the framework established by statute and regulation in the California Education Code Section 41365(d) and Code of Regulations Section 10170.20(a) and Section 10170.20(b) (4) in conducting the following review and evaluation process.

1. **Application Package Review:** Confirmed that the submittal complied with application terms such as:
 - Met application time deadline
 - Eligible (not a conversion)
 - Submitted required documentation with signatures where applicable
 - Loan request is less than or equal to \$250,000
 - Repayment period is 5 years or less

2. **Operational Analysis:** Determined whether minimum qualifications were met such as:
 - Approved articles of incorporation
 - Signed legal status questionnaire

- School is in good standing with chartering authorizer and in compliance with charter terms
 - Has approved charter in place
 - Detailed business plan and/or charter petition
 - Board of Director listing with no apparent conflicts
 - Key staff resumes demonstrate relevant experience
 - Projected enrollment and ADA supported by student enrollment and/or waiting lists
 - Evidence of a facility use agreement
 - In compliance with other CSFA programs
3. **Financial Analysis—Part I:** Conducted fiscal evaluation based on a variety of indicators such as:
- Soundness of business plan/charter petition
 - Consistency of proposed loan proceeds with charter
 - Availability of other funding
 - Impact of loan on other financing
 - Creativity of planned use of funds
 - Demonstrated need of school
4. **Financial Analysis—Part II:** Critically analyzed financial data and ratios against benchmarks and industry practice using an internally created financial model to identify fiscal strengths and weaknesses such as:
- Reasonableness of budget assumptions
 - Alignment of revenue and expenditure projections with comparable data available from the California Department of Education, California Department of Finance, and National Charter School Resource Center
 - Calculated financial ratios within range when compared against benchmarks, where data exists
 - Focused on liquidity, solvency, financial position, sustainability, break-even, and debt service coverage
5. **Loan Recommendations:** Considered all of operational and financial information and assumptions for each loan and performed the following:
- Assigned risk levels—low, moderate, or high
 - Sort applicants by priority and region in accordance with California Code of Regulations §10170.17(l) through (o), where applicable.
 - Assess geographical distribution for reasonableness, where applicable
 - Based on the availability of funds, recommended specific loans for approval, non-approval, or modification.

In addition to conducting the steps listed above, the application reviewers took the funding preferences set forth in program guidelines into consideration when developing recommendations for which schools should receive loans. For instance, Section 41365(e) of the Education Code states that “Priority for loans from the Charter School Revolving Loan Fund shall be given to new charter schools for startup costs.” Program regulations reflect

similar preference; therefore staff determined that loans to schools opening in 2014-15 would be given priority over schools that opened in 2013-14.

As such, staff reviewed two tiers of loans: (1) the 33 schools opening in 2014-15 that were considered priority one schools; and (2) the 17 schools that have already opened in 2013-14 that were classified as priority two schools. Loan requests from priority one schools opening next year totaled \$8.1 million, while loan requests from priority two totaled approximately \$4.1 million. The total loan request was \$12.2 million. Upon completion of the August 2014 board meeting, staff had deemed 41 schools eligible that were approved by the board. Four schools withdrew their applications and four others were deemed ineligible. In August 2014, the Authority's staff finished the two remaining on-time application reviews with approximately \$500,000 left in the revolving loan fund. However, the Authority deemed only one of these applicants eligible for a loan, and one of the previously approved applicants was deemed ineligible due to not having a valid County-District-School (CDS) code. Therefore, staff conducted reviews of two of the 10 late applications, those for Valley Prep 6-8 and Valley Prep 9-12, both under the auspices of Academy of Arts and Sciences, a Charter Management Organization, in order to award two final loans to complete this funding round.

Recommendation: Staff recommends that the Board adopt Resolution No. 14-26, approving loans for Academy of Arts and Sciences on behalf of Valley Prep 6-8 and Valley Prep 9-12. Staff is charged with providing the school with notification of loan approval, distributing the loan agreement, executing the loan agreement, and carrying out all necessary steps to disburse funds to the school.

Item 6 – Approval of Revolving Loan Fund Applications

Applicant	Academy of Arts and Sciences (AAS), a Charter Management Organization, on behalf of Valley Prep 6-8 (Grades: 6-8)
CDS Code	19-75309-0130922
Charter #	1671
Opening Date	July 2014
Chartering Authority	Acton-Aqua Dulce Unified
Loan Amount	\$250,000
Loan Term	5 Years
Loan Recommendation	Staff is recommending that Valley Prep 6-8 be awarded a loan through the Charter School Revolving Loan Program (Program)
Staff Findings	<ol style="list-style-type: none"> 1. The school has 92 students enrolled for the current 2014-15 academic year, and projects 115, 132, and 152 students for 2015-16 through 2017-18, respectively, and 152 in subsequent years. 2. The school has sufficient net revenues to meet its loan payment in all years except 2015-16. However, the school is projected to have sufficient net assets during this year to cover the loan payment, with ending net assets in 2015-16 of \$133,872. 3. The school meets debt service coverage requirements in four of the five years of loan payment. 4. Financial projections show positive ending cash balance in all years. Years 2016-20 have net assets much higher than the annual principal and interest loan payment and the contingency ratio is at least 10%. 5. The school submitted a strategic plan that includes a plan to engage stakeholders, develop and implement marketing materials, and become active in community organizations. The school also submitted a separate retention and recruitment plan that focuses on the attraction of the school's unique and flexible learning model, as well as recruitment through community outreach. 6. The resume of the Chief Executive Officer of the Charter Management Organization, Sean McManus, as well as the resumes of other members of the Board of Directors demonstrate extensive experience in educational administration, including specific charter school experience. 7. The school provided a copy of a current executed lease agreement with the Boys and Girls Club of San Fernando Valley. 8. AAS has other schools that received loans through the Program in past years, and all were in compliance.

Item 6 – Approval of Revolving Loan Fund Applications

Applicant	Academy of Arts and Sciences (AAS), a Charter Management Organization, on behalf of Valley Prep 9-12 (Grades: 9-12)
CDS Code	19-75309-0130898
Charter #	1672
Opening Date	July 2014
Chartering Authority	Acton-Aqua Dulce Unified
Loan Amount	\$250,000
Loan Term	5 Years
Loan Recommendation	Staff is recommending Valley Prep 9-12 be awarded a loan through the Program
Staff Findings	<ol style="list-style-type: none"> 1. The school has 221 students enrolled for the current 2014-15 academic year, and projects 276, 318, and 365 students for 2015-16 through 2017-18, respectively, and 365 in subsequent years. These growth assumptions are reasonable and consistent with usual growth of new charter schools, and the addition of grade 12 in 2015-16. 2. The school has sufficient net revenues to meet its loan payment in all years except 2015-16. However, the school is projected to have sufficient net assets during this year to cover the loan payment, with ending net-assets in 2015-16 of \$47,374. 3. Financial projections show positive ending cash balance in all years. Years 2017-20 have net assets much higher than the annual principal and interest loan payment. 4. The school submitted a strategic plan that includes a plan to engage stakeholders, develop and implement marketing materials, and become active in community organizations. The school also submitted a separate retention and recruitment plan that focuses on the attraction of the school's unique and flexible learning model, as well as recruitment through community outreach and public media. 5. The resume of the Chief Executive Officer of the Charter Management Organization, Sean McManus, as well as the resumes of other members of the Board of Directors demonstrate extensive experience in educational administration, including specific charter school experience. 6. The school provided a copy of a current executed lease agreement with Briarwood Investment Group, LLC and Sylvan Inn, LLC. 7. AAS has other schools that received loans through the Program in past years, and all were in compliance.