

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT –NOVEMBER 2014**

Applicant/Obligor:	El Sol Science and Arts Academy of Santa Ana
Project School:	El Sol Science and Arts Academy of Santa Ana
CDS (County – District – School) Code:	30-66670-6119127
Proposed Location:	1010 N. Broadway, Santa Ana, CA 92701
Type of Project:	New Construction
County:	Orange
District in which Project is Located:	Santa Ana Unified School District
Charter Authorizer:	Santa Ana Unified School District
Total OPSC Project Cost:	\$25,600,166
State Apportionment (50% Project Cost):	\$12,800,083
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$12,800,083
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$653,051
First Year of Occupancy of New Project:	2016-2017

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that El Sol Science and Arts Academy of Santa Ana (El Sol) is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary Apportionment and/or Advance Apportionment, but not Final Apportionment. This determination as it relates to Preliminary Apportionment and/or Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon El Sol 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. 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: Below staff has highlighted key criteria that were evaluated when conducting the financial soundness review of El Sol. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	El Sol meets all eligibility criteria, including having been in operations for more than two years, having a charter in place through 2016, and being in good standing with its chartering authority and in compliance with the terms of its charter

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Demographic Information	El Sol began operations in 2001 with 115 students in grades K-1, and has grown to 880 students in grades K-8 for 2014-15. El Sol has shown consistent enrollment growth over the past six years, growing on average 14% per year. El Sol achieved average daily attendance rates of 98% for each of these years, which supports the assumption of 97% in the multi-year budget projections.
Debt Service Coverage	El Sol projects debt service coverage of 135.5% and 133.6% for 2017-18 and 2018-19, respectively, the first two years of CSFP payments. El Sol does not rely on contributions to meet the Program’s debt service coverage requirement.
Other Financial Factors	El Sol’s networking capital as of June 30, 2013 was \$2.46 million or 41.2% of total expenses, and El Sol’s net working capital as of June 30, 2014 was \$2.30 million or 29.6% of expenses, both of which are well above the 5% threshold to be considered sufficient.
Student Performance	El Sol met all AYP criteria during all four years reported. Moreover, El Sol achieved API growth scores of 868, 880, 872, and 881 for 2009-10 through 2012-13, respectively, and met both schoolwide and “all student groups” growth targets in each of these years. Based on its API base scores, El Sol achieved statewide and similar schools rankings of “8” or “10” (“10” = best), respectively, for each of the past four years.

Program Eligibility: On October 27, 2014, the Authority received verification from the Santa Ana Unified School District (District) confirming that El Sol is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. El Sol’s current charter is effective through June 2016.

Legal Status Questionnaire: Staff reviewed El Sol’s responses to the questions contained in the Legal Status Questionnaire (LSQ). El Sol answered “None” to all LSQ questions (signed by Lead Administrator and Governing Board Chair on April 2, 2014), indicating there were 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: El Sol is requesting funding for new construction of a two or more story facility, representing Phase II of a multi-phase project in which Phase I, the addition of 12 classrooms to replace portables, was financed by New Market Tax Credits and completed in December 2013, and Phase IA, the addition of a community health center, was financed by private donations. The CSFP project includes 24 additional classrooms, bathrooms, administrative offices, and a multi-purpose room. The anticipated first year of occupancy of the CSFP project is 2016-17, and the anticipated overall student capacity upon project completion is 880 students.

Organizational Information: El Sol began operations in 2001 with 115 students in grades K-1 and received its status as a 501(c)(3) non-profit organization in 2002. El Sol has since grown to approximately 870 students in grades K-8. El Sol is located in Orange County within the Santa Ana Unified School District, and is comprised of a predominantly Latino population (94%) and high level of English Language Learners (64%) and students eligible for free and reduced-price meals (FRPM) (73%).

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According to its charter, El Sol’s vision is to promote college preparatory academic instruction with a heavy focus on reading and language arts via intensive support, and to promote a curriculum that stimulates creative thinking and problem solving, encourages new ways of interpreting one’s surroundings, and kindles opportunities to express one’s ideas and feelings in non-traditional formats. El Sol’s “90/10 model” is based on a stepwise increase in exposure to English in the classroom, starting with 90% of the curriculum in Spanish and 10% of the curriculum in English in kindergarten, and increasing the exposure to English by 10% each grade, culminating with 50% of the curriculum in English and 50% in Spanish in grades 4-8. This model supports gradual absorption of English in the classroom among a predominantly Spanish-speaking population.

Educational Management Organization: Not applicable, as El Sol is not under an Educational Management Organization.

Management Experience: The description of experience of El Sol’s personnel and management team demonstrates that professional, experienced and qualified individuals are serving in key capacities within the organization, as described below.

Monique Daviss has been Executive Director of El Sol since 2005 where she has been responsible for developing long range plans, coordinating facilities construction, managing budgets, overseeing compliance with State and federal requirements, developing partnerships in support of collaborative efforts, and managing certificated and classified staff. Prior to this position, Ms. Daviss served as an independent consultant on affordable housing (2003-05), Executive Director of National Homes Trust, Inc. (2000-03), Assistant Director for Resident Relations at the Housing Authority of the City of Los Angeles (1992-2000), and elementary school teacher within Lynwood Unified School District (1991-92). Ms. Daviss holds a B.A. in Sociology from U.C.L.A.

Tristan Gude-Hernandez has served as Director of Operations in since 2004. Prior to this position, Ms. Gude-Hernandez was a computer programmer in Cuba (1994-2001). Ms. Gude-Hernandez holds a Bachelor in Science in Education from Instituto Superior Pedagógico "José Martí" de Camagüey in Cuba.

Board Experience: The following table sets forth the composition of El Sol’s Board of Directors.

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Name	Occupation	Title	County of Residence	Term
Michael Madrid	President, Chapman College	Board President	Orange	2013-2015
Michael Jones	Judge Advocate/Attorney at Law, U.S. Army National Guard	Board Secretary	Orange	2013-14
Diane Shank	Administrator, Sage Hill Academy	Member	Orange	2013-15
Kristy Olendorff	Chief Commercial	Member	Orange	2013-15

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	Credit Officer			
Alma Alvarez	Assistant Vice President, Compliance, CapitalSource	Board Treasurer	Orange	2013-15
Christina Romero	Executive Director, Advancement & Foundation, Santa Ana College	Member	Orange	2013-15

Based on El Sol's charter, the primary roles and responsibilities of the Board include:

- establishing and approving all major educational and operational policies;
- approving all major contracts;
- approving the school's annual budget and overseeing the school's fiscal affairs; and
- selecting and evaluating the top administrative staff.

Management Experience for Schools Open Less than Two Years: Not applicable. El Sol began instructional operations in 2001-02 and exceeds the minimum instructional requirements of two years.

Student Performance: Pursuant to SB X51 (2010), a designated California State Commission was given the authority to review the Common Core State Standards (Standards), as promulgated by the U.S. Department of Education, and make recommendations to the California Board of Education (Board). This resulted in the Board's adoption of the Standards for purposes of statewide accountability on academic performance. Although this adoption does not directly require all local educational agencies (LEAs) to adopt the standards, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through LCFF, school districts must submit "Local Control and Accountability Plans" (LCAPs) to their respective county offices of education that address State and local educational priorities, and, pursuant to Education Code, Section 52060(d)(2), these priorities must include Common Core State Standards.

Assessments based on the Standards are derived from the "Smarter Balanced Assessment System," a test that has been field tested during 2014 and is planned for initial implementation in spring 2015 for purposes of establishing a baseline for comparing academic performance between schools, and subsequent improvement. As such, the Standards do not currently provide metrics for comparing academic performance between schools.

It is noteworthy that since 2013, CDE's Accountability Progress Reporting has significantly changed in that Growth Academic Performance Index (API) and Base API reporting has been temporarily suspended and rankings are no longer being reported upon, and Adequate Yearly Progress (AYP) reporting pursuant the No Child Left Behind Act of 2001 has been limited to public high schools receiving Title 1 funding when they meet specific enrollment criteria.

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. However, due

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the recent changes to Common Core State Standards, student performance information for purposes of determination financial soundness is limited to API up until 2013 and AYP up to 2013 with the exception of specific high schools receiving Title 1 funding.

The following table summarizes El Sol’s student performance through 2012-13.

El Sol Santa Ana Science and Arts Academy	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	Yes	No	No
Criteria Met / Required Criteria	17 / 17	17 / 17	13 / 17	13 / 17
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	8	8	8	8
API Base Similar Schools Rank (10 = best)	10	10	10	10
School's Actual Growth	25	13	-7	9
Similar Schools Median of Actual Growth	2	11	6	N/A
Did School's Growth Exceed Median?	Yes	Yes	No	N/A

El Sol met all AYP criteria during all four years reported. Moreover, El Sol achieved API growth scores of 868, 880, 872, and 881 for 2009-10 through 2012-13, respectively, and met both schoolwide and “all student groups” growth targets in each of these years.¹ Based on its API base scores, El Sol achieved statewide and similar schools rankings of “8” or “10” (“10” = best), respectively, for each of the past four years. Staff’s overall review of El Sol’s academic performance finds that El Sol has demonstrated exceptional performance, which clearly supports a recommendation of financial soundness for Preliminary Apportionment.

Enrollment and Retention Rates: Over the past six years, El Sol has demonstrated consistent enrollment growth, growing from 472 students in 2008-09 to 533 students in 2009-10, 610 students in 2010-11, 703 students in 2011-12, 755 students in 2012-13, 800 students in 2013-14, and approximately 880 students for the current 2014-15 year. This represents an average annual growth of about 14%. El Sol is projecting growth to 890 students in 2015-16 and 900 students in all subsequent years. El Sol has achieved year-to-year retention rates of between 92% and 95% and has a current wait list of at least 400 students. Based on the 2012-13 audit report and 2013-14 P-2 Report, El Sol achieved average daily attendance rates of 98% for each of these years, which supports the assumption of 97% in the multi-year budget projections. Overall, El Sol’s performance relative to enrollment growth supports a recommendation for financial soundness.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the El Sol’s ability to meet its CSFP obligations. The table below summarizes key aspects of the school’s past and projected financial performance based on the financial

¹ API Growth Scores over 800 are considered to represent superior performance. According to API guidelines, schools for which both base and growth scores are over 800 are considered to have met their growth targets.

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model used in the evaluation. Among other things, the financial model sets forth El Sol's financial projections along with adjustments, where applicable, based on El Sol's financial documents.

Staff's financial analysis of El Sol and development of the financial model is based upon review and consideration of the following documents: (1) audited financial statements for 2010-11, 2011-12, and 2012-13; (2) unaudited actuals for 2013-14; (3) adopted budget for 2014-15; and (4) multi-year budget projections for 2014-15 through 2018-19, along with assumptions, including projected enrollment.

El Sol's financial projections are based upon the following assumptions: (1) project occupancy in 2016-17; (2) projected enrollment as described above (under "Enrollment and Retention Rates"); (3) average Local Control Funding Formula ("LCFF") per ADA target rates of \$9,254, \$9,339, \$9,513, \$9,701, \$9,894, and \$10,093 for 2013-14 through 2018-19, respectively based on there being 75% unduplicated students between the categories of English-language Learners and students eligible for free and reduced-price meals; (4) projected ADA rates of 97%, which is consistent with El Sol's historical performance; (5) cost of living adjustment (COLA) on LCFF per ADA funding rate of 2.0% for each of the projected years; and (6) COLA to certificated/classified compensation of 3.0% for each of the projected years; and (7) private contributions totaling \$162,500 per year.

Staff notes that it considers El Sol's assumptions to be reasonable in light of El Sol's consistent enrollment growth, historical average daily attendance, and El Sol's LCFF rate structure as it compares to the target rates promulgated by the California Department of Education based on percent of unduplicated students among English-Language Learners and students eligible for FRPM. Staff also notes that El Sol's assumption regarding private contributions is supported by documentation of prior contributions for 2010-11 through 2012-13.

El Sol Santa Ana Science and Arts Academy	Actual FY 2011/12	Actual FY 2012/13	Actual FY 2013/14	Budget FY 2014/15	Projected FY 2015/16	Projected FY 2016/17	Projected FY 2017/18	Projected FY 2018/19
ENROLLMENT PROJECTIONS								
Enrollment	703	755	800	885	890	900	900	900
Average Daily Attendance	684	738	783	858	863	873	873	873
Average Daily Attendance (%)	97%	98%	98%	97%	97%	97%	97%	97%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 5,488,122	\$ 6,466,314	\$ 7,711,065	\$ 8,039,180	\$ 8,417,027	\$ 8,898,791	\$ 9,246,050	\$ 9,547,521
Total Expenses Paid Before CSFP Payment	5,182,725	5,982,682	7,771,491	7,843,598	8,068,966	8,074,639	8,361,428	8,675,294
Accounting Adjustments	147,278	154,345	59,413	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 452,675	\$ 637,977	\$ (1,013)	\$ 195,581	\$ 348,061	\$ 824,152	\$ 884,622	\$ 872,227
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 653,051	\$ 653,051
Net Revenues After CSFP Payment	\$ 452,675	\$ 637,977	\$ (1,013)	\$ 195,581	\$ 348,061	\$ 824,152	\$ 231,571	\$ 219,176
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ 452,675	\$ 637,977	\$ (1,013)	\$ 195,581	\$ 348,061	\$ 824,152	\$ 884,622	\$ 872,227
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	135.5%	133.6%
Contributions	\$ -	\$ -	\$ -	\$ 162,500	\$ 162,500	\$ 162,500	\$ 162,500	\$ 162,500
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	110.6%	108.7%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	7.1%	6.8%
Contributions / Revenues	N/A	N/A	N/A	2.0%	1.9%	1.8%	1.8%	1.7%
Net Revenues After CSFP Payment / Revenues	8.2%	9.9%	0.0%	2.4%	4.1%	9.3%	2.5%	2.3%
Revenues / ADA	\$ 8,024	\$ 8,762	\$ 9,848	\$ 9,365	\$ 9,750	\$ 10,193	\$ 10,591	\$ 10,936
Expenses / ADA	\$ 7,577	\$ 8,107	\$ 9,925	\$ 9,137	\$ 9,347	\$ 9,249	\$ 10,326	\$ 10,685
Surplus (Deficit) / ADA	\$ 446	\$ 655	\$ (77)	\$ 228	\$ 403	\$ 944	\$ 265	\$ 251
Net Working Capital	\$ 1,964,740	\$ 2,458,549	\$ 2,302,400					
Net Working Capital / Expenses	37.9%	41.1%	29.6%					

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Long-term Obligations: As of June 30, 2014, El Sol's only outstanding long term debt is through a loan with NCB Capital Impact. The amount owing on the loan, as of June 30, 2014, was \$169,192, and payment on the loan is to be completed by 2023.

Financial Performance: For 2010-11, El Sol produced net revenues of \$222,615 on \$5.25 million in revenues and \$5.03 million in expenses. In 2011-12 and 2012-13, El Sol produced net revenues of \$305,397 and \$483,632, respectively, with increases in revenues and expenses during each of these years. During 2013-14, El Sol experienced a net loss of \$60,426, in part due to it having to make loan payments totaling \$154,631. For the current 2014-15 budget year, El Sol is projecting net revenues of \$195,581. With the assumptions for projections described above, El Sol anticipates net revenues of \$348,061, \$824,152, \$884,622, and \$872,227 for 2015-16 and 2018-19, respectively, with sizable ending net assets of between \$3.2 million and \$5.8 million. It is noteworthy that, given the relatively even enrollment over the projected years, the primary factor impacting the increase in net revenues from 2014-15 to 2018-19 is the increase in LCFF due to gap funding for the 75% unduplicated students, increasing from \$3,684,402 in 2014-15 to \$4,835,912 in 2018-19.

Projected Debt Service Coverage of CSFP Payments: Assuming a 3.0% interest rate and 30-year repayment period, as well as an estimated project cost of \$25,679,710, El Sol's annual CSFP payment will be \$653,051 beginning 2017-18, the first year following project occupancy. El Sol's projected net revenues of \$884,622 for 2017-18 and \$872,227 for 2018-19 would provide debt service coverage levels of 135.5% and 133.6%, respectively, which are substantially above the minimum requirement of 100.0%. The CSFP payments would represent 7.1% and 6.8% of projected revenues for each of these years, which is well within the preferred maximum range of 10-15%. While El Sol includes private contributions in its projected revenues, such contributions represent less than 2% of revenues in all projected years. El Sol does not rely on private contributions to meet the 100.0% debt service coverage requirement. Based on the fact that El Sol's enrollment projections are extremely conservative, staff determined that it was not necessary to stress-test the financial model based on enrollment.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. El Sol's NWC as of June 30, 2013 was \$2.46 million, 41.1% of total expenses. El Sol's NWC as of June 30, 2014 was \$2.30 million, 29.6% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. On June 30, 2014, El Sol reported holding approximately \$990,000 in cash.

Based on staff's review of the submitted financial information along with assumptions, staff finds that the financial analysis is supportive of a recommendation for financial soundness.

Strengths, Weaknesses and Mitigants:

- + El Sol projects debt service coverage of 135.5% and 133.6% for 2017-18 and 2018-19, respectively, the first two years of CSFP payments. El Sol does not rely on contributions to meet the Program's debt service coverage requirement.

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- + El Sol's NWC as of June 30, 2013 was \$2.46 million or 41.2% of total expenses, and El Sol's NWC as of June 30, 2014 was \$2.30 million or 29.6% of expenses, both of which are well above the 5% threshold to be considered sufficient. On June 30, 2014, VCBLA reported holding \$990,000 million in cash.
- + Over the past six years, El Sol has demonstrated consistent enrollment growth, growing from 472 students in 2008-09 to 533 students in 2009-10, 610 students in 2010-11, 703 students in 2011-12, 755 students in 2012-13, 800 students in 2013-14, and approximately 880 students for the current 2014-15 year. This represents an average annual growth of about 14%.
- + El Sol met all AYP criteria during all four years reported. Moreover, El Sol achieved API growth scores of 868, 880, 872, and 881 for 2009-10 through 2012-13, respectively, and met both schoolwide and "all student groups" growth targets in each of these years.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that El Sol Science and Arts Academy of Santa Ana (El Sol) is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary Apportionment and/or Advance Apportionment, but not Final Apportionment. This determination as it relates to Preliminary Apportionment and/or Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon El Sol 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. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.