

**CHARTER SCHOOL FACILITIES PROGRAM
STAFF SUMMARY REPORT –APRIL 2015**

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|--|---------------------------------------|
| Applicant/Obligor: | Nord Country School |
| Project School: | Nord Country School |
| CDS (County – District – School) Code: | 04-61424-0110551 |
| School Address/Proposed Site: | 5554 California St., Chico, CA, 95973 |
| Type of Project: | New Construction/Rehabilitation |
| County: | Butte |
| District in which Project is Located: | Chico Unified School District |
| Charter Authorizer: | Chico Unified School District |
| | NC: \$2,726,940 |
| | <u>Rehab: \$1,772,532</u> |
| Total OPSC Project Cost: | Total: \$4,499,472 |
| | NC: \$1,363,470 |
| | <u>Rehab: \$886,266</u> |
| State Apportionment (50% Project Cost): | Total: \$2,249,736 |
| Lump Sum Contribution: | N/A |
| | NC: \$1,363,470 |
| | <u>Rehab: \$886,266</u> |
| Total CSFP Financed Amount: | Total: \$2,249,736 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 3.00% |
| | NC: \$69,563 |
| | <u>Rehab: \$45,217</u> |
| Estimated Annual CSFP Payment: | Total: \$114,780 |
| First Year of Occupancy of New Project: | 2017-18 |

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Nord Country School (Nord) 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 Nord 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 Nord. Detailed information is contained in the body of the report.

| Criteria | Comments |
|--------------------------------|--|
| Eligibility Criteria | Nord meets all eligibility criteria, including having been in operations for more than two years, having a charter in place through 2016-17, and being in good standing with its chartering authority and in compliance with the terms of its charter |
| Demographic Information | <ol style="list-style-type: none"> 1. Nord began operations in 2005-06 with 71 students in grades K-6, and has grown to 140 students in grades K-6 for 2014-15 with relatively level enrollment over the past four years. 2. Nord's year-to-year retention rates for 2013-14 and 2014-15 were 94% and 92%, respectively, and Nord has 25 students on its current wait list. 3. Nord projects student enrollment growth to 186 by 2017-18, the first full year of project occupancy. 4. Nord's average daily attendance for 2013-14 was 95%, which is consistent with the multi-year projections. |
| Debt Service Coverage | Nord projects debt service coverage of 104.4% and 105.8% for 2018-19 and 2019-20, respectively, the first two years of CSFP payments. Nord does rely on contributions to meet the Program's debt service coverage requirement. |
| Other Financial Factors | Nord's networking capital as of June 30, 2014 was \$870,199 or 77.9% of total expenses, and Nord's net working capital as of June 30, 2013 was \$763,540 million or 73.5% of expenses, both of which are well above the 5% threshold to be considered sufficient. |
| Student Performance | <ol style="list-style-type: none"> 1. Nord met all AYP criteria in two of the most recent four years reported, 2009-10 and 2012-13. 2. Nord met its API schoolwide growth target in two of the most recent four years reported, 2009-10 and 2012-13, with an API growth score in 2012-13 of 818. |

Program Eligibility: On February 2, 2015, the Authority received verification from the Chico Unified School District (District) confirming that Nord is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. Nord's current charter is effective through June 2017.

Legal Status Questionnaire: Staff reviewed Nord's responses to the questions contained in the Legal Status Questionnaire (LSQ). Nord answered "None" to all LSQ questions (signed by Lead Administrator and Governing Board Chair on March 11, 2015), 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: Nord is requesting funding for new construction and rehabilitation. The new construction project consists of the addition of two portable classrooms to house approximately 45 students at the southeast corner of the current school site at 5554 California Street in Chico, California. The anticipated occupancy date for these classrooms is in 2016-17. The rehabilitation portion consists of the rehabilitation of the following within an existing facility at the current school site: three (3) classrooms (housing 70 students), a multipurpose room, bathrooms and office space. The intended opening date of the rehabilitation project is August 15, 2017. Across both projects, the first full year of project occupancy is 2017-18.

Organizational Information: Nord began operations in 2005 with 71 students in grades K-6 and received its status as a 501(c)(3) non-profit organization in 2006. Nord has since grown to approximately 140 students in grades K-6 for the current 2014-15 year. Nord is located in Butte County within Chico Unified School District, serving a population that is approximately 50% Hispanic and approximately 65% socioeconomically disadvantaged.

According to the charter, Nord's mission is to educate students in a small school environment where they are in close association with caring teachers, staff, parents and community members. In addition, the mission provides that students will receive a quality academic foundation based on core curriculum standards that promote self-motivation, being a life-long learner, and tolerance for differences among people, as well as acquisition of technological skills and global awareness necessary to succeed in a changing world.

According to the materials submitted with the application, Nord's educational curriculum is focused on developing well-rounded students. Teachers at Nord use whole literature teaching methods, thematic units, and real-life experiences and outside-the-classroom activities. In addition, the school provides for formal instructions in art, music, Spanish, and physical education for every student as well as an emphasis on technology, including computer applications.

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

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

Kathy Dahlgren has served as Principal at Nord since 2009. Prior to this position, Ms. Dahlgren served as a Teacher-in-Charge at Nord (2005-09) in which she took over discipline duties when the Principal was not available, and second-grade teacher at Nord (1999-2009). Ms. Dahlgren holds a B.A. in Child Development from California State University, Chico, and a California Multiple Subject Credential.

Lisa Speegle has served as Chief Business Officer since 2012. Prior to this position Ms. Speegle served as Chief Business Officer at Forest Ranch Charter School (2009-12), as well as holding operations and financial positions at a bank and other private corporations. Ms. Speegle holds a B.A. in Business Administration from California State University, Chico.

Board Experience: The Board of Directors is composed of representatives from the school community and the community at-large, including parents, professionals, and community leaders. The following table sets forth the members of Nord's Board of Directors.

Nord Country School Board of Directors

| Name | Occupation | Title | County of Residence | Term |
|------------------|--------------------|--|----------------------------|-------------|
| Ron Roney | | Community Representative, Treasurer | Chico | 2014-18 |
| Kelli Ruley | Teacher | Teacher Representative, Vice President | Chico | 2012-16 |
| Richard Aguilera | | Community Representative, President | Chico | 2011-15 |
| Tom Williams | General Contractor | Parent Representative | Chico | 2012-17 |
| Lexie Aceves | | Community Representative, Co-Secretary | Chico | 2014-18 |
| Kristy Daily | | Parent Representative | Chico | 2012-16 |
| Janet Ellner | Retired Teacher | Community Representative, Co-Secretary | Chico | 2012-17 |

Based on Nord’s charter, the primary roles and responsibilities of the Board include establishing and approving all major educational and operation policies, approving all major contracts, approving the school’s annual budget, overseeing the school’s fiscal affairs, selecting and evaluating the top administrative staff, and overseeing fundraising activities.

Management Experience for Schools Open Less than Two Years: Not applicable. Nord began instructional operations in 2005-06 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 to adopt the standards, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through their Local Control Funding Formulas (LCFFs), 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 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.

As a result of the transition to Common Core Standards, CDE’s Accountability Progress Reporting has significantly changed in that, since 2012-13, Growth Academic Performance Index (API) and Base API reporting has been temporarily suspended, API rankings are no longer being reported, 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.

Although staff recognizes the limitation in the lack of current available academic performance reports, because of the implications for student enrollment stability and growth, staff is nevertheless considering academic performance as an indicator for financial soundness with this limitation in mind.

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), has reflected increases each year up to 2012-13 when the percent-proficient requirement in both mathematics and English-language arts reached approximately 89%.^[1] Therefore, with each successive year, charter schools have been increasingly challenged in meeting all AYP criteria. This requirement applies to both school wide performance and performance of each numerically significant subgroup within any school.

Nord has more than four years of reported API scores and AYP results, allowing a review of progress and comparison to similar schools. The following table summarizes Nord’s student performance for 2009-10 through 2012-13, the four most recent years for which CDE has reported API and AYP results.

| Nord Country School | FY 2009-10 | FY 2010-11 | FY 2011-12 | FY 2012-13 |
|---|------------|------------|------------|------------|
| ADEQUATE YEARLY PROGRESS (AYP) | | | | |
| Met All AYP Criteria? | Yes | No | No | Yes |
| Criteria Met / Required Criteria | 5 / 5 | 3 / 5 | 7 / 13 | 9 / 9 |
| 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 | No | No | Yes |
| Met Comparable Improvement Growth Target? | Yes | Yes | Yes | Yes |
| Met Both Schoolwide & CI Growth Targets? | Yes | No | No | Yes |
| API Base Statewide Rank (10 = best) | 2 | 4 | 3 | 3 |
| API Base Similar Schools Rank (10 = best) | N/A | N/A | N/A | 1 |
| School’s Actual Growth | 58 | -13 | -8 | 61 |
| Similar Schools Median of Actual Growth | N/A | N/A | N/A | N/A |
| Did School’s Growth Exceed Median? | N/A | N/A | N/A | N/A |

*Although not in the table, Nord’s API Base Statewide Rank for FY 2013-14, as reported by CDE, was “6”.

Nord met all AYP criteria in two of the most recent four years reported, 2009-10 and 2012-13. Meeting the AYP criteria in the latter year is significant, given that it required that

^[1] Information regarding AYP requirements are derived from the California Department of Education’s “2013 Adequate Yearly Progress Report Information Guide.”

approximately 89% of the students tested as proficient in math and English-language arts. Nord met its API growth target (schoolwide) in two of the of the most recent four years reported, 2009-10 and 2012-13, even though Nord met the growth target for all years in at least one designated subgroup among its students (referred to as “Comparable Improvement” in the above table). Nord’s API growth scores for 2009-10 through 2012-13 were 781, 768, 758, and 818, respectively. Based on its API base scores for the most recent years reported, Nord’s Statewide rankings were “4” or greater (“10” = best) in two of the past five years reported, 2010-11 and 2013-14.

Staff acknowledges Nord’s demonstrated success in the most recent years reported, 2012-13 (meeting AYP criteria and API growth target) and 2013-14 (achieving a Statewide ranking of “6”). Staff notes that, due to the limitation in the relatively low number of students included in the testing (between 83 and 103) along with the limitation due to the transition to Common Core Standards, a thorough evaluation of Nord’s academic performance is not possible. Given these considerations, staff does not consider the shortfalls in Nord’s performance, as reflected in the above table, to be an impediment towards a recommendation for financial soundness. At the same time, staff recommends that, at the time of the financial soundness reviews for Advance or Final Apportionment, the academic performance be re-evaluated for improvement, especially to the extent that the Common Core Standards have been incorporated into the metrics.

Enrollment and Retention Rates: Although Nord’s enrollment grew approximately 30% from 2008-09 (111 students) to 2010-11 (142 students), over the past four years, from 2010-11 to 2011-15, Nord’s enrollment has remained relative level, with student enrollment of 135 students in 2012-13, 149 students in 2013-14, and 140 students for the current 2014-15 year. Nord is projecting growth to 161 students in 2015-16, 181 students in 2016-17, 186 students in 2017-18, 190 students in 2018-19, and 190 students in 2019-20.

Nord’s year-to-year retention rates for 2013-14 and 2014-15 were 94% and 92%, respectively, and Nord has 25 students on its current wait list. In addition, based on the P-2 report, Nord’s average daily attendance for 2013-14 was 95%, which is consistent with the assumptions in the multi-year budget projections.

Based on Nord’s relatively stable student enrollment, along with the 30 students in the wait list, staff considers Nord’s enrollment projections to be slightly aggressive. Staff considers Nord’s stable enrollment and good retention and ADA rates as supportive of a recommendation for financial soundness.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the Nord’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 model used in the evaluation. Among other things, the financial model sets forth Nord’s financial projections along with adjustments, where applicable, based on Nord’s financial documents.

Staff’s financial analysis of Nord is based upon review and consideration of the following documents: (1) audited financial statements for 2011-12, 2012-13, 2013-14; (2) budgeted amounts for 2014-15; and (3) multi-year budget projections for 2015-16 through 2019-20, along with assumptions, including projected enrollment.

Nord’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) 2014-15 LCFF per ADA of \$7,259 (4) Per ADA LCFF funding rates of \$7,595, \$7,663, \$7,783, \$7,783, and \$7,902 for 2015-16 through 2019-20, respectively; (4) projected ADA rates of 95%, which is reasonable in light of historical Nord ADA rates; (5) cost of living adjustment (COLA) on LCFF per ADA funding rate of 1.5% for each of the projected years; and (6) COLA to certificated compensation of 10% in 2015-16 and 2016-17 with 3.0% thereafter; and (7) private contributions totaling \$40,000 per year.

Staff notes that it considers Nord’s assumptions to be reasonable. Staff also notes that Nord’s assumption regarding private contributions is supported by prior year contribution levels from 2011-12 through 2013-14.

| Nord Country School | 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 | Projected FY 2019/20 |
|---|----------------------|----------------------|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| ENROLLMENT PROJECTIONS | | | | | | | | |
| Enrollment | 135 | 149 | 140 | 161 | 181 | 186 | 190 | 190 |
| Average Daily Attendance | 132 | 141 | 136 | 153 | 172 | 177 | 181 | 181 |
| Average Daily Attendance (%) | 98% | 95% | 97% | 95% | 95% | 95% | 95% | 95% |
| FINANCIAL PROJECTIONS | | | | | | | | |
| Total Revenues Available for CSFP Payment | \$ 1,126,075 | \$ 1,248,323 | \$ 1,210,073 | \$ 1,399,053 | \$ 1,558,605 | \$ 1,617,050 | \$ 1,668,951 | \$ 1,701,510 |
| Total Expenses Paid Before CSFP Payment | 1,038,175 | 1,117,490 | 1,192,635 | 1,376,478 | 1,492,058 | 1,534,627 | 1,574,814 | 1,605,796 |
| Accounting Adjustments | - | 25,708 | 25,708 | 25,708 | 25,708 | 25,708 | 25,708 | 25,708 |
| Net Revenues Available for CSFP Payment | \$ 87,900 | \$ 156,541 | \$ 43,146 | \$ 48,283 | \$ 92,255 | \$ 108,131 | \$ 119,845 | \$ 121,422 |
| CSFP Payment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 114,780 | \$ 114,780 |
| Net Revenues After CSFP Payment | \$ 87,900 | \$ 156,541 | \$ 43,146 | \$ 48,283 | \$ 92,255 | \$ 108,131 | \$ 5,065 | \$ 6,642 |
| FINANCIAL INDICATORS | | | | | | | | |
| Net Revenues Available for CSFP Payment | \$ 87,900 | \$ 156,541 | \$ 43,146 | \$ 48,283 | \$ 92,255 | \$ 108,131 | \$ 119,845 | \$ 121,422 |
| Debt Service Coverage by Net Revenues | N/A | N/A | N/A | N/A | N/A | N/A | 104.4% | 105.8% |
| Contributions | \$ 53,950 | \$ 66,261 | \$ 40,000 | \$ 40,000 | \$ 40,000 | \$ 40,000 | \$ 40,000 | \$ 40,000 |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A | N/A | N/A | N/A | N/A | N/A | 69.6% | 70.9% |
| CSFP Lease Payment / Revenues | N/A | N/A | N/A | N/A | N/A | N/A | 6.9% | 6.7% |
| Contributions / Revenues | 4.8% | 5.3% | 3.3% | 2.9% | 2.6% | 2.5% | 2.4% | 2.4% |
| Net Revenues After CSFP Payment / Revenues | 7.8% | 12.5% | 3.6% | 3.5% | 5.9% | 6.7% | 0.3% | 0.4% |
| Revenues / ADA | \$ 8,531 | \$ 8,853 | \$ 8,898 | \$ 9,147 | \$ 9,064 | \$ 9,151 | \$ 9,246 | \$ 9,427 |
| Expenses / ADA | \$ 7,865 | \$ 7,925 | \$ 8,769 | \$ 9,000 | \$ 8,677 | \$ 8,685 | \$ 9,361 | \$ 9,532 |
| Surplus (Deficit) / ADA | \$ 666 | \$ 928 | \$ 128 | \$ 148 | \$ 387 | \$ 466 | \$ (114) | \$ (106) |
| Net Working Capital | \$ 763,540 | \$ 870,199 | | | | | | |
| Net Working Capital / Expenses | 73.5% | 77.9% | | | | | | |

Long-term Obligations: As of June 30, 2014, Nord has no outstanding long term debt. Nord has an available bank line of credit in the amount \$100,000 but currently has no outstanding balance.

Financial Performance: For 2012-13, Nord produced net revenues of \$87,900 based on \$1.13 million in revenues and \$1.04 million in expenses. In 2013-14, Nord produced net revenues of \$156,541 with increases to revenues and expenses in comparison to the prior year. Nord generated revenues and expenses of \$1.25 million and \$1.12 million, respectively. For the current 2014-15 budget year, Nord is projecting net revenues of \$43,146. With the assumptions for projections described above, Nord anticipates net revenues of \$48,283, \$92,255, and \$108,131 for 2015-16 through 2017-18. In 2018-19 and 2019-20, Nord projects net revenues after payment of the CSFP obligation of \$5,065 and \$6,642. Staff notes that Nord’s projected operating results in 2018-19 and 2019-20 provide narrow margins of net revenue.

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 \$4,499,472, Nord’s annual CSFP payment will be \$114,780 beginning 2018-19, the first year following project occupancy. Nord’s projected net revenues of \$119,845 for 2018-19 and \$121,422 for 2019-

20 would provide debt service coverage levels of 104.4% and 105.8%, respectively, which is slightly above the minimum requirement of 100.0%. The CSFP payments would represent 6.9% and 6.7% of projected revenues for each of these years, which is within the preferred maximum range of 10-15%. While Nord includes private contributions in its projected revenues, such contributions represent less than 3% of revenues in all projected years. However, given the narrow margin by which Nord meets the 100% debt service coverage requirement, Nord projects reliance on receiving private contributions to meet the 100.0% debt service coverage requirement. While sufficient for the financial soundness determination, staff recommends continued monitoring of Nord's operating margins to ensure affordability of the CSFP obligation.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. Nord's NWC as of June 30, 2014 was \$870,199, 77.9% of total expenses. Nord's NWC as of June 30, 2013 was \$763,540, 77.9% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. On June 30, 2014, Nord's reported approximately \$765,973 in cash, up from \$494,747 as of June 30, 2013. Nord's liquidity improved largely due to increases in per pupil funding and the elimination of State revenue deferrals.

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:

- +/- Nord projects debt service coverage of 104.4% and 105.8% for 2017-18 and 2018-19, respectively, the first two years of CSFP payments. However, due to the narrow margin by which Nord meets the debt service coverage requirement, Nord would rely on contributions in projected years to meet such requirements.
- + Nord's NWC as of June 30, 2013 was \$763,540 or 73.5% of total expenses. NWC increased to \$870,199 or 77.9% of expenses as of June 30, 2014. Both years are well above the 5% threshold to be considered sufficient. On June 30, 2014, Nord reported \$765,973 in cash.
- + From 2012-13 to 2014-15, Nord has demonstrated enrollment ranging between 135 and 149 students. Nord projects adding two grades and 45-50 students to total enrollment in projected years.
- +/- Nord met all AYP criteria and API growth targets in 2012-13. However, statewide and similar school rankings of API base scores remain relatively low at "3" and "1", respectively.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Nord Country School (Nord) 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 Nord 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.