

## MEMORANDUM

## Staff Summary No. 5

**Date:** June 25, 2015

**To:** Members of the California School Finance Authority

**From:** Katrina M. Johantgen, Executive Director

**Subject:** Resolution 15-15 – Approval of the Revolving Loan Fund Program Recommendations and Amounts (Action Item)

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**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 December 2014, CSFA posted the Program application for the 2014-15 funding round. In January 2015, CSFA notified all California charter schools of the availability of the 2014-15 Program funding round and required all applications to be submitted to the Authority by February 24, 2015 at 5:00 P.M. In total, 72 applications were received. Two out of the 72 applications were received after the deadline and were not eligible for review. In March 2015, the Authority adopted permanent Program regulations. Since February, Authority staff has been assessing the 70 eligible loan applications, following the framework established by statute and regulation, and following the review process listed below.

1. **Application Package Review:** Confirmed that the submittal complied with application terms such as:
  - Met application deadline
  - Met eligibility requirements set forth in regulations (Section 10170.18)
  - 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 education and experience
  - Projected enrollment and ADA supported by student enrollment and/or waiting lists
  - Evidence of a facility use agreement or draft agreement, if applicable
  - In compliance with other CSFA programs
3. **Financial Analysis:** Conducted fiscal evaluation based on a variety of indicators and 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:
- Availability of other sources of funding
  - Impact of loan on other financing
  - 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
  - Focused on debt service coverage with and without net assets and contingencies
4. **Loan Recommendations:** Considered all 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), if oversubscribed
  - Assess geographical distribution for reasonableness, if oversubscribed
  - Based on the availability of funds, recommended specific loans for approval or non-approval

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.” Based on this provision in the law, Program regulations reflect similar preference therefore staff determined that loans to schools opening in 2015-16 would be given priority over schools that opened in 2014-15 or earlier.

As such, staff reviewed two tiers of applications: (1) the 50 schools opening in 2015-16 that were considered priority one applications; and (2) the 20 schools that have already opened and were classified as priority two applications. Loan requests from priority one schools opening next year totaled \$12.5 million, while loan requests from priority two totaled \$4.9 million. The total loan request of \$17.4 million exceeds available loan funds of approximately \$12 million.

With respect to the 50 priority one applications, staff deemed three schools ineligible and eight schools withdrew their applications. Staff is recommending 35 priority one schools for loans totaling \$8.75 million at the June 25, 2015 board meeting. Staff is still reviewing four remaining priority one applications and all priority two applications.

Staff is working to disburse loan funds to as many schools as possible prior to the end of the State's June 30 fiscal year end. In order to receive funding through the Program, schools must be approved by the Authority board, must have their County-District-School (CDS) Code in place, and must provide an executed loan agreement and governing board resolution to the Authority.

Staff anticipates bringing additional loan recommendations to a subsequent meeting.

For your review and consideration, staff provides summary findings for each school in the attached Exhibit A.

**Recommendation:** Staff recommends that the Board adopt Resolution No. 15-15, approval of the revolving loan fund recommendations and amounts to the schools listed on Exhibit A (attached). Staff is charged with providing schools with notification of loan approval, distributing loan agreements, executing loan agreements, and carrying out all necessary steps to disbursing funds to schools.

Exhibit A

Charter School Revolving Loan Fund Program

2014-15 Funding Round – Recommended Applicants

	<b>School</b>	<b>CDS Code</b>	<b>Loan Award</b>
1	Alpha: Cindy Avitia High School	Pending	\$250,000
2	California Prep Monterey	Pending	\$250,000
3	California Prep Sutter 8-12	Pending	\$250,000
4	California Prep Sutter K-7	Pending	\$250,000
5	Castlemont Junior Academy	01-61259-0131946	\$250,000
6	Castlemont Primary Academy	01-61259-0131672	\$250,000
7	Clear Passage Educational Center	19-64725-0131938	\$250,000
8	Collegiate Charter High School of Los Angeles	19-64733-0131821	\$250,000
9	Ednovate High School No. 2	19-64733-0132282	\$250,000
10	Empowering Possibilities International Charter	Pending	\$250,000
11	Equitas Academy Charter School #3	19-64733-0129650	\$250,000
12	Fenton Academy for Social and Emotional Learning	19-64733-0131722	\$250,000
13	Fenton STEM Academy: Elementary Center for Science, Technology, Engineering and Math	19-64733-0131466	\$250,000
14	GOALS Academy	30-66423-0131417	\$250,000
15	GVCS II	Pending	\$250,000
16	John Henry High School	07-61796-0132233	\$250,000
17	Libertas College Preparatory Charter School	19-64733-0131904	\$250,000
18	Lighthouse Charter School	57-72694-0131706	\$250,000
19	Method Schools High	19-75309-0131557	\$250,000
20	Method Schools K-8	19-75309-0131540	\$250,000
21	New School of San Francisco	38-76927-0132183	\$250,000
22	NextGeneration STEAM Academy at River Islands	39-68486-0131789	\$250,000
23	Oakland Unity Middle School	01-10017-0131581	\$250,000
24	One Purpose School	38-76919-0132159	\$250,000
25	Paramount Collegiate Academy	Pending	\$250,000
26	Resolute Academy Charter School	19-64733-0131870	\$250,000
27	SPARK Charter School	43-10439-0132001	\$250,000
28	Summit Preparatory Charter School	19-64733-0131839	\$250,000
29	The Academy of Alameda Elementary School	01-61119-0131805	\$250,000
30	University Preparatory Value High School	19-64733-0132027	\$250,000
31	Valiente College Preparatory Charter School	Pending	\$250,000
32	Vista Heritage Charter Middle School	Pending	\$250,000
33	Voices College-Bound Language Academy at Morgan Hill	43-10439-0131748	\$250,000
34	Voices College-Bound Language Academy at Mt. Pleasant	Pending	\$250,000
35	YPI Valley Public Charter High School	19-64733-0132126	\$250,000
<b>Total:</b>			<b>\$8,750,000</b>