

## MEMORANDUM

**Date:** July 8, 2015

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

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

**Subject:** Resolution No. 15-17 – Financially Sound Status of El Sol Santa Ana Science and Arts Academy for Advance Apportionment

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Consideration of Resolution No. 15-17, approving that El Sol Santa Ana Science and Arts Academy (El Sol) has maintained a financially sound status for purposes of Advance Apportionment of \$2,560,016.60 for New Construction under the 2014 funding round of the Charter School Facilities Program (Program).

**Background:** At its November 20, 2014 meeting, the California School Finance Authority (Authority) found El Sol financially sound for Preliminary and Advance Apportionment under the 2014 Funding Round for New Construction in the amount of \$25,600,166. Subsequently, on November 25, 2014, the State Allocation Board (SAB) awarded El Sol a Preliminary Apportionment for this same amount. As the six-month certification of financial soundness ended on May 20, 2015, and El Sol did not submit all required information to the Office of Public School Construction (OPSC) by this date for purposes of an Advance Apportionment, an additional financial soundness review was conducted to determine whether there have been any material changes since the November 20, 2014 certification. OPSC has determined that El Sol would be eligible for an Advance Apportionment for design in the amount of \$2,560,016.60 for New Construction (10% of the total preliminary apportionment). The Authority is referred to the Staff Report, as presented at the November 20, 2014 board meeting, for a complete account of the staff's evaluation of El Sol's financial soundness.

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 (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%). According to its charter, El Sol's vision includes the promotion of college preparatory academic instruction with a heavy focus on reading and language arts via intensive support, and the promotion of a curriculum that stimulates creative thinking and problem solving. El Sol incorporates a "90/10 model," which 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

**Reassessment for Advance Apportionment:** For purpose of the Authority's reassessment of El Sol for Advance Apportionment to determine whether there have been any material changes since the November 20, 2014 financial soundness certification, staff requested updated operational and financial information from El Sol, as well as an additional completed Legal Status Questionnaire and confirmation from the District as to El Sol's compliance with the terms of its charter and good standing with the charter authorizer.

On June 26, 2015, the Authority received verification from the District confirming that El Sol is (1) in compliance with the terms of its charter agreements, and (2) in good standing with its chartering authority. Natomas' current charter is effective through June 2018.

Staff reassessed El Sol's organizational and performance parameters in terms of the project description, charter school management, student performance, projected enrollment growth, and financial viability relative to debt service coverage and liquidity. Staff also considered El Sol's confirmation that there have been no material changes since the previous financial soundness determination that would affect Natomas' financial status.

Based on El Sol's response to the request for updated operational and project information, staff found that there are no material changes to the project scope, description, and timeline, and no material changes to the operational indicators, since the previous financial soundness review. El Sol is projecting the same enrollment as previous with enrollment remaining level at 900 students in grades K-8 in all projected years. Staff notes that due to the transition to Common Core Standards, no additional academic performance results have been reported since the previous financial soundness review, which found El Sol's performance to be exceptional and supportive of a determination of financial soundness. Staff notes that, based on the 2014-15 P2 Report, El Sol achieved an average daily attendance (ADA) of 96.5%, which is consistent with the assumptions in the multi-year budget projections.

Staff's reassessment of El Sol's financial viability found no material changes since the November 20, 2014 financial soundness certification with similar financial assumptions as those applied in the previous financial soundness review. For the two years following the first year of project occupancy, 2017-18 and 2018-19, El Sol is projected to have debt service coverage levels of 144.4% and 143.6%, respectively, which are above the minimum debt service coverage requirement of 100%.

The following table highlights the Staff's findings stemming from the Authority's reassessment. Please refer to Staff Report presented at the November 20, 2014 Board meeting for additional details.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	El Sol has met Program eligibility criteria, including: 1) having a charter in place, 2) being in operation as a charter school for more than two years (since 2001); and 3) being in compliance with the terms of its charter and in good standing with its chartering authority, Santa Ana Unified School District.
<b>Demographic Information</b>	<ul style="list-style-type: none"> <li>• Over the past six years, El Sol has demonstrated consistent enrollment growth, growing from 472 students in 2008-09 to 884 students for 2014-15 year, representing average annual growth of about 14%.</li> <li>• El Sol is projecting enrollment to remain level at about 900 students in all projected years.</li> </ul>
<b>Debt Service Coverage</b>	El Sol projects debt service coverage levels of 144.4%, and 143.6% for 2017-18 and 2018-19, respectively.
<b>Other Financial Factors</b>	<ul style="list-style-type: none"> <li>▪ El Sol is projected to have substantial fund reserves with fund balances between \$3.6 million and \$6.3 million in the projected years.</li> <li>▪ CSFP payments are projected to represent 3.2% and 3.1% of total revenues during 2018-19 and 2019-20, respectively, the first two year of CSFP payments.</li> <li>▪ El Sol's only long term debt is a loan payable of \$160,192 to NCB Capital Impact, which is expected to be paid off by 2019-20.</li> </ul>
<b>Student Performance</b>	<ul style="list-style-type: none"> <li>▪ El Sol met all AYP criteria during each of 2009-10 through 2012-13.</li> <li>▪ 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.</li> <li>▪ Based on its API base scores, El Sol achieved statewide and similar schools rankings of "8" or "10" ("10" = best), respectively, for each of 2009-10 through 2012-13</li> </ul>

**Recommendation:** Staff recommends that the California School Finance Authority Board determine that El Sol is financially sound for the purposes of the Charter School Facilities Program Advance Apportionment but not Final Apportionment, and approve Resolution 15-17. This determination as it relates to 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 Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.