

MEMORANDUM

Date: July 8, 2015

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 15-18
Financially Sound Status of Natomas Charter School for Advance Apportionment

Consideration of Resolution No. 15-18, approving that Natomas Charter School (Natomas) has maintained its financial sound status for purposes of Advance Apportionment of \$407,892.60 for New Construction and \$333,329.80 for Rehabilitation 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 Natomas financially sound for Preliminary and Advance Apportionment under the 2014 Funding Round for New Construction in the amount of \$4,078,926 and Rehabilitation in the amount of \$ 3,333,298. Subsequently, on November 25, 2014, the State Allocation Board (SAB) awarded Natomas a Preliminary Apportionment for projects in these corresponding amounts. As the six-month certification of financial soundness ended on May 20, 2015, and Natomas 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 Natomas is eligible for \$333,329.80 of Advance Apportionments for design in the amounts of \$407,892.60, and for New Construction and Rehabilitation, respectively (10% of the total preliminary apportionment).

Natomas received its first charter through Natomas Unified School District (District) and began operations in 1993 with approximately 80 students. It is one of the first charter schools in California and is a 501(c)(3) non-profit organization. Natomas is comprised of five "academies", each of which has a unique approach and mission. These include: two nonclassroom-based academies that provide for online classes and individualized instruction, and three classroom-based academies that include a performing arts academy for grades 6-12, and separate classroom-based academies for grades K-5 (the "Star Academy") and grades 6-8. Natomas currently occupies both a district owned site (two academies) and a non-district owned site (three academies). Through the facility use agreement with the District, Natomas has agreed to have a maximum of 600 students in non-classroom based instruction and 1,400 students in classroom-based instruction; however, the school can build its site-based program proportionately to the district's growth.

Reassessment for Advance Apportionment: For purpose of the Authority's reassessment of Natomas 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 Natomas, as well as a current Legal Status Questionnaire and confirmation from the District as to Natomas' compliance with the terms of its charter and standing with the charter authorizer. On June 3, 2015, the Authority received verification from the District confirming that Natomas 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 2017

Staff reassessed Natomas' 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 Natomas' confirmation that there have been no material changes since the previous financial soundness determination that would affect Natomas' financial status.

The only key changes to the project description are that the Rehabilitation project is projected to begin occupancy in August 2016, and the New Construction project is projected to begin occupancy in January 2017. The only key operational change is that Natomas is anticipating a higher level of student enrollment growth than previously projected with expected growth from 1,599 students in 2015-16 to 1,882 students in 2018-19 and 2019-20, representing overall growth of approximately 17.7% or average annual growth of 5.9%, which is consistent with Natomas' historical growth performance. Such growth projections are also supported by Natomas' Average Daily Attendance of 98% for 2014-15. 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 Natomas' performance to be exceptional and supportive of a determination of financial soundness.

Staff's reassessment of Natomas' 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. The only key finding is that, for 2017-18, the first year of repayment on the Rehabilitation project, Natomas' debt service coverage is projected to be 79.3%, which is less than the minimum requirement of 100%. However, in 2017-18, Natomas is projected to have a fund balance in excess of \$6 million to cover the net deficit of \$17,565 after interception of the State charter school entitlement revenues pursuant to Education Code, Sections 17199.4 and 17078.57(a)(1)(A). Staff notes that the Program regulations allow schools to achieve the minimum debt service coverage requirement of 1.0x on an isolated basis through transfer of funds from other funding sources. In the subsequent years, 2018-19 and 2019-20, Natomas is projected to cover the combined loan payments for both Rehabilitation and New Construction with debt service coverage levels of 727% and 499%, respectively.

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.

Criteria	Comments
Eligibility Criteria	Natomas 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 1993); and 3) being in compliance with the terms of its charter and in good standing with its chartering authority, Natomas Unified School District.
Demographic Information	<ul style="list-style-type: none"> • Over the past six years, Natomas has demonstrated consistent enrollment growth, growing from 1150 students in 2008-09 to 1574 students in 2014-15, all in grades K-12, representing average annual growth of 6.1%. • Natomas is projecting to increase its enrollment to 1882 in 2018-19, representing overall growth of 17.7% (first full year of project occupancy under both the Rehabilitation and New Construction projects).
Debt Service Coverage	Natomas projects debt service coverage levels of 79.3%, 727%, and 499% for 2017-18, 2018-19 and 2019-20, respectively. In 2017-18, the school will still meet its debt service via the intercept of State revenues pursuant to Education Code, Sections 17199.4 and 17078.57(a)(1)(A) before covering the net deficit of \$17,565 with its funding reserves.
Other Financial Factors	<ul style="list-style-type: none"> ▪ Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. Natomas' NWC as of June 30, 2014 was \$3.2 million, representing 35.4% of total expenses. NWC in excess of 5.0% is considered sufficient. ▪ Natomas is projected to have substantial fund reserves with a fund balance in excess of \$5 million in all projected years. ▪ CSFP payments are projected to represent 1.3% of total revenues during 2018-19 and 2019-20, the first two year of CSFP payments for both the Rehabilitation and New Construction projects. ▪ Natomas does not have any long-term debt.
Student Performance	<ul style="list-style-type: none"> ▪ Natomas met all AYP criteria during three of the four past years reported, 2009-10 through 2012-13. ▪ Natomas achieved API growth scores of 848, 876, 896 and 884 for 2009-10 through 2012-13, respectively, and met both schoolwide and "Comparable Improvement" growth targets in each of these years. ▪ Based on its API base scores, Natomas achieved statewide and similar schools rankings of "9" or "10" ("10" = best) for each of the past four years reported.

Recommendation: Staff recommends that the California School Finance Authority Board determine that Natomas is financially sound for the purposes of the Charter School Facilities Program Advance Apportionment but not Final Apportionment, and approve Resolution 15-18. 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 Natomas 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.