

MEMORANDUM

Staff Summary No. 5

Date: August 12, 2015

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution 15-22 – Approval of the Revolving Loan Fund Program Recommendations and Amounts (Action Item)

Background: 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 Fall 2015 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. The board previously approved 35 priority one schools for loans totaling \$8.75 million at the June 25, 2015 board meeting. The Program currently has around \$3.25 million left to fund schools. Staff is recommending the remaining four priority one applications for loans totaling \$1 million at the August 12, 2015 board meeting. All priority two applications are still under review.

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 priority two 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. 15-22, 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

2015-16 Funding Round – Recommended Applicants

	School	CDS Code	Loan Award
1	Encore High School for the Arts - Riverside	33-67215-0132498	\$250,000
2	Francophone Charter School of Oakland	01-61259-0132514	\$250,000
3	Manzanita Montessori Charter School	49-75358-0132340	\$250,000
4	Rocketship Redwood City 1	41-69005-0132076	\$250,000
Total:			\$1,000,000