

MEMORANDUM

Date: December 4, 2015

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 15-36 - Financially Sound Status of Tracy Learning Center on behalf of Millennium Charter High (CDS # 39-75499-0102392)

Consideration of Resolution No. 15-36, approving that Tracy Learning Center (Tracy), on behalf of Millennium Charter High (Millennium), has maintained a financially sound status for purposes of a Preliminary Apportionment of \$4,415,213 under the Proposition 1D 2014 funding round of the Charter School Facilities Program (Program).

Background: On April 15, 2015, the Authority determined that Tracy, on behalf of Millennium, was financially sound for a Preliminary Apportionment of \$4,415,213 through the Proposition 1D 2014 funding round, with Tracy Unified School District's commitment to make a lump-sum payment towards the local matching share of \$4,415,213 through proceeds from its issuance of General Obligation Bonds. Due to the fact that Millennium allowed its six-month certification of financial soundness to lapse, Millennium now needs a new financial soundness review in order to maintain its eligibility for the Program through a preliminary apportionment. As only approximately one and one-half additional months have elapsed since the expiration of the financial soundness certification (expired on October 15, 2015), the Authority conducted an abbreviated review to assess whether any material changes to Authority's financial soundness determination have occurred. Staff notes that Tracy is a 501(c)(3) non-profit organization that oversees and manages three charter schools, including Millennium.

Reassessment for Preliminary Apportionment: For purposes of the Authority's reassessment for Preliminary Apportionment, Tracy, on behalf of Millennium, submitted the following supportive information: (1) unaudited actuals for 2014-15; (2) adopted budget for 2015-16; (3) updated enrollment and attendance reports; (4) budget projections for 2016-17 and 2017-18; and (5) completed legal status questionnaire. In response to staff's inquiry with Tracy, staff was informed that neither Tracy nor Millennium has incurred any additional long-term debt and that the scope of the CSFP project has not changed. Staff also requested Tracy Unified School District (District) to provide confirmation of good standing with the District and compliance with the terms of the charter. As academic performance information beyond what was reported for the April 15, 2015 board meeting is not available at this time, staff was unable to reassess academic performance.

Staff received confirmation from Tracy Unified School District on November 10, 2015 that Millennium is (1) in compliance with the terms of their charter agreements, and (2) in good standing with their chartering authorities. Millennium's charter is effective through June 30, 2019. Furthermore, Staff reviewed Tracy's responses, on behalf of Millennium, to the questions contained in the Legal Status Questionnaire (LSQ) signed on November 2, 2015. Tracy answered "None" to each of the two questions, indicating that it has no material information to disclose relating to legal or regulatory proceedings, or legal action in which it or any of its affiliates is a named party.

Staff's review of updated enrollment and attendance information found that both Tracy and Millennium have maintained stable enrollment, and that Millennium continues to achieve a high level of attendance and retention. For the current 2015-16 year, Tracy has 1,248 students and Millennium has 516 students, which is consistent with the projections in the April 15, 2015 financial soundness determination. Furthermore, Millennium achieved a retention rate of 98.1% for the current 2015-16 year and achieved an average daily attendance of 96.6% for 2014-15.

Staff's review of updated financial information for Tracy in the form of unaudited actuals for 2014-15 and the adopted budget for 2015-16 found that there are no material changes to Tracy's financial viability or performance that would affect the Authority's determination of financial soundness. The unaudited actuals reflect a net deficit of \$71,117 on \$9,074,580 in revenues and \$9,145,697 in expenses, and the adopted budget reflects a net gain for 2015-16 of \$1,095,280 on \$10,833,643 in revenues and \$9,738,363 in expenses. Based on Tracy's unaudited actuals, Tracy's net working capital as of June 30, 2015 was \$3,101,064, represents 33.9% of total expenses for 2014-15. Staff considers net working capital of 5.0% or greater to be satisfactory.

Based on the updated information that Tracy submitted, Staff finds no material changes that would adversely affect the Authority's finding of financial soundness and that the updated information supports a recommendation for financial soundness at this time. Staff refers the Authority board to the Staff Report presented at its April 15, 2015 meeting for a comprehensive account of Millennium supporting Staff's recommendation for financial soundness.

Recommendation: Staff recommends that the California School Finance Authority Board determine that Tracy, on behalf of Millennium, is financially sound for the purposes of the Charter School Facilities Program Preliminary and/or Advance Apportionment, but not Final Apportionment, in the amount of \$4,415,213, and approve Resolution 15-36. This recommendation is contingent on Tracy Unified School District making a lump-sum payment towards the local matching share. This determination as it relates to Preliminary and/or Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the Authority notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.