

MEMORANDUM

Date: March 9, 2016 Staff Summary No. #6

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 16-06 Approving Policy Recommendation for a Twelve-Month Financial Soundness Determination

Background: Since the program's inception in 2002, the California School Finance Authority (Authority) has been administering the Charter School Facilities Program (Program) for purposes of constructing new charter school facilities and/or renovating existing charter school facilities. The Program is jointly administered by the Authority and the State Allocation Board (SAB), staffed by the Office of Public School Construction (OPSC). Among other functions, the Authority is responsible for making a financially sound determination for all Program applicants prior to, and as a prerequisite to, Preliminary, Advance and Final apportionment.

Pursuant to Resolution 09-12, on July 30, 2009, the Authority adopted the policy that a financial soundness determination be in place for a six-month period assuming no material legal, operational, or financial changes during this period. At the time, a six-month window was considered a reasonable amount of time to mitigate the need to conduct redundant reviews and was established as a standard for purposes of certification. This policy allowed for abbreviated reviews within months after expiration of the six-month certification in the event no material changes had occurred that would affect the charter school's financial viability.

Issue: Having conducted multiple financial soundness reviews since 2009, the Authority has gained insight into the value of a six-month versus a twelve-month certification for soundness and its impact on the Program. A key finding that the Authority has identified is that the majority of reviews that have taken place between six and twelve months after a previous determination of financial soundness have shown similar performance results and relied substantially upon the same set of informational sources. For example, during 2015, the Authority conducted three abbreviated financial soundness reviews for charter school applicants whose certification had expired within the previous six months. For each of these abbreviated reviews, the Authority assessed whether any material changes had occurred since the Board's adoption of the previous determination of financial soundness, and for all three charter school applicants, no material change was identified and the abbreviated financial soundness reviews corroborated the previous full reviews. Notwithstanding the term "abbreviated," such reviews nevertheless require substantial resources in terms of requesting and evaluating updated financial reports, and drafting a report for the Board, and these resources could be more efficiently applied to other critical Program needs, including updating Program Agreements and conducting full financial soundness reviews for charter school applicants for whom more than twelve months has elapsed since the previous financial soundness certification. The twelve-month certification

would eliminate the need to conduct abbreviated reviews for charter school applicants whose certification had expired within the previous six months.

Under a proposed twelve-month certification for financial soundness, Staff is also proposing that such certification be retroactive for charter school applicants for whom the Board approved a determination of financial soundness based on a full financial soundness review. For example, as a result of a full financial soundness review, KIPP Heartwood Academy received a certification of financial soundness on April 15, 2015 and thus would be considered certified until April 15, 2016.

A separate, but related issue is that, although the Authority has required separate financial soundness reviews for Preliminary and Advance Apportionments (together), and Final Apportionment, given that there is no fundamental difference in the evaluations for each, absent any material changes, a separate financial soundness review for Final Apportionment is not necessary when less twelve months has elapsed since the previous financial soundness certification.

It is noteworthy that under a twelve-month certification, where less than twelve months has elapsed, the Authority will exercise due diligence, where necessary, to ensure that there are no material legal, operational, or financial changes that would adversely affect the charter school's financial soundness. Such due diligence would be conducted on a case-by-case basis based on the organization, scope of project, and any areas of concern set forth within the previous Staff Summary to the board.

Recommendation: Authority staff recommends that its certification pertaining to the review of a charter school's or charter school operator's financial soundness be in place for twelve months from the date of Authority board approval, absent any material legal, operational, or financial changes during this period, and that such a certification be applicable to Preliminary, Advance, and Final Apportionment . Authority staff also recommends that such certification apply to all determinations of financial soundness approved by the Authority's board based on a full financial soundness review during the previous twelve months. Following a determination of financial soundness, Authority staff will provide written notification to OPSC certifying the board's determination as well as provide an expiration date of the determination. The notification shall also include any additional or extenuating criteria or requirements for fund release contained in staff's finding and resolution approved by the board.