

MEMORANDUM

Staff Summary No. 5

Date: June 14, 2017

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution 17-18 – Approval of the Revolving Loan Fund Program Recommendations and Amounts (Action Item)

In December 2016, The California School Finance Authority (Authority) posted the Revolving Loan Fund Program (Program) application for the 2016-17 funding round. By the February 24, 2017 deadline, 43 applications were received totaling funding requests of \$10.605MM. Approximately \$10.4MM is available for funding this year. Since February, Authority staff have been assessing eligible loan applications, following the framework established by statute and regulation, and following the review process listed below.

Staff reviewed two tiers of applications: (1) 31 schools opening in 2017-18 that are considered priority one applications; and (2) 12 schools that have already opened and are classified as priority two applications. With respect to the 31 priority one applications, three schools withdrew their applications, one school that was awarded at the May 9th board meeting withdrew their application, and one school will not be recommended due to not meeting debt service coverage. As for the 12 priority two applications, two schools did not meet Program eligibility requirements. At the June 14, 2017 board meeting, staff is recommending 4 priority one schools totaling loan requests of \$1MM and 10 priority 2 schools totaling loan requests of \$2.5MM. This will finalize the 2016-17 funding round.

1. **Application Eligibility & 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 charter is in place or is in the process;
 - Detailed business plan and/or charter petition completed;
 - Board of Director listing submitted with no apparent conflicts;
 - Key staff resumes demonstrate relevant education and experience;

- Projected enrollment and Average Daily Attendance (ADA) are supported by student enrollment and/or waiting lists;
- Student population seems representative of the demographic in the school's proposed location.

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;
- Reasonableness of financial ratios as compared to benchmarks;
- Adequacy of 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;
- Sorted applicants by priority and, as the Program is oversubscribed, sorted by highest free or reduced-price meal percentage across regions in accordance with California Code of Regulations §10170.17(o) through (r) and §10170.20(c) through (e);
- Based on the availability of funds, recommended specific loans for approval or non-approval.

Furthermore, staff used Section 10170.21(b)(1) of the Program regulations to decide the specific loan amount and repayment period of each recommended loan. The regulations state that the Authority shall consider the term of the charter as well as the loan amount in determining the repayment period. To further protect Program funds from schools that are at risk of defaulting, staff based the approved loan amount and repayment period on the school's charter term. Staff recommended that each priority one applicant have a repayment period that does not exceed the school's charter term and a loan amount that the school is able to repay within the loan term.

For your review and consideration, staff provides summary findings for each recommended school in the attached Exhibit A – RLF Board Matrix. Staff is working to disburse loan funds to as many schools as possible prior to the State's June 30 fiscal year end. In order to receive funding through the Program, schools must meet the following funding criteria: be approved by the Authority board, meet all eligibility criteria, have their Charter, Charter

Number, and County-District-School Code in place, and provide an executed loan agreement and governing board resolution to the Authority.

Recommendation: Staff recommends that the Board adopt Resolution No. 17-18, approving revolving loan fund recommendations and amounts to the schools listed in the attached Exhibit A – RLF Board Matrix. Once approved, Staff will notify schools of loan approval, confirm schools meet all funding criteria, distribute and execute loan agreements, and carry out all other necessary steps to disburse funds to schools.