

**Charter School Facilities Program
Proposition 51 Funding Round
Staff Summary Report – October 2017**

Applicant/Obligor:	Washington Unified School District
Project School:	Washington Middle College High School
CDS (County – District – School) Code:	57-72624-0135939
School Address/Proposed Location:	1304 W. Fallbrook St., West Sacramento, CA 95691
Type of Project:	Rehabilitation
County:	Yolo County
District in which Project is Located:	Washington Unified School District
Charter Authorizer:	Washington Unified School District
Total OPSC Project Cost*:	\$18,568,574
State Apportionment (50% Project Cost):	\$9,284,287
Lump Sum Contribution:	\$9,284,287
Total CSFP Financed Amount:	\$0
Length of CSFP Funding Agreement:	NA
Assumed Interest Rate:	NA
Estimated Annual CSFP Payment:	NA
First Year of Occupancy of New Project:	2020-21**

**The amount identified as total project costs represents an estimate provided by the Office of Public School Construction for purposes of Preliminary-Apportionment financial soundness review. Final project costs will be provided at the time of Final Apportionment.*

***The anticipated year of project occupancy is an estimate based on WUSD receiving its Final Apportionment within two years of Preliminary Apportionment and completion of the project within 18 months of Final Apportionment.*

Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Washington Unified School District (“WUSD” or “District”), on behalf of Washington Middle College High (“WMCH”), is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation, as it relates to Advanced Apportionment, is contingent upon WUSD providing evidence of the restricting of funds for the lump sum matching share payment for the CSFP project. In the event a loan is incurred, this recommendation is contingent upon WUSD, on behalf of WMCH, 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 (OPSC) and the State Allocation Board regarding this determination.

For purposes of supporting funds available to make the lump-sum payment of \$9,284,287 towards the local match, WUSD provided a letter from the Superintendent, Linda Luna, which confirms that the District has over \$15 million in proceeds from General Obligation Bonds that can be used for a specified set of projects, including the CSFP project. Staff notes that, prior to release of funds for Advance or Final Apportionment, the Applicant will be required to produce evidence of having the said amount of funds in a restricted bank account, specifically designated for the CSFP project.

Application Highlights: Below staff has highlighted key criteria that were evaluated when conducting its financial soundness review of WUSD. Detailed information is contained in the body of the report.

Criteria	Comments
<i>District Information</i>	
Demographic Information	<ol style="list-style-type: none"> 1. In 2016-17, WUSD had 7709 students across 16 schools and is expecting level enrollment through 2019-20. 2. WUSD has demonstrated having an average daily attendance of greater than 95% over the past four years.
Debt Service Coverage	Not Applicable
Other Financial Factors	<ol style="list-style-type: none"> 1. The Applicant is planning to make a lump-sum payment towards the local match of \$9,284,287 through proceeds from General Obligations Bonds. 2. WUSD's net working capital (NWC) as of June 30, 2017 was exceptionally high at \$18.66 million, or 22.5% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. 3. Based on its "General Fund," WUSD incurred net surpluses of \$484,000 and \$6.96 million in 2014-15 and 2015-16, respectively. However, WUSD incurred a net deficit of \$2.19 million in 2016-17 and is projecting net deficits in 2017-18 and 2018-19, and an approximate break-even in 2019-20.
Special Considerations and Mitigating Factors	Notwithstanding its net deficit for 2016-17 and projected net deficits, WUSD has sufficient fund reserves to offset its net deficit for 2016-17, and is projected to have more than sufficient fund reserves to offset the deficits in the projected years.
<i>School Information</i>	
Eligibility Criteria	WMCH has met all eligibility criteria: (1) WMCH's charter is in place through June 2022; and (2) WMCH is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	Due to it being a new school, student performance data is not available.
Demographic Information	<ol style="list-style-type: none"> 1. WMCH currently has 120 students, and its enrollment is expected to grow to 230 students by 2020-21, the estimated first year of project occupancy.

	<ol style="list-style-type: none">2. WMCH's target population is primarily students from high-risk socio-economically disadvantaged families within West Sacramento and surrounding communities.3. WMCH is located in Yolo County within the District, and is comprised of the following mix of races/ethnicities: 47.4% Caucasian; 31.0% Hispanic or Latino; 10.4% Asian; 3.9% African-American.
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Program Eligibility: On October 4, 2017, the Authority received verification from the WUSD confirming that WMCH is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. WMCH's current charter is effective through June 2022. WUSD far exceeds the requirement of two years of oversight of charter school operations with its oversight of the following charters: West Sacramento Early College Prep (2007-17); Sacramento Valley Charter (2011-present); and River Charter Schools Lighthouse Charter (2015-present).

Legal Status Questionnaire: Staff reviewed WUSD's responses, on behalf of WMCH, to the questions contained in the Legal Status Questionnaire (LSQ). The completed LSQ indicates that there are no disclosures to provide regarding material information relating to legal or regulatory proceedings or legal action in which WUSD or any of its affiliates is a named party.

Project Description: The charter will occupy the entire site at 1504 Fallbrook St., West Sacramento, California, comprising a total of 36,971 square feet at the site. The anticipated project scope will include a total of 23 classrooms (18 permanent and 5 portable classrooms) and support facilities. The District will rehabilitate 34,859 square feet of 'Other' area and 1,152 square feet of restroom facilities for a total of 36,011 square feet. The proposed construction anticipated will be: ADA upgrades; roofing; finishes such as painting, signage, and exterior façade improvements; blacktop improvements; flooring in cafeteria/gym; security improvements; landscaping; new windows; and, parking lot improvements are anticipated to be constructed. The student capacity is approximately 400. WUSD was unable to provide an estimated date of project occupancy other than that it expects project completion within 18 months following the disbursement of CSFP grant proceeds. Assuming that Final Apportionment is achieved within two years, by 2018-19, project occupancy would occur in 2020-21.

Applicant Organizational Information: WMCH is a district-run charter school serving approximately 120 students in grades 9 through 12. The District is governed by a five-member Board of Education and currently operates 16 schools, which include three charter schools.

In 2007, a unique, non-profit education partnership was formed between WUSD, the Regents of the University of California on behalf of the UC Davis School of Education (UCD), and the Los Rios Community College District on behalf of Sacramento City College (SCC), to start a public independent charter school, West Sacramento Early College Prep. In June 2016, the governance and operation of WSECP Charter School changed from that of an independently operated charter school to a WUSD-operated "dependent" charter

school. WMCH began operations as a charter school effective this 2017-18 academic year and was transitioned from a prior charter school, West Sacramento Early College Prep (WSECP) based on the District’s decision to change the charter from an independent charter to a district-dependent charter.

According to the materials submitted, WMCH plans to use the demonstrably successful model of the Middle College National Consortium (MCNC) schools blended with an innovative instructional model, educational philosophy and community partnerships as a guiding framework in the establishment of WMCH. WMCH will build upon the success and lessons learned from MCNC, with modifications made to best serve the needs of at-risk high school students in West Sacramento and surrounding communities. WMCH will implement a safe, supportive, and structured middle college environment, where a rigorous blend of high school and college courses that are integrated with a flexible and individualized pathway that will support all students with 21st Century Skills to ensure college and career readiness. The ultimate goal is to develop and empower students and families to be successful through higher education, career, and beyond.

WMCH is located in Yolo County and is comprised of the following mix of races/ethnicities: 47.4% Caucasian; 31.0% Hispanic or Latino; 10.4% Asian; 3.9% African-American. WMCH’s target population is primarily students from high-risk socio-economically disadvantaged families within the West Sacramento and surrounding communities.

Key staff members of the WUSD’s management team are Superintendent Linda Luna, Director of Fiscal Services Kilee Lane, and Assistant Superintendent of Educational Services Andy Parsons. Sean O’Neill is the current principal of WMCH. Staff reviewed the resumes of WUSD’s management team as well as the Principal of WMCH and determined that, collectively and individually, the management team demonstrates having the required experience and educational background to effectively oversee the operations of WMCH.

School Academic Performance: Because WMCH’s operations became effective as of July 1, 2017, there are no results available regarding Smarter Balance testing. Staff recommends that WMCH’s performance be reevaluated at the time of Final Apportionment. The following tables represent the 2014-15 and 2015-16 academic performance of WUSD. The results are provided through CDE’s CAASP Smarter Balanced testing data.

English Language Arts (2015-16) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
WUSD	44%	Average	2/10

Mathematics (2015-16) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
WUSD	32%	Average	1/10

English Language Arts (2014-15) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
WUSD	36%	N/A in 2014-15	N/A in 2014-15

Mathematics (2014-15) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
WUSD	27%	N/A in 2014-15	N/A in 2014-15

Enrollment Trends and Projections: The table on the following page represents historical, current and projected enrollment information for Washington Unified School District, as well as average daily attendance (ADA) and projected ADA through 2019-20. Currently, WUSD operates 16 schools, including three charter schools. The Applicant is projecting level student enrollment of 7709 and ADA of 95.64% through all projected years (through 2019-20), which is consistent with historical enrollment and ADA. Based on consideration of the historical enrollment and ADA, staff considers the assumed District-wide enrollment projections and ADA, as incorporated into the multi-year budget projections, to be reasonable.

District-wide Student Enrollment and Average Daily Attendance

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Enrollment	7,430	7,574	7,538	7,709	7,709	7,709	7,709
ADA	95.88%	95.88%	96.11%	95.30%	95.64%	95.64%	95.64%

With current enrollment of 120 students at WMCH, the Applicant is projecting the following student enrollment growth through 2020-21 (growth of almost 100% over three years): 140 students in 2018-19; 190 students in 2019-20; and 230 students in 2020-21 (first year of project occupancy). While staff considers these projections relatively optimistic, failure to achieve the projections would not have an impact on financial soundness, given that the school's enrollment, as a percentage of the District's enrollment, is only about 2%. Furthermore, because the District-wide enrollment projections are flat, the relatively optimistic projections for the charter school have no impact on the overall financial soundness determination.

Financial Analysis:

Financial Data Sources: This financial analysis is based on the consideration and review of the following for Washington Unified School District, the financial obligor and Applicant, on behalf of WMCH: (1) audited financial statements for 2014-15 and 2015-16; (2) estimated unaudited actuals for 2016-17; (3) adopted budget for 2017-18; and (4) budget projections for 2018-19 and 2019-20, along with assumptions. Please note that staff's analysis of

WUSD's financial performance, including the evaluation of operating budget and liquidity, is based on the "General Fund" only.

Assumptions: WUSD's financial projections, as incorporated into staff's financial analysis, are based upon the following assumptions: (1) District-wide enrollment projections as provided above under "Enrollment Trends and Projections"; (2) Projected District-wide ADA rates of 95.64%, which are consistent with historical performance; (3) Local Control Funding Formula (LCFF) per-ADA funding rate of \$9377 for 2017-18, as included with WUSD's adopted budget document for 2017-18, along with annual cost-of-living adjustments (COLAs) on the per-ADA LCFF rate of between 2.0 and 3.0%; and (4) WUSD's implementation of budget reductions in the amount of \$500,000 during 2018-19 and 2019-20.

Long Term Liabilities: As of June 30, 2017, WUSD had the following long-term debt obligations that are paid out of General Fund, annually. Staff notes that these annual obligations are recognized as expenses through annual inter-fund "transfers out" (\$744,729 in the multi-year projections) to the funds noted below. The obligations are subsequently paid out directly from these associated funds.

- Fund 56 – Clean Renewable Energy Bond (CREB) - \$291,523
- Fund 56 – Qualified School Construction (QSCB) - \$165,000
- Fund 25 (also known as "Capital Facilities Fund") - 2014 Certificates of Participation (2014 COPS) - \$288,206

Staff also notes that, in addition to long-term debt paid out of the "General Fund," WUSD has long-term debt stemming from its 2007 issuance of Certificates of Participation (refinanced in 2017) (2007/2017 COPS) for which it makes annual payments directly from its "Capital Facilities Fund," and apart from the "General Fund." Based on the 2016 audited financial statements, WUSD's current annual obligation on this debt is approximately \$4.7 million (approximately \$4.68 paid out in 2015-16). In addition, as per the audited financial statements, during the 2015-16 fiscal year, WUSD's "Capital Facilities Fund" received approximately \$3.83 million in local revenue sources to support the repayment of the 2007/2017 COPS. Based on further inquiry with the Director of Fiscal Services at WUSD, the local revenue sources for the "Capital Facilities Fund" are: "community redevelopment funds"; interest; "migration/developer fees"; and the shared use agreement with the City of West Sacramento for River City High. It should be noted that, in the event there were to be insufficient funds in the "Capital Facilities Fund" to make the annual payments on the 2007/2017 COPS, WUSD would need to draw from its "General Fund" to cover the difference.

In addition to the long-term debt described above, WUSD has multiple issuances of General Obligation Bonds that are paid exclusively from local property taxes.

Private Contributions: WUSD does not rely on private contributions.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff’s analysis regarding WUSD’s financial soundness. Where a threshold has been established based on industry standards or practice, the listing indicates whether or not the threshold was met. The listing below also sets forth the most recent credit score, as promulgated by Standards and Poor.

	<i>Actual</i> FY 2015	<i>Actual</i> FY 2016	<i>Actual</i> FY 2017	<i>Projected</i> FY 2018	<i>Projected</i> FY 2019	<i>Projected</i> FY 2020
OPERATIONAL & FINANCIAL						
Enrollment	7,574	7,538	7,709	7,709	7,709	7,709
Average Daily Attendance (ADA)	7,262	7,245	7,347	7,373	7,373	7,373
Average Daily Attendance (%)	95.88%	96.11%	95.30%	95.64%	95.64%	95.64%
LCFF Sources/ADA	\$ 7,526	\$ 8,636	\$ 9,194	\$ 9,376	\$ 9,735	\$ 10,010
% Change		14.7%	6.5%	2.0%	3.8%	2.8%
Operating Revenues/ADA	\$ 9,446	\$ 11,004	\$ 10,974	\$ 10,704	\$ 11,071	\$ 11,354
% Change		16.5%	-0.3%	-2.5%	3.4%	2.6%
Operating Expenses plus CSFP Lease/ADA	\$ 9,069	\$ 10,054	\$ 11,265	\$ 11,045	\$ 11,195	\$ 11,296
% Change		10.9%	12.0%	-2.0%	1.4%	0.9%
Free Cash Flow/ADA	\$ 377	\$ 950	\$ (291)	\$ (341)	\$ (124)	\$ 59

	<i>Actual</i> FY 2015	<i>Actual</i> FY 2016	<i>Actual</i> FY 2017	<i>Projected</i> FY 2018	<i>Projected</i> FY 2019	<i>Projected</i> FY 2020
DEBT SERVICE COVERAGE						
Total Operating Revenues	\$ 68,594,602	\$ 79,722,164	\$ 80,626,049	\$ 78,918,641	\$ 81,625,588	\$ 83,715,910
Total Operating Expenses	65,855,797	72,842,299	82,761,507	81,434,397	82,538,769	83,282,852
Total Other Sources/Uses	(2,255,218)	78,178	(54,838)	(450,588)	(425,509)	(399,929)
Net Income Available for CSFP Lease Payment	483,587	6,958,043	(2,190,296)	(2,966,344)	(1,338,690)	33,129
Free Cash Flow	\$ 1,837,068	\$ 7,993,311	\$ 93,305	\$ (1,961,649)	\$ (505,990)	\$ 865,829
LIQUIDITY						
Current Assets	\$ 18,858,989	\$ 23,383,909	\$ 19,709,932			
Current Liabilities	5,721,239	3,288,116	1,054,573			
Net Working Capital	\$ 13,137,750	\$ 20,095,793	\$ 18,655,358			
Net Working Capital/Oper. Expenses	19.9%	27.6%	22.5%			
Unrestricted Cash & Cash Equivalents	\$ 15,892,918	\$ 16,891,015	\$ 19,572,995			
Unrest. Cash & CE/Oper. Expenses (Days)	88	85	86			
Unrest. Cash & CE/All Expenses (Days)	88	85	86			

- Free Cash Flow/ADA (average from 2014-15 through 2019-20) – Met (\$105)
- Free Cash Flow (average from 2014-15 through 2019-20) – Met (\$924,653)
- Net Working Capital – \$20,095,793 (as of 6/30/2016) and \$18,655,358 (as of 6/30/17)
- Net Working Capital as Portion of Operating Expenditures – Met (27.6% as of 6/30/2016) and (22.5% as of 6/30/2017) - Met
- Unrestricted Cash & Cash Equivalents as Portion of Expenditures (average from 2014-15 through 2016-17)) – Met (86 days)
- Ending “General Fund” Balance (as of 6/30/17) - \$17,905,497
- Standard & Poor’s Credit Score (2017) – “A+/Long Term” for General Obligation (GO) Bonds and “A/Long Term” for Certificates of Participation (COPS)

Summary of Financial Findings and Special Considerations: Given that WUSD is the financial obligor and Applicant, on behalf of WMCH, this analysis is intended to evaluate whether WUSD is an ongoing financially capable concern such that it can meet its budget obligations. Because WMCH is a new charter school, to the extent that staff finds WUSD to be an ongoing financially capable concern, staff also finds WMCH to be such.

Given that WUSD has agreed to make a lump-sum payment of \$9,284,287 to cover the local matching share, no loan is anticipated and debt service coverage is not a consideration. Rather, the financial analysis focuses on whether WUSD can meet its “General Fund” annual operating obligations.

As reflected in the table above, although WUSD incurred net surpluses of approximately \$484,000 and \$6.96 million in 2014-15 and 2015-16, respectively, WUSD incurred a net deficit of approximately \$2.19 million in 2016-17. In addition, WUSD is projecting net deficits in the amounts of approximately \$2.97 million and \$1.34 million in 2017-18 and 2018-19, respectively, and an approximate break-even in 2019-20, assuming WUSD’s implementation of budget reductions in the amount of \$500,000 in 2018-19 and 2019-20. Because of the projected net deficits in 2017-18 and 2018-19, staff inquired with WUSD as to how it could meet its operating expenditures during these years. WUSD informed staff that it has substantial liquid reserves, including cash reserves, and that WUSD could change designations in the fund balance of up to 20% of expenses for a particular fiscal year to cover unexpected expenditures.

As of June 30, 2017, WUSD had an ending fund balance of approximately \$17.9 million, and WUSD is projecting to have ending fund balances of approximately \$14.9 million, \$13.6 million, and \$13.6 million for 2017-18 through 2019-20, respectively. Staff notes that WUSD’s net working capital of approximately \$18.66 million as of June 30, 2017 (22.5% of expenditures) would be more than adequate to offset the \$2.19 million deficit for the 2016-17 fiscal year. Staff also notes that in 2017-18 and 2018-19, the net deficits would represent 16.6% and 9.0% of the available fund balances, respectively. Hence, WUSD has sufficient reserves to offset its net deficit for 2016-17, and is projected to have more than sufficient reserves to offset the deficits in the projected years, if necessary.

Notwithstanding the projected net deficits in 2017-18 and 2018-19, given WUSD’s Standard & Poor’s credit rating, WUSD’s ability to offset its net deficits in future years, and the availability of funds to make the lump-sum payment, staff finds that WUSD’s financial performance and projections support a recommendation of financial soundness. Staff recommends that WUSD demonstrate having implemented an action plan to address its pattern of net deficits prior to it being found financially sound for Final Apportionment.

Strengths, Weaknesses and Mitigants:

- + WUSD has received Standard & Poor’s credit ratings of “A+” and “A” for GO Bonds and COPS, respectively, issued in 2017.

- + WUSD has available GO bond proceeds in excess of \$15 million to make a lump-sum payment of \$9,284,287 to cover the local matching share.

- +/- Although WUSD incurred a net deficit of \$2.19 million for 2016-17, and is projecting net deficits of \$2.97 million and \$1.34 million for 2017-18 and 2018-19, respectively, WUSD has sufficient net working capital and fund balance to offset its most-recent-year deficit as well as the deficits in all projected years.

Staff Recommendation: Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that WUSD, on behalf of WMCH, is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation, as it relates to Advanced Apportionment, is contingent upon WUSD providing evidence of the restricting of funds for the lump sum matching share payment for the CSFP project. In the event a loan is incurred, this recommendation is contingent upon WUSD, on behalf of WMCH, 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 (“OPSC”) and the State Allocation Board regarding this determination.