

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

Applicant/Obligor:	San Luis Coastal Unified School District
Project School:	Bellevue-Santa Fe Charter
CDS (County – District – School) Code:	40-68009-6043194
School Address/Proposed Site:	1401 San Luis Bay Dr., San Luis Obispo CA 93405
Type of Project:	Rehabilitation
Type of Apportionment:	Preliminary
County:	San Luis Obispo
District in which Project is Located:	San Luis Coastal Unified School District
Charter Authorizer:	San Luis Coastal Unified School District
Total OPSC Project Cost:*	\$6,670,092
State Apportionment (50% Project Cost):	\$3,335,046
Lump Sum Contribution:	\$3,335,046
Total CSFP Financed Amount:	N/A
Length of CSFP Funding Agreement:	N/A
Assumed Interest Rate:	N/A
Estimated Annual CSFP Payment:	N/A
First Year of Occupancy of New Project:**	2017-18

**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 SLCUSD 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 San Luis Coastal Unified School District (“SLCUSD” or “District”) on behalf of Bellevue-Santa Fe Charter (“BSFC” or “School”), 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 SLCUSD 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 SLCUSD, on behalf of SLCUSD, 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 its having the funds available to make the lump-sum payment towards the local match, SLCUSD provided a letter from the Assistant Superintendent of Business & Support Services, Ryan Pinkerton, which confirms that the District’s commitment. The fund in which the lump sum will come from a distinguished building fund with a balance of over \$79 million at the end of the current fiscal year. 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 San Luis Coastal Unified School District (SLCUSD) on behalf of Bellevue-Santa Fe Charter (BSFC). Detailed information is contained in the body of the report.

Criteria	Comments
District Information	
Demographic Information	1. In 2016-17, SLCUSD operated 16 schools- 10 elementary, 2 middle, 2 high, 1 continuation, & 1 adult school; enrollment totaled 7,718 students (the ADA rate was 93.7%). 2. By 2018-19 (1 st Full Year of Project Occupancy), SCLUSD projects an enrollment of 7,780 students.
Debt Service Coverage	1. The district is providing its matching share through GO bond proceeds. Measure D was a \$177 million GO Bond measure that was approved by voters in November 2014.
Other Financial Factors	1. SLCUSD’s building fund (which receives Measure D proceeds) has a balance of \$79,758,111 as the end of 2016-17. 2. SLCUSD’s general fund (chief operating fund) has a balance of \$16,482,714 (\$15,182,831 in unrestricted funds) as the end of 2016-17.
Special Considerations and Mitigating Factors	Notwithstanding its net deficit for 2016-17 and projected net deficits, SLCUSD 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.
School Information	
Eligibility Criteria	BSFC has met all eligibility criteria: (1) BSFC commenced operations in 1996; (2) BSFC’s charter was approved in December 2013 and is in place through June 2018; (3) BSFC is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	BSFC students have outperformed both the closest elementary school and the district as a whole in English Language Arts and Mathematics per the “Smarter Balanced”

	assessment provided through CDE.
Demographic Information	BSFC currently serves 164 students in grades K-6. Enrollment in 2018-19 is expected to be 168 students. ADA rates averaged 96.2% from 2013-14 through 2016-17.
Special Contingencies	Lump Sum Applicant

Program Eligibility: On October 9, 2017, at CSFA staff’s request, verification was received from San Luis Coastal Unified School District (SLCUSD) confirming that BSFC (1) has been in operation for more than 2 years, (2) in compliance with the terms of its charter agreements, and (3) in good standing with its chartering authority. BSFC’s current charter is effective through June 2018. Considering the authorizer’s relationship with BSFC and the school’s five total charter renewals (1996, 1998, 2003, 2008, and 2013), Staff see no concern of a charter denial at the next renewal period up-coming shortly.

Legal Status Questionnaire: Staff reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead staff to question the financial or legal integrity of this applicant.

Project Description: The existing school site has a main classroom wing that houses the office, student support program rooms, multipurpose room, three classrooms, two student restrooms and a staff restroom. Additionally, there are six existing relocatable classrooms on the site 5 of which are 960 square feet, one is 1,920 square feet. The site is approximately 7 acres all of which are usable for school purposes. The current enrollment size necessitates the rehabilitation, remodeling and reconfiguration of some spaces and replacement of the antiquated portables with modular buildings, all of which falls under the rehabilitation project category.

The rehabilitation project consists of the replacement of four 960 square foot relocatable classroom buildings and two permanent classrooms so that the two permanent spaces can be remodeled and reconfigured into a larger library, multipurpose space and reconfigured office space. The remainder of the project will entail remodeling restrooms and associated site work for the entire project. The school site will be operation during the rehabilitation and the project is expected to be completed September 1, 2018.

District Organizational Information: SLCUSD is school district located in San Luis Obispo County and operates 16 schools: ten elementary schools (Baywood Elementary, BSFC, Bishop's Peak Elementary, Del Mar Elementary, Hawthorne Elementary, Los Ranchos Elementary, Monarch Grove Elementary, Pacheco Elementary, Sinsheimer Elementary, Smith (C. L.) Elementary, and Teach Elementary); two middle schools (Laguna Middle and Los Osos Middle); two high schools (Morro Bay High and San Luis Obispo High), one continuation school (Pacific Beach High); one special education public school (PEEP-PREPARE); & one adult school (San Luis Coastal Adult). BSFC is the district’s only charter.

SLCUSD is located in San Luis Obispo County within the District, and is comprised of the following mix of races/ethnicities: 83.6% Hispanic or Latino; 9.4% Caucasian; 2.8% Asian; 1.5% African American/Black; 1.2% identifying with two or more races/ethnicities; 0.9% American Indian/Alaska Native; 0.4% Filipino; and 0.1% Pacific Islander.

Key staff members of the SLCUSD's management team are Superintendent Dr. Eric Prater, Assistant Superintendent of Business & Support Services, Ryan Pinkerton, and Assistant Superintendent of Educational Services Kimberly McGrath. Staff reviewed the resumes of SLCUSD's management team and determined that, collectively and individually, the management team demonstrates having the required experience and educational background.

School Organizational Information: BSFC's charter was approved by the SLCUSD on December 12, 2012, with the charter set to expire on June 30, 2018. BSFC opened in 1996-1997 school year and serves grades K-6. BSFC is governed by its own board made up of seven members: a school administrator, two staff members, three parents of family members of students, and a member from the community at large. The 2017-18 board members consist of Principal Holly Warrick, Teachers Kevin Ashworth and Dena Udlock, Member of the Community Marc Lebed, and parents Lea Payne Scott, David Preston, and Stephanie Purvis.

The district and the BSFC claim to enjoy a cooperative, collaborative relationship, one that is characterized by mutual respect and support. The school charter has been reviewed and renewed five times; the last three being approved on the district governing board's consent agenda. In 2008 and again in 2014 the school was recognized by the State of California as a distinguished school. According to the materials submitted, BSFC's curriculum has a strong base in the California Common Core Content Standards. The charter petition emphasizes a concentration on mastering fundamental skills of language arts, math, history/social science, theoretical and applied sciences, and computer literacy. The curriculum also includes physical fitness and wellness, the visual and performing arts and music appreciation. Project-based instruction is employed to develop analytical thinking, social responsibility, and communication skills. BSFC has many special programs: SciTechatrium which is a "hands-on", child friendly science learning facility; AgGrow program which is an outdoor agricultural program; and Physical Education and Challenge Outdoor Changes Kids (PEACOCK) which is prototypical program emphasizing physical fitness and interpersonal skills.

BSFC is located in San Luis Obispo County within the District, and is comprised of the following mix of races/ethnicities: 78.0% Caucasian; 7.9% Hispanic or Latino; 7.3% Asian; and 6.7% identifying with two or more races/ethnicities. BSFC is a K-6 elementary conversion charter school. As required by state charter school law, their targeted student population is students whose families reside in the former attendance area of the school prior to it becoming a charter school.

Holly Warrick is the current principal of BSFC. Staff reviewed the credentials of the Principal of BSFC and determined that, collectively and individually, the management team demonstrates having the required experience and educational background to effectively oversee the operations of BSFC.

School Academic Performance: The following tables represent the 2014-15 and 2015-16 academic performance of BSFC, Shell Beach Elementary, and SLCUSD. The results are provided through CDE's CAASPP Smarter Balanced testing data. Shell Beach Elementary

is a non-chartered public elementary school, serving grades K-6. It is a part of the Lucia Mar Unified School District. There are currently 423 students enrolled.

English Language Arts (2015-16) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
BSFC	85%	Highest	0 out of 1
Shell Beach	67%	Average	2 out of 3
SLCUSD	65%	High	0 out of 8

Mathematics (2015-16) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
BSFC	83%	Highest	0 out of 1
Shell Beach	54%	Average	2 out of 3
SLCUSD	59%	Highest	0 out of 8

English Language Arts (2014-15) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
BSFC	76%	N/A in 2014-15	N/A in 2014-15
Shell Beach	67%	N/A in 2014-15	N/A in 2014-15
SLCUSD	59%	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
BSFC	75%	N/A in 2014-15	N/A in 2014-15
Shell Beach	57%	N/A in 2014-15	N/A in 2014-15
SLCUSD	50%	N/A in 2014-15	N/A in 2014-15

Enrollment Trends and Projections: The tables below present enrollment information for SLCUSD and BSFC from FY2014 through FY2020. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

District-wide Student Enrollment and Average Daily Attendance

<u>SLCUSD</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Enrollment	7,509	7,636	7,638	7,718	7,780	7,780	7,780
ADA	93.6%	93.3%	93.1%	93.7%	93.5%	93.5%	93.5%

School Student Enrollment and Average Daily Attendance

<u>BSFC</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Enrollment	145	151	159	163	164	168	168
ADA	97.9%	98.3%	97.2%	96.6%	96.6%	96.6%	96.6%

District Financial Analysis:

Financial Data Sources: This financial analysis is based on the consideration and review of the following for SLCUSD, the financial obligor and Applicant, on behalf of BSFC: (1) audited financial statements for 2013-14, 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 SLCUSD’s financial performance, including the evaluation operating budget and liquidity, is based on the “General Fund” only.

Assumptions: SLCUSD’s financial projections are based upon the following assumptions: (1) a match share in the form of a lump sum payment made by SLCUSD using Measure D bond proceeds; (2) District-wide enrollment projections as provided above under “Enrollment Trends and Projections”; (3) Projected District-wide ADA rates of 93.5%, which are consistent with historical performance; (4) Local Control Funding Formula (LCFF) per-ADA funding rate of \$7,274 for FY2018, as included with BSFC’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%.

Long Term Liabilities: In November 2014, voters approved Measure D which authorized \$50,000,000 General Obligation Bonds. Proceeds from the Bonds were, and are to be, used for financing and renovation, construction and improvement of school facilities. Series A was sold in April 2015 and deposits and interest received in Fund 21 amounted to \$50,746,327. The ending balance in 2015-2016 was \$45,013,857. At June 30, 2016, the principal balance was \$50,000,000. The long-term portion of accumulated unpaid employee vacation for SLCUSD at June 30, 2016, amounted to \$621,867.

SLCUSD offered an early retirement incentive to qualified employees dubbed the Supplemental Employee Retirement Plan (SERP). The retiree receives an annual benefit payment paid out annually to the retiree in equal installments. SLCUSD’s obligation to those retirees as of June 30, 2016, is \$396,680. SLCUSD’s annual required contribution towards their Postemployment Benefits (OPEB) Obligation for the year ended June 30, 2016, was \$2,218,751, and contributions made by SLCUSD during the year were \$1,028,612. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$154,343 and \$223,142, respectively, which resulted in an increase to the net OPEB obligation of \$1,121,340. As of June 30, 2016, the net OPEB obligation was \$4,979,904. Debt service funds are restricted with a balance of \$7,574,200 as of June 30, 2016.

Private Contributions: SLCUSD does not rely on any private contributions.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff’s analysis regarding SLCUSD’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 rating, as provided by Standards and Poor’s and Moody’s.

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
OPERATIONAL & FINANCIAL							
Enrollment	7,509	7,636	7,638	7,718	7,780	7,780	7,780
Average Daily Attendance (ADA)	7,032	7,128	7,112	7,232	7,274	7,274	7,274
Average Daily Attendance (%)	93.6%	93.3%	93.1%	93.7%	93.5%	93.5%	93.5%
LCFF Sources/ADA	\$ 9,256	\$ 9,538	\$ 10,073	\$ 10,329	\$ 10,555	\$ 10,765	\$ 10,975
% Change		3.0%	5.6%	2.5%	2.2%	2.0%	2.0%
Operating Revenues/ADA	\$ 11,299	\$ 11,450	\$ 12,528	\$ 12,576	\$ 12,291	\$ 12,772	\$ 12,956
% Change		1.3%	9.4%	0.4%	-2.3%	3.9%	1.4%
Operating Expenses plus CSFP Lease/ADA	\$ 11,046	\$ 11,945	\$ 12,190	\$ 12,742	\$ 12,410	\$ 12,831	\$ 13,209
% Change		8.1%	2.1%	4.5%	-2.6%	3.4%	2.9%
Free Cash Flow/ADA	\$ 253	\$ (494)	\$ 338	\$ (166)	\$ (119)	\$ (59)	\$ (253)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
DEBT SERVICE COVERAGE							
Total Operating Revenues	\$ 79,451,493	\$ 81,614,656	\$ 89,103,258	\$ 90,955,238	\$ 89,405,932	\$ 92,906,895	\$ 94,245,770
Total Operating Expenses	77,674,440	85,138,440	86,696,508	92,156,094	90,272,918	93,336,689	96,088,583
Total Other Sources/Uses	(811,079)	(795,960)	(695,650)	(120,000)	(168,010)	(1,000,000)	-
Net Income Available for CSFP Lease Payment	965,974	(4,319,744)	1,711,100	(1,320,856)	(1,034,996)	(1,429,794)	(1,842,813)
Add Back Capital Outlay	1,503,886	1,478,577	364,775	1,441,765	15,000	10,000	10,000
Add Back Depreciation	-	-	-	-	-	-	-
Free Cash Flow	\$ 2,469,860	\$ (2,841,167)	\$ 2,075,875	\$ 120,909	\$ (1,019,996)	\$ (1,419,794)	\$ (1,832,813)
LIQUIDITY							
Current Assets	\$ 33,599,545	\$ 28,967,038	\$ 30,819,486	\$ 21,236,292			
Current Liabilities	4,056,349	3,743,586	3,884,934	4,753,578			
Net Working Capital	\$ 29,543,196	\$ 25,223,452	\$ 26,934,552	\$ 16,482,714			
Net Working Capital/Oper. Expenses	38.0%	29.6%	31.1%	17.9%			
Unrestricted Cash & Cash Equivalents	\$ 31,344,398	\$ 26,831,548	\$ 28,911,744	\$ 19,395,559			
Unrest. Cash & CE/Oper. Expenses (Days)	147	115	122	77			
Unrest. Cash & CE/All Expenses (Days)	147	115	122	77			

Benchmark Summary:

- Free Cash Flow/ADA – Not met (-\$72 avg.)
- Free Cash Flow – Not met – (-\$643,818 avg.)
- Net Working Capital as Portion of Operating Revenue – Met (29.2%)
- Unrestricted Cash & Cash Equivalents as Portion of All Revenue – Met (115 days)
- Standard & Poor’s Credit Rating (2017) – “AA-” for General Obligation (GO) Bonds
- Moody’s Credit Rating (2017) – “Aa1” for General Obligation (GO) Bonds

Summary of Financial Findings and Special Considerations: Though BSFC has no financial obligation with the CSFP project, staff reviewed BSFC’s financials to ensure the school was financial viable to continue operations. BSFC projects a positive operative revenue from 2017-18 through 2019-20. BSFC also projects ending fund balances of \$1,007,504 in 2017-18, \$1,008,803 in 2018-19, and \$1,009,702 in 2019-20. There no long-term liabilities or obligations and contributions only average about 2% of operating revenue. In addition and on average, BSFC has 191 operating days of unrestricted cash &

equivalents and the available net working capital averages 56% as a portion of the operating expenses. Almost all funding for Bellevue-Santa Fe Charter School comes through the state's Local Control Funding Formula (LCFF). The school does orchestrate two annual fundraisers, the Fall Pledge Drive and the Spring Auction and Carnival. The school raises about \$30,000 total from these two fundraisers. Proceeds from these annual fundraisers provides enhancements for the school. For these reasons, staff considers BSFC financially viable.

Given that SLCUSD has agreed to make a lump-sum payment of \$3,031,860 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 SLCUSD can meet its "General Fund" annual operating obligations. Though operating with negative net revenue in the projection for 2017-18 through 2019-20, the General Fund balance is fund balance averages \$13,880,251 over those three fiscal years. Staff also notes that in the projected years of 2017-18 through 2019-20, the net deficits would represent 6.7%, 11.0%, and 15.1% of the ending fund balances, respectively. Hence, SLCUSD has sufficient reserves to offset its net deficits, and is projected to have more than sufficient reserves to offset the deficits in the projected years, if necessary.

Notwithstanding the projected net deficits, given SLCUSD's credit ratings from Moody's and Standard and Poor's, along with SLCUSD's operating fund balances, and the availability of funds to make the lump-sum payment, staff finds that SLCUSD's financial performance and projections support a recommendation of financial soundness.

Strengths, Weaknesses and Mitigants:

- + BSFC has outperformed their district counterparts on average in both English Language Arts and Mathematics assessment in the last two years and that overall trend is improving.

- + BSFC is strong financially as it comfortably met all the financial soundness benchmarks prescribed.

- + SLCUSD has available GO bond proceeds in excess of \$79 million to make a lump-sum payment of \$3,335,046 to cover the local matching share.

- +/- SLCUSD projects its general fund operating at a deficit from 2017-18 through 2019-20 but has an adequate fund balance at the end of each of these years.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that BSFC's CSFP project is financially sound for the purposes of Preliminary Apportionment. This determination as it relates to Preliminary 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 SLCUSD 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 BSFC 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.