

Charter School Facilities Program

Methodology Guide for Preparation of Staff Reports for Preliminary, Advance and/or Final Apportionment

This methodology is intended to provide a streamlined approach to the California School Finance Authority (CSFA) staff's analysis and development of staff summaries for purposes of the CSFA Board's approval of recommendations regarding financial soundness. CSFA staff prepare a staff summary for each Program applicant or recipient to assist the Board with its determination of financial soundness for preliminary, advance, and/or final apportionment. Below are the content areas of the reports that are distributed to Board members to assist with their determinations. This methodology is intended to complement the CSFP Act (Education Code, Sections 17078.52 et seq.) and CSFP Program regulations (Title 4, Division 15, Article 1, California Code of Regulations (Section 10151 et seq.)).

Under this revised methodology, the staff summaries are to provide a brief summary of staff's evaluation regarding each applicant's financial and operational soundness; the financial model in conjunction with the application documents will serve as back-up information to support staff's conclusions and recommendations in the staff summary.

Staff is responsible for maintaining this back up information in an organized manner, either electronically or in hard-copy, and upon a Board member's request, staff will be able to provide specific back-up information or documentation for any applicant under Board consideration.

CSFP Project History:	<ul style="list-style-type: none">• Depending on whether an Applicant has one or more projects through CSFP, the specifics of each project will be provided in tabular format. If this is their first CSFP project, only one line item will be entered in the table.• If the review is for Advance or Final Apportionment (not Preliminary Apportionment), the relevant information to be included in this section is the date and amount of the preliminary apportionment as well as the date(s) and amounts of any previous advance apportionments, as approved by the State Allocation Board, and the amount currently requested for advance/final apportionment, including the type of advance apportionment, if applicable.• For the requested advance/final apportionment amounts, staff may need to query designated staff at the Office of Public School Construction (OPSC). In addition, this section should identify what specific updated information was requested and received from the applicant for purposes of evaluation for advance or
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	<p>final apportionment.</p> <ul style="list-style-type: none"> • This section should discuss issues and concerns raised during prior evaluations for preliminary or advance apportionment based on staff’s review of prior staff reports, including the staff report for preliminary apportionment, and related materials.
Application Highlights:	<ul style="list-style-type: none"> • Staff highlights key criteria that were evaluated when conducting its financial soundness review. Detailed information is contained in the body of the report. • This table is intended as a dashboard on staff’s analysis regarding financial soundness. If the Applicant has committed to providing a lump-sum towards the local match, this fact will be included under “Other Financial Factors.” • If staff’s review involves special considerations that result in special contingencies, these will also be included within this table. These special contingencies may include, but are not limited to, assumptions regarding receipt of private contributions or government grants in order to support a recommendation for financial soundness.
Program Eligibility:	<ul style="list-style-type: none"> • This Section is intended to address eligibility with respect to the good standing and compliance of the charter as well as whether or not the Applicant meets the two-year requirement for charter school experience pursuant to Sections 10154(a), (b) and (c) of the Program regulations. • If the Applicant meets the 2-year requirement through management experience rather than years of operation of the charter, staff will include a description of this experience within this section.
Legal Status Questionnaire:	<ul style="list-style-type: none"> • Staff reviews responses to the Legal Status Questionnaire which asks applicants to identify any civil, criminal, legal or regulatory proceedings or actions that might have a material impact on the financial viability of the application or the project. • Most applicants have nothing to disclose. Affirmative responses are vetted to determine the impact of the financial soundness of the applicant.
Applicant/Obligor Organizational Information:	<ul style="list-style-type: none"> • The organizational information requested from each applicant is similar to the due diligence items a commercial lender would review for a corporate

	<p>borrower.</p> <ul style="list-style-type: none"> • The Program application inquiries about (1) the school's legal structure as a 501(c)(3) organization, subsidiary of a Charter Management Organization (CMO), or other; (2) whether the charter school is an independent charter school, or district-dependent charter school; (3) the charter award date and first year of instructional operations; (4) grades served (both initially and over time); (5) charter expiration date and expected renewal process; and (6) the school's relationship with its chartering authority. • A summary of staff's review of this information is included in this section of the report. If the school is operated by a CMO, staff reviews the CMO's responsibilities to the school, its history of operations, strategic plan, and biographical information of key staff and directors, which will be summarized in this section of the staff report.
<p>School Organizational Information:</p>	<p>The Program application inquiries about (1) the school's legal structure as a 501(c)(3) organization, subsidiary of an Charter Management Organization (CMO), or other; (2) whether the charter school is an independent charter school, or district-dependent charter school; (3) the charter award date and first year of instructional operations; (4) grades served (both initially and over time); (5) charter expiration date and expected renewal process; and (6) the school's relationship with its chartering authority. The school's top administrator(s) should be listed.</p>
<p>School Academic Performance:</p>	<ul style="list-style-type: none"> • This section of the Report provides tables representing descriptive statistics on "Smarter Balanced" test results for Mathematics and English Language Arts/Literacy. The tables are intended to provide a comparison of the performance of the charter school applicant with that of a traditional public school in the local elementary school attendance area as well as with the school district within which the charter school is located. • As CAASPP only tests grades 3-8 and 11, they are provided as background information rather than as a basis for the financial soundness recommendation. • If the tables reflect results that are less than optimal, this information is to be used to emphasize the importance of reevaluating the school's performance at the time of Final Apportionment.
<p>Enrollment Trends and Projections (Both Applicant/Obligor and School):</p>	<ul style="list-style-type: none"> • The key purpose of this section is to summarize staff's evaluation of whether the Applicant's assumptions are reasonable with respect to student enrollment projections and Average Daily Attendance (ADA), as incorporated into the Applicant's financial projections.

	<ul style="list-style-type: none"> • For Applicants that are CMOs or school districts, staff will evaluate whether the CMO- or district-aggregate projected enrollment and ADA are reasonable, since staff’s financial analysis is based on aggregate enrollment in these cases. If staff determines that the enrollment projections are not reasonable, staff may request the Applicant to submit revised enrollment and budget projections that are supportable. • Although not elaborated within the Board Report, staff considers the following information to determine whether the projections are reasonable: historical ADA; historical enrollment and growth; year-to-year retention rates for the past three years; number of students on current wait list; the historical enrollment of other charter schools and/or the planned addition of new charter schools (for a CMO); and the addition of new school sites (for a standalone charter school). Staff is to maintain organized records and work notes, if necessary, to support the conclusion of reasonableness, in the event back up information is requested. • To the extent that the assumed enrollment projections are deemed reasonable, staff will include a statement following the table, which affirms its conclusion and which identifies the considerations taken into account. An example may be: “Based on its consideration of multiple factors, including retention rates, historical enrollment, historical ADA, planned addition of new charter schools, staff concludes that the Applicant’s student enrollment projections, as incorporated into its financial projections, are reasonable.”
<p>Financial Analysis:</p>	<ul style="list-style-type: none"> • This section includes a summary of staff’s analysis regarding the applicant’s ability to meet the minimum debt service coverage requirement of 1.0x as well as demonstrate that it is a financially capable concern based on financial information submitted with the Application. To this end, Staff determines the reasonableness of the assumptions underlying the Applicant’s projections, given its historical financial performance. • Staff utilizes a vetted CSFP financial model for purposes of entering financial information and determining specific financial indicators that will be included in tabular form within this Report. • If the Applicant is relying on a lump-sum payment towards the local match, the competency of documentation (i.e. bank statement reflecting restricted funds] supporting this payment will be described within this section as well as the introductory paragraph of the

	summary.
Assumptions:	<ul style="list-style-type: none"> • Staff’s financial analysis is based on specific financial information submitted with the Application as well as specific assumptions concerning such financial information both of which are spelled out within the staff summary. • The financial information upon which the analysis is based includes but is not limited to: (1) audited financial statements for the previous two or three fiscal years; (2) unaudited actuals for the most recent fiscal year; (3) adopted budget for the current fiscal year (or interim budget, depending on the time of year during which the review is taking place); and (4) multi-year budget projections through at least two years following the first year of project occupancy, along with relevant assumptions. • In general, the assumptions for the financial analysis include, but are not be limited to: (1) expected date of project occupancy; (2) total project costs (based on preliminary apportionment amount provided by OPSC) (3) assumed interest rate and term of the CSFP loan; (4) projected enrollment growth and ADA (by reference to the Enrollment Section); (5) per-ADA LCFF funding rates; (6) cost of living adjustments to LCFF rates; and (7) COLAs on expenses. Staff defers to the Authority’s contracted financial advisor in order to determine whether the per-ADA LCFF assumptions are reasonable.
Long Term Liabilities	This section lists the long-term obligations, as determined from audited financial statements, unaudited actuals, material contracts, or written statements from the Applicant. Where applicable, the discussion of long-term debt should include whether the debt may potentially impact the ability to meet the CSFP obligation.
Private Contributions:	Private contributions, as determined from audited financial statements, unaudited actuals, material contracts, or written statements from the Applicant is provided in this section. Where applicable, a discussion regarding the reasonableness of projected contributions and the extent of reliance on contributions to meet the CSFP obligation will be included.
Benchmark Summary and Analysis:	<ul style="list-style-type: none"> • For purposes of summarizing the results of the financial analysis, the Board Report includes a “Financial Projections and Indicators Table” drawn from the CSFP financial model as well as a “Financial Indicators Summary.” In populating the financial model, staff ensures that CSFP payments are not included as an expense item, and if the CSFP loan payment replaces a

	<p>previous rent/lease payment that rent/lease payment is not included in the years following project occupancy.</p> <ul style="list-style-type: none">• Furthermore, to the extent that long-term debt is applicable, staff will include principal and interest associated with long-term debt as expense items within the CSFP financial model, even if not accounted for in the multi-year budget projections provided by the Applicant. Key indicators include: debt service coverage (with and without fundraising, if applicable); debt service coverage from LCFF Sources subject to CSFA Intercept and debt service coverage from net operating income; CSFP payment/revenues; net working capital; net working capital/expenses; private contributions/revenues; and total unrestricted cash.• The “Financial Indicators Summary” includes both the actual indicator for the financial obligor as well as the benchmark (minimum or maximum acceptable value) and whether or not the benchmark requirement was met. The financial obligor that is the subject of the analysis is to be made clear by naming the specific entity (district, CMO, or charter school) within the narrative text and table.• With respect to the debt service coverage requirement, in general, the Applicant must meet the minimum 1.0X (100%) requirement in all relevant projected years (usually the two years following the date of project occupancy), even if the Applicant has sufficient net assets or a sufficient fund balance to cover the amount of a deficit within a deficit year.• Exceptions may be made on a case-by-case basis, especially when a deficit occurs in only one year and the amount of deficit is nominal (i.e. less than 5%) in relation to the total fund balance.• If the Applicant is planning to make a lump-sum payment to meet the local match requirement, staff relies upon additional indicators in lieu of debt service coverage, including showing a positive operating margin in all projected years. Where debt service coverage levels are only marginally over 100%, staff substantiates its recommendation for financial soundness based on mitigating factors, such as success with other charter schools.• In the event staff raises concerns regarding the reasonableness of assumptions in the multi-year budget projections, staff requests the Applicant to resubmit the projections with more conservative assumptions.• Alternatively, staff may “stress-test” the financial model to assess the extent to which the debt service coverage
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	<p>requirement is met upon unexpected reduction in enrollment or private contributions. For purposes of determining the reasonableness of the assumptions in the multi-year projections, staff compared the historical performance over the previous 2-3 years based on the audited financial statements and unaudited actuals with the projections in terms of net operating margin and fund balance.</p> <ul style="list-style-type: none"> • If there is a significant discrepancy, staff questions the reasonableness of the assumptions, even after considering the reasonableness of the student enrollment projections.
Summary of Financial Findings and Special Considerations:	<p>This section provides a summary of the determinations made regarding the applicants financial analysis and an explanation for any conclusion met. This section may provide special consideration such as lump sum and fund(s) balance consideration. It also may provide a review of the project school's financial health if they are not the financial obligor.</p>
Strengths, Weaknesses and Mitigants:	<p>This section of the staff report reiterates the applicant's key operating, management, academic performance, and financial factors that are most relevant to staff's recommendation of financial soundness. Additionally, within this section, staff presents any mitigating factors, if applicable.</p>
Staff Recommendation:	<p>This Section uses standard language regarding the recommendation, along with specific contingencies, where applicable. For Preliminary Apportionments, staff may provide a recommendation of "is not" financially sound, and modify the recommendation accordingly.</p>