M E M O R A N D U M **Staff Summary No. 6**

Date: June 26, 2014

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution 14-18 – Approval of the Revolving Loan Fund Program Recommendations and Amounts (Action Item)

Background: Pursuant to the California State Budget Act of 2013, commencing with the 2013-14 fiscal year, the administration of the Charter School Revolving Loan Fund Program (Program) (Sections 41365, 41366.5, 41366.7, and 41367 of the Education Code) was transferred from the California Department of Education (CDE) to the California School Finance Authority (Authority). The Program provides low-interest loans of up to $250,000 to new charter schools.

In January 2014, the Board adopted emergency Program regulations. In early February 2014, CSFA notified all California charter schools of the availability of the 2013-14 Program funding round and required all applications to be submitted to the Authority by February 24, 2014 at 5:00 P.M.. In total, sixty applications were received; however, 10 applications were received after the deadline. Per Authority board direction, Authority was tasked with reviewing the late applications only if funds were available after the 50 on-time applications were fully evaluated and vetted for funding.

Since February, our consultant, Sjoberg Evashenk Consulting, Inc. (SEC), and Authority staff have been assessing the 50 loan applications. Authority followed the framework established by statute and regulation in the California Education Code Section 41365(d) and Code of Regulations Section 10170.20(a) and Section 10170.20(b)(4) in conducting the following review and evaluation process.

1. **Application Package Review:** Confirmed that the submittal complied with application terms such as:
   - Met application time deadline
   - Eligible (not a conversion)
   - 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 articles of incorporation
   - Signed legal status questionnaire

- School is in good standing with chartering authorizer and in compliance with charter terms
- Has approved charter in place
- Detailed business plan and/or charter petition
- Board of Director listing with no apparent conflicts
- Key staff resumes demonstrate relevant experience
- Projected enrollment and ADA supported by student enrollment and/or waiting lists Evidence of a facility use agreement
- In compliance with other CSFA programs

3. **Financial Analysis—Part I:** Conducted fiscal evaluation based on a variety of indicators such as:
   - Soundness of business plan/charter petition
   - Consistency of proposed loan proceeds with charter
   - Availability of other funding
   - Impact of loan on other financing
   - Creativity of planned use of funds
   - Demonstrated need of school

4. **Financial Analysis—Part II:** 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:
   - Reasonableness of budget assumptions
   - Alignment of revenue and expenditure projections with comparable data available from the California Department of Education, California Department of Finance, and National Charter School Resource Center
   - Calculated financial ratios within range when compared against benchmarks, where data exists
   - Focused on liquidity, solvency, financial position, sustainability, break-even, and debt service coverage

5. **Loan Recommendations:** Considered all of operational and financial information and assumptions for each loan and performed the following:
   - Assigned risk levels—low, moderate, or high
   - Sort applicants by priority and region in accordance with California Code of Regulations §10170.17(l) through (o).
   - Assess geographical distribution for reasonableness
   - Based on the availability of funds, recommended specific loans for approval, non-approval, or modification.

In addition to conducting the steps listed above, the application reviewers took the funding preferences set forth in program guidelines into consideration when developing recommendations for which schools should receive loans. For instance, Section 41365(e) of the Education Code states that "Priority for loans from the Charter School Revolving Loan Fund shall be given to new charter schools for startup costs." Program regulations reflect similar preference; therefore staff determined that loans to schools opening in 2014-15 would be given priority over schools that opened in 2013-14.

As such, staff reviewed two tiers of loans: (1) the 29 schools opening in 2014-15 that were considered priority one schools; and (2) the 16 schools that have already opened in 2013-14 that were classified as priority two schools. Loan requests from priority one schools opening next year totaled $7.1 million, while loan requests from priority two totaled $3.95 million. The total loan request of $11.05 million exceeds available loan funds of $10.5 million. In addition, four schools withdrew their applications, and 2 were deemed ineligible. Authority staff has not begun the review of the 10 late applications at this time.

Authority staff is bringing only priority one schools to the board for consideration at its June 26, 2014 meeting. Staff anticipates bringing additional loan recommendations to a subsequent July meeting.

For your review and consideration, staff provides summary findings for each school in the attached Exhibit A.

Recommendation: Staff recommends that the Board adopt Resolution No. 14-18, approval of the revolving loan fund recommendations and amounts to the schools listed on Exhibit A (attached). Staff is charged with providing schools with notification of loan approval, distributing loan agreements, executing loan agreements, and carrying out all necessary steps to disbursing funds to schools.