

**Charter School Facilities Program
Proposition 51 Funding Round
Staff Summary Report – January 2018**

Applicant/Obligor:	Enterprise Elementary School District
Project School:	PACE Academy
CDS (County – District – School) Code:	45 69971 6114334
School Address/Proposed Site:	3200 Adams Lane, Redding CA 96002
Type of Project:	New Construction/Rehabilitation
Type of Apportionment:	Preliminary
County:	Shasta
District in which Project is Located:	Enterprise Elementary School District
Charter Authorizer:	Enterprise Elementary School District
Total OPSC Project Cost:*	(NC) \$4,492,157 (R) <u>\$1,157,132</u> \$5,649,289
State Apportionment (50% Project Cost):	(NC) \$2,246,078.50 (R) <u>\$578,566</u> \$2,824,644.50
Lump Sum Contribution:	(NC) \$2,246,078.50 (R) <u>\$578,566</u> \$2,824,644.50
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:	2018-19

**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.*

Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Enterprise Elementary School District (“District” or “EESD”), on behalf of PACE Academy (“School” or “PACE”), is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This recommendation, as it relates to 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. 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 providing proof of the funds available to make the lump sum payment towards the local match, EESD has confirmed their expected lump sum payment. The funds

for the lump sum will come from a designated fund with a balance as of June 2017 of \$3,323,823. Staff notes that, prior to a Preliminary 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 Enterprise Elementary School District on behalf of PACE Academy. Detailed information is contained in the body of the report.

<i>Criteria</i>	<i>Comments</i>
<i>Obligor Information</i>	
Demographic Information	<ul style="list-style-type: none">• In 2016-17, EESD operated/authorized ten schools which consists of seven elementary schools, two K-8 grade schools, and one high schools. Enrollment totaled at 3,786 with an ADA rate of 95.0%• By 2018-19, EESD projects an enrollment of 3,597 students.
Debt Service Coverage	The district is providing its matching share through GO bond proceeds and, if necessary, other designated funds.
Other Financial Factors	<ul style="list-style-type: none">• EESD has confirmed the matching share will be through a lump sum payment from designated funds, which balance as of June 30, 2017 was \$3,323,823.• EESD's general fund (chief operating fund) has a projected balance of \$6,994,937 as the end of 2017-18.
<i>School Information</i>	
Eligibility Criteria	PACE Academy has met all eligibility criteria: (1) PACE Academy will begin operation in 2018, and while it has not been in operation for more than 2 years CSFA staff has reviewed key school and district personnel and is comfortable in their abilities; (2) PACE Academy's charter was approved in 2017 and is in place through 2023; (3) PACE Academy is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	PACE Academy is in its first year of operation and therefore has no student data for comparison.

Program Eligibility: On October 6, 2017, at CSFA staff's request, verification was received from Enterprise Elementary School District confirming that PACE Academy (1) in compliance with the terms of its charter agreement, and (2) in good standing with its chartering authority. PACE Academy's current charter is effective through 2023.

Given that PACE opened this academic school year (2017-18), and therefore does not meet the two-year operational eligibility requirement, staff evaluated the experience of EESD to find PACE eligible for program participation. Based on program regulation section 10154(c), when the application is submitted by a school district or county office of education and the charter school has not operated for at least two academic years as a charter

school, the school district or county office of education's experience operating public schools may be used to satisfy the requirements of this section.

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: PACE Academy is applying for both rehabilitation and new construction. The new facility and rehabilitation projects intersect, with the addition of 5 portable classroom buildings (used buildings acquired from another public school) to the PACE academy campus to accommodate anticipated growth. The project will include the site-work to prepare the property for the buildings, parking lot expansion, installation, and rehabilitation. The portables will function as four classrooms and one general office administrative building. Within the buildings, restrooms will be installed. With the installation of the administrative building, PACE Academy will be able to convert the current administrative building back into a classroom after completion of this project. Necessary ADA upgrades will be completed as well.

Obligor Organizational Information: Enterprise Elementary School District is a school district located in Shasta County and operates and/or authorizes ten schools: seven elementary schools, two K-8 grade schools, and one high schools. The EESD is comprised of the following mix of races/ethnicities: 58.8% Caucasian; 16.9% Hispanic or Latino; 2.0% African American/Black; 2.4% American Indian or Alaska Native; 6.9% Asian; and 3.3% Two or More Races. The District has an unduplicated pupil population of 69.3%. 69.4% of students are Socio-Economically Disadvantaged and 8.9% are English Learners.

The 2017-18 board members for Enterprise Elementary School District include President Gloria Valles, Secretary Troy Wright, Scott Swendiman, Art Cuellar and Bonnie Hyatt. Staff has reviewed the credentials of the key board members and staff and determined them to have the proper background and experience to govern and effectively oversee the operations of Enterprise Elementary School District.

School Organizational Information: PACE Academy is a public charter school located within the boundaries of the Enterprise Elementary School District and is authorized by the Enterprise Elementary School District. PACE Academy's initial charter was submitted to the Enterprise Elementary School District on February 1, 2017 and was approved. The charter set to expire in 2022.

Based on information provided by the school, PACE Academy Charter School was established with the express purpose of serving at-risk, behaviorally-challenged students who have struggled behaviorally and academically in a conventional public school setting and need a second chance to succeed. The school targets students affected by chronic truancy, expulsion, probation, students who are homeless, and foster youth. These students attend PACE Academy at the recommendation of principals, parents, foster care officials, etc. The hope is that positively impacting the lives of these students now will benefit not only them and their future but the community as a whole.

PACE Academy emphasizes trauma-based practices and instruction. PACE tailors individual education plans for each student to acutely address their academic and emotional needs. Because PACE Academy is a district-dependent charter, it allows the school full access to the Enterprise Elementary School District's formative and summative assessments; state and federal aligned curriculum; online instruction; and paper and electronic text materials. As well as their educator-talent infrastructure. PACE Academy's blended learning model seeks to provide the rigor and real world experience necessary to prepare K-12 students for college and the workplace.

PACE Academy is governed by the District, as mentioned above the 2017-18 board members for Enterprise Elementary School District include President Gloria Valles, Secretary Troy Wright, Scott Swendiman, Art Cuellar and Bonnie Hyatt. Staff has reviewed the credentials of the key board members and staff and determined them to have the proper background and experience to govern and effectively oversee the operations of Enterprise Elementary School District.

School Academic Performance: PACE does not have any student data available as it began operations in 2017-18. Therefore the following tables represent the 2014-15, 2015-16 and 2016-17 academic performance of the combined averages of EESD, Shasta County, and the State of California. The results are provided through CDE's CAASPP Smarter Balanced testing data.

English Language Arts – Comparison

	Years		
	2016-17	2015-16	2014-15
EESD	43%	42%	39%
County	47%	48%	42%
State	38%	38%	32%

	All Students Performance			Student Groups w/ Below Avg. Performance		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
EESD	N/A	Low; High	N/A*	N/A	4/4; 1/5	N/A*
County	N/A	Average	N/A*	N/A	1/10	N/A*
State	N/A	N/A	N/A	N/A	N/A	N/A

* Unavailable at time of report

Mathematics– Comparison

	Years		
	2016-17	2015-16	2014-15
EESD	27%	28%	35%
County	31%	32%	29%
State	38%	25%	21%

	All Students Performance			Student Groups w/ Below Avg. Performance		
School	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
EESD	N/A	Lowest; Average	N/A*	N/A	4/4; 0/5	N/A*
County	N/A	Average	N/A*	N/A	1/10	N/A*
State	N/A	N/A	N/A	N/A	N/A	N/A

* Unavailable at time of report

Enrollment Trends and Projections: The tables below present enrollment information for EESD and PACE from 2013-14 through 2019-20. 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>EESD</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Enrollment	3,680	3,622	3,678	3,786	3,609	3,597	3,597
ADA	95.2%	94.9%	95.5%	95.0%	95.2%	95.0%	95.0%

School Student Enrollment and Average Daily Attendance

<u>PACE</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Enrollment	N/A	N/A	N/A	N/A	87	117	147
ADA	N/A	N/A	N/A	N/A	95.0%	95.0%	95.0%

Financial Data Sources: This financial analysis is based on the consideration and review of the following for EESD, the financial obligor and Applicant, on behalf of PACE: (1) audited financial statements for 2013-14, through 2015-16; (2) unaudited actuals for 2016-17; (3) adopted budget for 2017-18; and (4) budget projections for 2018-19 through 2020-21 along with assumptions. Please note that staff's analysis of EESD's financial performance, including the evaluation operating budget and liquidity, is based on the district's General Fund.

Assumptions: EESD's financial projections are based upon the following assumptions: (1) occupancy of the rehabilitation and new construction projects in 2018-19; (2) District-wide enrollment projections as provided above under "Enrollment Trends and Projections"; (3) Projected District-wide ADA rates of 95%, which are consistent with historical performance; (4) Local Control Funding Formula (LCFF) per-ADA funding rate of \$9,062 for 2017-18, as included with EESD's adopted budget document; and (5) EESD contributing a lump sum payment as the project's matching share.

Long Term Liabilities: Long Term Liabilities: As provided by the 2016-17 audited financial statements, PACE has \$61,590,724 in long-term debt. The debt is from the following governmental activities: \$21,812,151 in general bond obligations; \$1,089,737 in bond

Item 4(P) – CSFP Staff Summary
Enterprise Elementary School District on behalf of PACE Academy
Page 6 of 7

issuance premiums; \$4,496,961 in capitalized interest; \$170,102 in compensated absences; \$34,021,773 in net person liability. Only \$2,375,116 is due within one year. \$2,149,690 of the amount due within a year is from the general obligation bonds. The remaining amount of \$226,116 is from bond issuance premiums. The Bond Interest and Redemption Fund allocated \$3,375,020 for debt service.

Private Contributions: EESD 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 EESD'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.

OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS							
	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
OPERATIONAL & FINANCIAL							
Enrollment	3,680	3,622	3,678	3,786	3,609	3,597	3,597
Average Daily Attendance (ADA)	3,503	3,438	3,514	3,596	3,437	3,417	3,417
Average Daily Attendance (%)	95.2%	94.9%	95.5%	95.0%	95.2%	95.0%	95.0%
LCFF Sources/ADA	\$ 6,395	\$ 7,363	\$ 8,303	\$ 8,816	\$ 9,062	\$ 9,285	\$ 9,548
% Change		15.1%	12.8%	6.2%	2.8%	2.5%	2.8%
Operating Revenues/ADA	\$ 8,389	\$ 9,530	\$ 10,943	\$ 11,074	\$ 11,501	\$ 11,590	\$ 11,854
% Change		13.6%	14.8%	1.2%	3.9%	0.8%	2.3%
Operating Expenses plus CSFP Lease/ADA	\$ 8,599	\$ 9,907	\$ 10,579	\$ 10,981	\$ 11,718	\$ 12,175	\$ 12,096
% Change		15.2%	6.8%	3.8%	6.7%	3.9%	-0.6%
Free Cash Flow/ADA	\$ (210)	\$ (378)	\$ 363	\$ 93	\$ (217)	\$ (585)	\$ (243)
DEBT SERVICE COVERAGE							
Total Operating Revenues	\$ 29,386,093	\$ 32,763,078	\$ 38,452,531	\$ 39,823,076	\$ 39,529,670	\$ 39,606,044	\$ 40,505,766
Total Operating Expenses	30,123,248	34,061,610	37,175,297	39,489,336	40,274,381	41,604,510	41,334,920
Total Other Sources/Uses	(116,608)	(91,456)	(41,819)	(36,479)	(379,607)	(229,607)	(229,607)
Net Income Available for CSFP Lease Payment	(853,763)	(1,389,988)	1,235,415	297,261	(1,124,318)	(2,228,073)	(1,058,761)
Add Back Capital Outlay	125,727	25,367	68,471	52,313	160,808	30,808	30,808
Add Back Depreciation	-	-	-	-	-	-	-
Adjusted Net Income Available for CSFP Lease Pymt.	(728,036)	(1,364,621)	1,303,886	349,574	(963,510)	(2,197,265)	(1,027,953)
CSFP Lease Payments	-	-	-	-	-	-	-
Free Cash Flow	\$ (728,036)	\$ (1,364,621)	\$ 1,303,886	\$ 349,574	\$ (963,510)	\$ (2,197,265)	\$ (1,027,953)
LIQUIDITY							
Current Assets	\$ 9,231,765	\$ 9,992,764	\$ 9,510,414	\$ 9,985,047			
Current Liabilities	1,255,198	3,406,185	1,688,420	1,865,792			
Net Working Capital	\$ 7,976,567	\$ 6,586,579	\$ 7,821,994	\$ 8,119,255			
Net Working Capital/Oper. Expenses	26.5%	19.3%	21.0%	20.6%			
Unrestricted Cash & Cash Equivalents	\$ 5,626,086	\$ 8,188,843	\$ 7,457,224	\$ 8,405,027			
Unrest. Cash & CE/Oper. Expenses (Days)	68	88	73	78			
Unrest. Cash & CE/All Expenses (Days)	68	88	73	78			

Benchmark Summary:

- Free Cash Flow/ADA – Not Met: -\$243 avg. (>\$0)
- Free Cash Flow – Not Met: -\$514,214 avg. (>\$0)
- Net Working Capital as Portion of Operating Expenses – Met: 21.9% (>5%)

- Unrestricted Cash & Cash Equivalents as Portion of All Expenses – Not Met: 77days (> 90 days)

Summary of Financial Findings and Special Considerations: Given that EESD has agreed to make a lump-sum payment of \$3,049,253 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 EESD can meet its “General Fund” annual operating obligations. Though projecting negative net income for 2017-18 through 2019-20, the General Fund’s balance averages \$5,156,635 over those three fiscal years. Staff also notes that in the projected years of 2017-18 through 2019-20, the net deficits would represent 23%, 6% and 17% of the ending fund balances, respectively. Additionally, EESD averages 21.9% of operating expenses in net working capital from 2013-14 through 2016-17 with an average amount of \$7,626,099.

Strengths, Weaknesses and Mitigants:

- + PACE is financially viable based on a review of projected budgets for 2017-18 through 2021-22 which staff considers reasonable.
- + EESD has confirmed the matching share will be through a lump sum payment from designated funds, which balance as of June 30, 2017 was \$3,323,823.
- + As of June 30, 2017, EESD has \$8,119,255 in net working capital, approximately 20.6% of operating expenses.

Staff Recommendation: Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Enterprise Elementary School District (“District” or “EESD”), on behalf of PACE Academy (“School” or “PACE”), is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This recommendation, as it relates to 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 is contingent upon Enterprise Elementary School District, on behalf of PACE Academy, 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.