

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

Applicant/Obligor:	Charter School of Morgan Hill
Project School:	Charter School of Morgan Hill
CDS (County – District – School) Code:	43-695583-6118541
School Address/Proposed Site:	9530 Monterey Road Morgan Hill, CA 95037
Type of Project:	Rehabilitation
Type of Apportionment:	Preliminary
County:	Santa Clara
District in which Project is Located:	Morgan Hill Unified School District
Charter Authorizer:	Morgan Hill Unified School District
Total OPSC Project Cost:*	\$13,799,424
State Apportionment (50% Project Cost):	\$6,899,712
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$6,899,712
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$352,018
First Year of Occupancy of New Project:	2019-20

**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 the Charter School of Morgan Hill (“CSMH”), 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 is contingent upon the Charter School of Morgan Hill 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.

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

Criteria	Comments
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Eligibility Criteria	CSMH has met all eligibility criteria: (1) CSMH began operation in 2001; (2) the school's charter was approved in July 1, 2016 and is in place through June 2021; (3) the school is in good standing with its chartering authority, and in compliance with the terms of its charter.
Demographic Information	CSMH began operations in 2001 with 178 students and has grown to 642 students in grades K-8 for 2017-18. CSMH has shown consistent enrollment growth and stability over the past five years, growing on average 3.8% per year between 2013-14 and 2017-18. CSMH achieved average daily attendance rates of 97.7% and 97.5% for 2015-16 and 2016-17, respectively, and year-to-year retention rates of 98.0% for each of the past two years. .
Debt Service Coverage	CSMH projects debt service coverage of 130.1% and 114.0% for 2020-21 and 2021-22, respectively, the first two years of CSFP payments.
Other Financial Factors	<ol style="list-style-type: none"> 1. Although CSMH is reliant upon private contributions to meet the debt service coverage requirement, based on its audited financial statements, as well as documented evidence showing receipt of contributions for 2017-18, CSMH has demonstrated meeting contribution levels that support the levels incorporated into its projections. 2. CSMH's networking capital as of June 30, 2016 was \$624,568 or 11.9% of total expenses, and CSMH's net working capital as of June 30, 2017 was \$624,273 or 10.4% of expenses, both of which are well above the 5% threshold to be considered sufficient.
Student Performance	CSMH has outperformed both the District and neighboring public schools in English Language Arts and mathematics per the "Smarter Balanced" assessment provided through CDE.

Program Eligibility: On December 6, 2017, at CSFA staff's request, verification was received from Morgan Hill Unified Scholl District (District) confirming that the Charter School of Morgan Hill is: (1) in compliance with the terms of its charter agreements, and (2) in good standing with its chartering authority. The Charter School of Morgan Hill's current charter is effective through June 2021.

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 Rehabilitation project is represented by the following: (1) modernization of a permanent facility consisting of four restrooms and nine (9) classrooms; and (2) modernization and/or replacement of relocatable facilities consisting of thirteen (13) classrooms. Overall, the project will produce 22 renovated or replaced classrooms with a student capacity of 560 and anticipated occupancy date of August 2019.

School Organizational Information: The Charter School of Morgan Hill (formerly known as South Valley Charter School) is a public charter school located within the boundaries of the Morgan Hill Unified School District and is authorized by the Morgan Hill Unified School

District. The Charter School of Morgan Hill's initial charter was submitted to the Morgan Hill Unified School District in 2001 and was approved. The Charter School of Morgan Hill's most recent charter was approved by the Morgan Hill Unified School District on July 1, 2016 and will expire on June 30, 2021. The school is a direct-funded independent charter school and is operated as a California public benefit corporation with IRS approved 501(c)(3) status.

The Charter School at Morgan Hill's mission statement identifies three elements critical to developing competent and educated children who are well prepared for the 21st century: strong academics, community interaction, and family involvement. The result is an academically demanding, community-connected elementary and middle school program with strong family involvement. To implement this vision Morgan Hill employs eight key components that address one or more of these elements: 1) Standards – Children excel when standards are high and when academic achievement is valued. All students are expected to perform at their highest level and to excel in the content areas outlined in state curriculum standards; 2) Family Participation – Children understand the importance of learning when they experience their family investing time in supporting that effort. Families contribute in a variety of significant ways to support both their children's efforts to excel and to enhance the learning experiences of all students at the school 3) Project Based Learning (PBL) - Active exploration leads to a better understanding of concepts. More effective learning takes place when students can relate new information to past experiences, their community, and their culture; 4) Technology – Technology plays a significant role in everyday life and global affairs. Every student has access to technology and learns to use it as a tool for research, analysis, communication, organization and self-expression; 5) Enrichment Activities - All students benefit from regular exposure to a variety of programs such as agriculture, music and other fine arts; 6) Community Connection – Public schools should produce knowledgeable and involved citizens. Students learn to understand their connection to the community and their responsibilities as members of a community. The curriculum incorporates service learning projects and community-based, hands-on activities; 7) Diversity – Citizens of the 21st century need an understanding and appreciation of the diversity of language, culture, and history in both their immediate community and the world; and 8) Personalization – At Charter School of Morgan Hill, each student is known and valued as an individual with his/her specific needs identified and used to develop an appropriate instructional plan.

The Charter School of Morgan Hill is governed by a nine member board, Chairman Claude Solanas; Vice Chairman Ryan McNamara; Board Secretary Stacey Daprile; Vivianne Brager; Peng Lim; Shawn Larsen; Kirsten Carr; and Natalie Prcevski.

School Academic Performance: Pursuant to SB X51 (2010), a designated California State Commission was given the authority to review the Common Core State Standards (Standards), as promulgated by the U.S. Department of Education, and make recommendations to the California Board of Education (Board). This resulted in the Board's adoption of the Standards for purposes of statewide accountability on academic performance. Although this adoption does not directly require all local educational agencies (LEAs) to adopt the standards, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through LCFF, school districts must submit "Local Control and Accountability Plans" (LCAPs) to their respective county offices of education

that address State and local educational priorities. Furthermore, pursuant to Education Code, Section 52060(d)(2), these priorities must include Common Core State Standards. Within the State of California, the Standards are derived from a set of tests, entitled “Smarter Balanced Assessment System.”

As a part of the Common Core State Standards, CDE reports upon aggregate data for “Smarter Balanced” testing relative to percentages of students within the following categories for mathematics and English language arts: “standard exceeded”; “standard met”; “standard nearly met”; and “standard not met.” For purposes of this financial soundness review, staff decided to compare CSMH’s results with those of the District and two nearby non-charter public schools (within the same school district and same elementary school attendance area). Staff selected Los Paseos Elementary (Los Paseos), a grades K-5 school, and Martin Murphy Middle (Martin Murphy), a grades 6-8 school, for this purpose.

The following tables represent the 2015-16 and 2016-17 academic performance results for CSMH, Morgan Hill Unified School District, Los Paseos and Martin Murphy.

***English Language Arts (2016-17) – Comparison**

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
CSMH	50%	38%	15%	6%
Los Paseos	20%	27%	24%	29%
Martin Murphy	20%	35%	22%	23%
District	21%	29%	22%	28%

***Mathematics (2016-17) – Comparison**

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
CSMH	34%	32%	26%	9%
Los Paseos	18%	30%	26%	26%
Martin Murphy	24%	19%	28%	29%
District	18%	22%	27%	34%

***English Language Arts (2015-16) – Comparison**

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
CSMH	38%	37%	19%	6%
Los Paseos	27%	24%	24%	25%
Martin Murphy	13%	33%	31%	23%
District	23%	29%	24%	25%

***Mathematics (2015-16) – Comparison**

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
CSMH	35%	36%	24%	5%
Los Paseos	20%	29%	30%	21%
Martin Murphy	17%	23%	27%	34%
District	19%	22%	28%	31%

*Due to rounding errors, percentages may not add up to 100%.

Based on the above tables, for both 2015-16 and 2016-17, CSMH's performance in both English-language arts and mathematics was significantly above that of the nearby non-charter public schools as well as the District. Based on these results, staff concludes that the academic performance supports a recommendation for financial soundness.

Enrollment Trends and Projections: CSMH began operations in August 2001 with 178 students and has shown consistent growth since its inception. Over the past five years, CSMH has grown from 540 students in 2012-13, to 588 students in 2013-14, to 601 students in 2014-15, to 620 students in 2015-16, to 631 students in 2016-17, to 642 students for the current 2017-18 academic year, all in grades K-8, representing overall growth of 18.9% or about 3.8% per year. CSMH is projecting to grow to 654 students in 2018-19 and 702 students in all further projected years, an increase of about 9.3% over three years, which is consistent with its historical growth.

CHMH had year-to-year retention rates of 98.0% for each of 2016-17 and 2017-18, and has 373 students on its current wait list. CSMH's average daily attendance (ADA) rates were 96.8%, 97.7% and 97.5% for 2014-15, 2015-16, and 2016-17, respectively, which is supportive of the assumed ADA in the multi-year projections of 97.5%. Based on the information submitted, staff concludes that CSMH's assumptions regarding future enrollment and ADA are reasonable for purposes of the multi-year budget projections and supportive of a recommendation for financial soundness.

Financial Analysis: This financial analysis is based on the consideration and review of the following for CSMH: (1) audited financial statements for 2014-15, 2015-16 and 2016-17; (2) adopted budget for 2017-18; and (3) budget projections for 2018-19 through 2022-23, along with assumptions.

Assumptions: CSMH's financial projections, as incorporated into staff's financial analysis, are based upon the following assumptions: (1) increases in enrollment as described in the Enrollment Trends and Projections section; (2) projected ADA rates of 97.0% in 2017-18 and 97.5% in all subsequent years, which are supported by historical performance; (3) Local Control Funding Formula (LCFF) per-ADA funding rates of \$7,662, \$7,926, and \$8,142 for 2017-18 through 2019-20, respectively, with the cost-of-living adjustments (COLAs) already incorporated into these rates (COLAs of 1.48%, 2.15%, and 2.35%, respectively); and (4) private contributions of \$401,676, \$285,770, \$137,260, \$138,814, and \$140,410 for 2017-18 through 2021-22, respectively (refer to discussion below on "Private Contributions"). Staff notes that the LCFF per-ADA target rates that CSMH assumed for its multi-year budget projections are reasonable based on its "Unduplicated Count," (6.4%) and the base rates that CDE reports on its website for 2017-18. As such, the multi-year budget projections are also considered reasonable.

Long Term Liabilities: CSMH has no long-term liabilities.

Private Contributions: Although CSMH relies upon private contributions in order to meet the debt service coverage requirement for financial soundness, CSMH's audited financial statements for 2014-15, 2015-16, and 2016-17, along with additional documentation for 2017-18, support the private contribution assumptions during the projected years. The audited financial statements for 2013-14, 2014-15 and 2015-16 show private contributions of \$339,438, \$219,324 and \$325,198, respectively, representing an average of \$294,653. In addition, CSMH provided supportive documentation for the anticipated contributions for 2017-18. It is noteworthy that CSMH's private contributions represent, on average, only 4.6% of revenues, which is well within the benchmark of less than 15%. Furthermore, in the projected years of 2019-20 through 2021-22 (first year of occupancy and first two years of CSFP payments), CSMH assumes private contributions at only 2.1% of revenues.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff's analysis regarding CSMH'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.

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	<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	<i>Projected</i> FY 2021	<i>Projected</i> FY 2022
OPERATIONAL & FINANCIAL								
Enrollment	601	620	631	642	654	702	702	702
Average Daily Attendance (ADA)	582	606	615	623	638	684	684	684
Average Daily Attendance (%)	96.8%	97.7%	97.5%	97.0%	97.5%	97.5%	97.5%	97.5%
LCFF Sources/ADA	\$ 6,681	\$ 7,148	\$ 7,516	\$ 7,662	\$ 7,926	\$ 8,142	\$ 8,452	\$ 8,450
% Change		7.0%	5.1%	1.9%	3.5%	2.7%	3.8%	0.0%
Operating Revenues/ADA	\$ 8,218	\$ 9,132	\$ 9,821	\$ 9,585	\$ 9,465	\$ 9,388	\$ 9,751	\$ 9,751
% Change		11.1%	7.5%	-2.4%	-1.2%	-0.8%	3.9%	0.0%
Operating Expenses plus CSFP Lease/ADA	\$ 8,092	\$ 8,694	\$ 9,780	\$ 9,575	\$ 9,367	\$ 8,902	\$ 9,661	\$ 9,746
% Change		7.4%	12.5%	-2.1%	-2.2%	-5.0%	8.5%	0.9%
Free Cash Flow/ADA	\$ 126	\$ 438	\$ 41	\$ 10	\$ 98	\$ 487	\$ 90	\$ 5
	<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	<i>Projected</i> FY 2021	<i>Projected</i> FY 2022
DEBT SERVICE COVERAGE								
Total Operating Revenues	\$ 4,783,089	\$ 5,533,940	\$ 6,039,701	\$ 5,968,975	\$ 6,035,632	\$ 6,425,957	\$ 6,673,768	\$ 6,673,908
Total Operating Expenses	4,709,480	5,268,357	6,014,644	5,962,845	5,972,960	6,092,928	6,275,521	6,333,911
Total Other Sources/Uses	-	-	-	-	-	-	-	-
Net Income Available for CSFP Lease Payment	73,609	265,583	25,057	6,130	62,672	333,029	398,247	339,997
Add Back Capital Outlay	-	-	-	-	-	-	-	-
Add Back Depreciation	-	-	-	55,886	57,087	58,429	59,802	61,207
Adjusted Net Income Available for CSFP Lease Pymt.	73,609	265,583	25,057	62,016	119,759	391,458	458,049	401,204
CSFP Lease Payments	-	-	-	-	-	-	336,683	336,683
Free Cash Flow	\$ 73,609	\$ 265,583	\$ 25,057	\$ 62,016	\$ 119,759	\$ 391,458	\$ 121,366	\$ 64,521
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	N/A	136.0%	119.2%
DSC from LCFF Sources subject to CSFA Intercept								587.7%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	N/A	5.0%	5.0%
FUNDRAISING								
Fundraising for Operations	\$ 339,438	\$ 219,324	\$ 325,198	\$ 401,676	\$ 285,770	\$ 137,260	\$ 138,814	\$ 140,410
Fundraising/Oper. Revenues	7.1%	4.0%	5.4%	6.7%	4.7%	2.1%	2.1%	2.1%
DSC without Fundraising	N/A	N/A	N/A	N/A	N/A	N/A	94.8%	77.5%
% of Fundraising Required for 100% DSC	N/A	N/A	N/A	N/A	N/A	N/A	12.6%	54.0%
LIQUIDITY								
Current Assets	\$ 960,913	\$ 845,590	\$ 929,920					
Current Liabilities	178,189	221,022	305,647					
Net Working Capital	\$ 782,724	\$ 624,568	\$ 624,273					
Net Working Capital/Oper. Expenses	16.6%	11.9%	10.4%					
Unrestricted Cash & Cash Equivalents	\$ 341,398	\$ 393,352	\$ 527,615					
Unrest. Cash & CE/Oper. Expenses (Days)	26	27	32					
Unrest. Cash & CE/All Expenses (Days)	26	27	32					

Benchmark Summary:

- Free Cash Flow/ADA (average) – Met (average of \$162)
- Free Cash Flow (average) – Met (average of \$140,421)
- Net Working Capital and Net Working Capital as Portion of Operating Expenditures – \$624,568 (11.9%) and \$624,273 (10.4%) for 2015-16 and 2016-17, respectively – Met minimum threshold of 5%

- Unrestricted Cash & Cash Equivalents as Portion of Expenditures (average of days) – Not Met (29 days)
- Debt Service Coverage (DSC) – Met (130.1% and 114.0% for 2021-22 and 2022-23, respectively)
- CSFP Lease Payment as Portion of Operating Revenue – Met (5.0%)
- Fundraising as Portion of Operating Revenue (average) – Met (4.6%)
- DSC without Fundraising – Not Met (less than 100%)

Summary of Financial Findings and Special Considerations: As reflected in the table above, CSMH experienced net gains of \$73,609, \$265,583, and \$25,057 (approximate break-even) for 2014-15, 2015-16, and 2016-17, respectively, and CSMH is anticipating breaking even for the current 2017-18 fiscal year (net gain of \$6,130). CSMH is projecting net gains of \$62,673, \$333,029, \$398,247 and \$339,997 for 2018-19 through 2021-22, respectively. During all projected years, CSMH is projecting ending fund balances of at least \$1.9 million. As of June 30, 2016, CSMH had net working capital of \$624,568, representing 11.9% of expenditures, and as of June 30, 2017, CSMH had net working capital of \$624,273, representing 10.4% of expenditures, both exceeding the recommended minimum threshold of 5%. In addition, as of June 30, 2017, CSMH had \$527,615 in available cash and cash equivalents. CSMH meets the minimum required debt service coverage requirement for the first two years following project occupancy, with levels of 136.0% and 119.2% for 2020-21 and 2021-22, respectively, supporting a recommendation for financial soundness.

Although CSMH's debt service coverage without contributions does not meet the minimum requirement of 100%, given CSMH's demonstrated success in achieving contribution levels in excess of those projected (refer to "Private Contributions" above), staff does not consider this to be an impediment towards a recommendation of financial soundness. Although CSMH did not meet the minimum of 90 days for "Unrestricted Cash & Cash Equivalents as Portion of Expenditures" (29 days versus the 90-day benchmark), on balance with other strengths in performance, staff does not consider this to be an impediment in its recommendation for financial soundness. As noted above, CSMH has consistently demonstrated success in meeting fundraising levels that support the levels in its projections. It is noteworthy that, even if CSMH were not able to meet its projected contributions in any one year, it would have sufficient cash reserves to offset any resulting deficit.

Overall, staff concludes that CSMH's financial performance supports a recommendation that CSMH be found financially sound.

Strengths, Weaknesses and Mitigants:

- + CSMH projects debt service coverage ratios for 2020-21 and 2021-22 of 130.1% and 114.0%, respectively.
- + As of June 30, 2017, CSMH had net working capital of \$624,273, representing 10.4% of expenditures, and available cash and cash equivalents of \$527,615.

- + CSMH has outperformed both the District and neighboring public schools in English Language Arts and Mathematics per the “Smarter Balanced” assessment provided through CDE. In 2015-16 and 2016-17, more than 50% of students met or exceeded the standard in English Language/Arts and mathematics.
- +/- Although CSMH’s debt service coverage without contributions does not meet the minimum requirement of 100%, CSMH demonstrated success in achieving contribution levels in excess of those projected.

Staff Recommendation: Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that the Charter School of Morgan Hill (CSMH), 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 the Charter School of Morgan Hill 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.