

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

Applicant/Obligor:	Creative Arts Charter
Project School:	Creative Arts Charter
CDS (County – District – School) Code:	38-68478-6112601
School Address/Proposed Site:	1601 Turk Street, San Francisco, CA 94115
Type of Project:	New Construction and Rehabilitation
Type of Apportionment:	Preliminary / Advance Apportionment
County:	San Francisco
District in which Project is Located:	San Francisco Unified School District
Charter Authorizer:	San Francisco Unified School District
Total OPSC Project Cost (Rehab):*	\$6,265,266
Total OPSC Project Cost (NC):*	<u>\$7,734,734</u>
Total OPSC Project Cost (Rehab & NC):*	\$14,000,000
State Apportionment (50% Project Cost):	\$7,000,000
Lump Sum Contribution:	\$2,200,000
Total CSFP Financed Amount:	\$4,800,000
Length of CSFP Funding Agreement:	30 Years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment (NC):	\$85,068
Estimated Annual CSFP Payment (Rehab):	\$159,825
Total Estimated Annual CSFP Payment:	\$224,893
First Year of Occupancy (Rehab Project):	2019-20
First Year of Occupancy (NC 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 Creative Arts Charter (“Creative Arts”), is financially sound for the purposes of the 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 also contingent upon Creative Arts 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, and securing a \$2,200,000 project contribution from San Francisco Unified School District. 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 for Creative Arts. Detailed information is contained in the body of the report.

Criteria	Comments
School Information	
Demographic Information	<ol style="list-style-type: none"> 1. In 2016-17, Creative Arts had a total enrollment of 439 students in grades K - 8 (the ADA rate was 93.5%). 2. By 2019-20 (1st Full Year of Expected Project Occupancy), Creative Arts projects an enrollment of 528 students.
Debt Service Coverage	<ol style="list-style-type: none"> 1. The projected debt service coverage ratios are 100.9% and 138.7% for 2020-21 and 2021-22, respectively. This meets the Program’s minimum debt service coverage requirement of 100%. Creative Arts will rely on fundraising, as well as a \$2,200,000 lump sum contribution from the San Francisco Unified School District in order to meet the debt service coverage requirement. 2. Projected fundraising levels are expected to account for 9.3% of operating revenues on average from 2017-18 through 2021-22, which is less than the 15% threshold considered to be material by CSFA staff. Gross debt service coverage based on LCFF sources subject to the CSFA intercept would be 411.5% and 448.3% for 2020-21 and 2021-22, respectively.
Other Financial Factors	<ol style="list-style-type: none"> 1. Projected ratios of CSFP payments to total revenues are 4.0% and 3.7% for 2020-21 and 2021-22, respectively, which are below the preferred maximum range of 10-15%. 2. Net working capital of \$1,729,206 for 2016-17 represented 39.9% of operating expenses, which exceeds the preferred minimum of 5.0%.
School Information	
Eligibility Criteria	Creative Arts has met all eligibility criteria: (1) Creative Arts commenced operations in 1994; (2) Creative Arts charter is in place through June 30, 2019; (3) Creative Arts is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	Creative Arts students have outperformed both comparable schools and the district as a whole in English Language Arts and Mathematics per the “Smarter Balanced” assessment provided through CDE. In 2015-16, 68% of Creative Arts

	students met or exceeded the new English Language Arts/Literacy standard set by the California Assessment of Student Performance and Progress' (CAASPP) Smarter Balanced Assessment. That same year 53% of students met or exceeded the Mathematics standard under CAASPP's Smarter Balance Assessment. In 2016-17, 71% of Creative Arts students met or exceeded the new English Language Arts/Literacy standard; and 55% of students met or exceeded the Mathematics standard.
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Program Eligibility: On October 27, 2017, at CSFA staff's request, verification was received from San Francisco Unified School District confirming that Creative Arts is: (1) in compliance with the terms of its charter agreement, and (2) in good standing with its chartering authority. Creative Arts' current charter is effective through June 30, 2019.

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: This description is most detailed description that Creative Arts could provide. The school intends to renovate, rehabilitate, and add onto the existing school building as follows: 1) add an additional floor (4th floor) to the existing school building; 2) add a 20,000 square foot roof garden/outdoor instructional and play space to the existing building; 3) construct an additional four story building to house six new large classrooms, two large multi-purpose rooms, and one roof top playground for kindergarten students. The project will also seek to upgrade the existing elevator, the structural support of the existing building, and the electrical and plumbing systems. The project is expected to be completed by August 2019.

Organizational Information: Creative Arts is a K-8 grade charter school with 501(c)(3) non-profit public benefit status as Creative Arts Charter School. The school received its first charter in 1994 and began instructional operations in the 1994-95 school year and currently serves 439 students. The school projects enrollment to increase to 528 by 2019-20, first year of project occupancy. The school has a current waitlist of 469 students.

The school describes itself as a K-8 public charter school that bases its teaching methods on constructivist learning theory developed on the premise that students construct their own understanding of the world by generating rules and mental models that help them make sense of experiences. Learning occurs when these mental models are adjusted to accommodate new experiences. Students explore and learn the core subjects of language arts, math, science, and social studies through direct experience and a hands-on curriculum with an arts-integrated focus.

Creative Arts acts as its own fiscal agent and is governed by its own board. The Board of Directors is ultimately responsible for formal policy-making. According to the school's charter, "families, taken as a caucus, can veto any item" the board approves.

The 2017-18 Board of Directors consists of Kate Maselli Zimman, Joseph Adams, Michelle Meyer, Judy Lewenthal Daniel, Melanie Brooks, Jennifer Gette, Juliette Bouquerel, Logan McDougal, Priti Tripathi, Julie Campioni, Sandy Naing, and Colleen McQuade.

Fernando Aguilar is the current Director of Creative Arts. Mr. Aguilar has nearly two decades of teaching and school leadership experience. Jenny Kipp has been the Director of Operations for more than five years. Staff reviewed the credentials of the leadership team and determined that, collectively and individually, the management team demonstrates having the required experience and educational background to effectively oversee the operations of Creative Arts.

School Academic Performance: The following tables represent the 2015-16 and 2016-17 academic performance of Creative Arts, a similar local elementary public school (Dr. William L. Cobb Elementary), a similar local middle public school (Marina Middle School), and San Francisco Unified School District. The results are provided through CDE's CAASPP Smarter Balanced testing data.

English Language Arts (2016-17) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
Creative Arts	71.00%	High	2/4
Cobb Elementary	21.81%	Low	1/1
Marina Middle	54.89%	High	3/8
District	54.59%	Average	8/13

Mathematics (2016-17) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
Creative Arts	55.00%	High	3/4
Cobb Elementary	25.00%	Average	0/1
Marina Middle	55.82%	Highest	2/8
District	50.95%	Average	8/13

English Language Arts (2015-16) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
Creative Arts	68.00%	High	0/2
Cobb Elementary	19.00%	Average	1/1
Marina Middle	48.00%	Average	2/7
District	53.00%	Average	4/12

Mathematics (2015-16) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
Creative Arts	53.00%	Low	2/2
Cobb Elementary	16.00%	Average	0/1
Marina Middle	46.00%	High	1/7
District	50.00%	Average	4/12

Enrollment Trends and Projections: The tables below present enrollment and average daily attendance information for Creative Arts from FY 2015 through FY 2022. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

School Student Enrollment and Average Daily Attendance

Creative Arts	2015	2016	2017	2018	2019	2020	2021	2022
Enrollment	413	414	439	440	484	528	578	628
ADA	93.8%	94.3%	93.5%	93.9%	93.9%	93.9%	93.9%	93.9%

Financial Data Sources: This financial analysis is based on the consideration and review of the following for Creative Arts, the financial obligor and applicant: (1) audited financial statements for 2013-14, 2014-15, 2015-16, and 2016-17; (2) adopted budget for 2017-18; and (3) budget projections from 2018-19 through 2021-22, along with assumptions.

Assumptions: Creative Arts School's financial projections are based upon the following assumptions: (1) School enrollment projections as provided above under "Enrollment Trends and Projections"; (2) Projected school ADA rates of 93.9%, which are consistent with historical performance; (3) Local Control Funding Formula (LCFF) per-ADA funding rate of \$7,779 for 2017-18, as included with Creative Arts' projections for 2017-18, along with annual cost-of-living adjustments (COLAs) of 3.00% for 2017-18 through 2021-22.

Long Term Liabilities: As provided by the 2016-17 audited draft financial statements, Creative Arts has no long-term debt.

Private Contributions: Creative Arts will rely on fundraising to meet the debt service coverage requirement. In order to meet at least 100% of debt service coverage for the first two years of repayment, the organization will need to realize 99.6% and 85.2% of the anticipated fundraising goals for 2020-21 and 2021-22, respectively. However, staff believes that Creative Arts can achieve the projected fundraising levels. On average for the last two years, Creative Arts has fundraised approximately \$442,937 per year.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff's analysis regarding Creative Arts' financial soundness. Where a threshold

has been established based on industry standards or practice, the listing indicates whether or not the threshold was met.

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022
OPERATIONAL & FINANCIAL			Audited Draft						
Enrollment	366	413	414	439	440	484	528	578	628
Average Daily Attendance (ADA)	279	387	390	411	413	455	496	543	590
Average Daily Attendance (%)	76.2%	93.8%	94.3%	93.5%	93.9%	93.9%	93.9%	93.9%	93.9%
LCFF Sources/ADA	\$ 7,673	\$ 6,715	\$ 7,498	\$ 7,734	\$ 7,779	\$ 8,049	\$ 8,280	\$ 8,627	\$ 8,631
% Change		-12.5%	11.7%	3.2%	0.6%	3.5%	2.9%	4.2%	0.0%
Operating Revenues/ADA	\$ 11,219	\$ 9,707	\$ 10,859	\$ 10,920	\$ 10,819	\$ 10,862	\$ 11,045	\$ 11,346	\$ 11,319
% Change		-13.5%	11.9%	0.6%	-0.9%	0.4%	1.7%	2.7%	-0.2%
Operating Expenses plus CSFP Lease/ADA	\$ 10,563	\$ 9,743	\$ 9,649	\$ 10,564	\$ 10,991	\$ 10,904	\$ 10,917	\$ 11,342	\$ 11,158
% Change		-7.8%	-1.0%	9.5%	4.0%	-0.8%	0.1%	3.9%	-1.6%
Free Cash Flow/ADA	\$ 656	\$ (36)	\$ 1,210	\$ 357	\$ (172)	\$ (42)	\$ 128	\$ 4	\$ 161

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022
DEBT SERVICE COVERAGE									
Total Operating Revenues	\$ 3,130,935	\$ 3,760,703	\$ 4,239,276	\$ 4,484,518	\$ 4,468,277	\$ 4,936,610	\$ 5,478,391	\$ 6,160,727	\$ 6,678,023
Total Operating Expenses	2,947,936	3,774,512	3,766,966	4,338,073	4,539,152	4,955,889	5,415,030	5,913,600	6,338,323
Total Other Sources/Uses	-	-	-	-	-	-	-	-	-
Net Income Available for CSFP Lease Payment	182,999	(13,809)	472,310	146,445	(70,875)	(19,279)	63,361	247,127	339,700
Add Back Capital Outlay	-	-	-	-	-	-	-	-	-
Add Back Depreciation	958	838	-	9,091	16,758	16,758	14,974	-	-
Adjusted Net Income Available for CSFP Lease Pymt.	183,957	(12,971)	472,310	155,536	(54,117)	(2,521)	78,335	247,127	339,700
CSFP Lease Payments	-	-	-	-	-	-	-	244,893	244,893
Free Cash Flow	\$ 183,957	\$ (12,971)	\$ 472,310	\$ 155,536	\$ (54,117)	\$ (2,521)	\$ 78,335	\$ 2,234	\$ 94,807
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100.9%	138.7%
DSC from LCFF Sources subject to CSFA Intercept								411.5%	448.3%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.0%	3.7%
FUNDRAISING									
Fundraising for Operations	\$ 231,892	\$ 212,059	\$ 474,627	\$ 411,247	\$ 406,448	\$ 457,825	\$ 511,825	\$ 574,369	\$ 640,100
Fundraising/Oper. Revenues	7.4%	5.6%	11.2%	9.2%	9.1%	9.3%	9.3%	9.3%	9.6%
% of Fundraising Required for 100% DSC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	99.6%	85.2%
LIQUIDITY									
Current Assets	\$ 1,290,519	\$ 1,226,301	\$ 1,937,074	\$ 1,967,492					
Current Liabilities	68,068	16,821	255,284	238,286					
Net Working Capital	\$ 1,222,451	\$ 1,209,480	\$ 1,681,790	\$ 1,729,206					
Net Working Capital/Oper. Expenses	41.5%	32.0%	44.6%	39.9%					
Unrestricted Cash & Cash Equivalents	\$ 1,074,783	\$ 843,280	\$ 976,250	\$ 1,377,334					
Unrest. Cash & CE/Oper. Expenses (Days)	133	82	95	116					
Unrest. Cash & CE/All Expenses (Days)	133	82	95	116					

Benchmark Summary (Threshold):

- Free Cash Flow/ADA – \$252 avg. (< \$0)
- Free Cash Flow – \$101,952 (< \$0)
- Net Working Capital as Portion of Operating Expenses – 39.9% (< 5%)
- Unrestricted Cash & Cash Equivalents as Portion of All Revenue – 106 days (< 90 days)

Summary of Financial Findings and Special Considerations: Creative Arts projects positive operating revenue from 2017-18 through 2021-22. Major funding sources for Creative Arts include federal income sources (LCFF Revenue, Title I and Title II funds, Child Nutrition Program and other federal income), which accounts for approximately 71.3% of Creative Arts' current income; state income sources (Child Nutrition Program, Mandate Block Grant and other state income), which accounts for approximately 4.4% of the Creative Arts' current income; and local income sources (food service sales, private fundraising efforts and other local income), which accounts for approximately 24.3% of Creative Arts'

current income. There are no long-term liabilities or obligations. In addition and on average, Creative Arts' has 106 operating days of unrestricted cash & equivalents and the available net working capital averages 39.9% as a portion of the operating expenses.

Creative Arts' has chosen to enter into a loan repayment to cover the local matching share. Assuming a 3.0% interest rate, a 30-year repayment period, a \$2,200,000 lump sum project contribution from the San Francisco Unified School District and a CSFP lease amount of \$4,800,000 for both projects combined, Creative Arts' total CSFP payment would be \$244,893 (\$159,825 for rehab project and \$85,068 for the new construction project) beginning in 2021-22. Creative Arts' adjusted net income of \$247,127 for 2020-21 and \$339,700 for 2021-22 would provide debt service coverage of 100.9% and 138.7%, respectively, which is above the minimum requirement of 100%. The CSFP payments would represent 4.0% and 3.7% of projected operating revenues for each of these years, which is below the preferred maximum range of 10-15%. Gross debt service coverage based on LCFF sources subject to the CSFA intercept would be 411.5% in 2020-21 and 448.3% in 2021-22.

Strengths, Weaknesses and Mitigants:

- + Creative Arts has outperformed its district counterparts on average in both English Language Arts and Mathematics assessment in the last two years.
- +/- Creative Arts has projected debt service coverage ratios of 100.9% and 138.7% for 2020-21 and 2021-22, respectively.
- Creative Arts will rely on fundraising, as well as a \$2,200,000 lump sum contribution from the San Francisco Unified School District in order to meet the debt service coverage requirement.
- + Creative Arts has 106 days of unrestricted cash & cash equivalents as portion of all revenue, which is above the preferred target of at least 90 days.

Staff Recommendation: Staff recommends that the California School Finance Authority ("Authority" or "CSFA") Board determine that Creative Arts Charter ("Creative Arts"), is financially sound for the purposes of the 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 also contingent upon Creative Arts 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, and securing a \$2,200,000 project contribution from San Francisco Unified School District. 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.