

**CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)
 APPROVAL OF A CHARTER SCHOOL REVOLVING LOAN FUND PROGRAM LOAN IN AN AMOUNT
 NOT TO EXCEED \$250,000 FOR EXPLORE ACADEMY LOCATED IN ORANGE COUNTY
 ITEM #12 - RESOLUTION 24-33
 STAFF SUMMARY**

EXECUTIVE SUMMARY			
Applicant/Borrower:	ExploreK12	Par Amount Requested:	Not-to-Exceed \$250,000
Loan Term: 3 years (Maximum of 5 years)		Interest Rate: Projected 3.00%	
Applicant Description: ExploreK12, a California nonprofit public benefit corporation described under section 501(c)(3) of the Internal Revenue Code.			
Type of Financing: Loan			
Loan User:	Explore Academy	County Served:	Orange
District in Which Project is Located:	Santa Ana Unified	Charter Authorizer:	Orange County Board of Education
School Site: 2190 North Canal St., Orange, CA 92865-3601			
CSFA Analysts: Steven Theuring and Colin Smith			
Date of CSFA Board Meeting: July 25, 2024		Resolution Number: 24-33	
Staff Recommendation: Staff recommends the Board adopt Resolution No. 24-33, approving ExploreK12, in the amount of \$250,000. Once approved, staff will notify the organization of the conditional loan approval, confirm the school meets all funding criteria before releasing funds, distribute and execute the loan agreement, and carry out all other necessary steps to disburse funds to this charter school.			

BACKGROUND AND HISTORY

Explore Academy is partnering with Explore Learning Systems LLC (ELS) on the development of the school's educational program. ELS is led by Justin Baiardo and Elisha Varela, who founded and lead an award-winning charter school in Albuquerque, New Mexico. Explore Academy-ABQ first opened its doors as a state-authorized charter school in August 2014. It utilizes an educational model based on choice that promotes student growth and responsibility while providing an individualized educational path for each student. Explore-ABQ has earned an A-rating from the New Mexico Public Education Department, becoming one of the highest performing schools in the state. Furthermore, Explore-ABQ has achieved the highest rate of student academic growth in English and mathematics of all high schools--both public and charter schools-- in the state of New Mexico.

Explore Academy is the result of a powerful vision of education equity held by the School's founders, Senator Gloria Romero (Ret.) and Robert Giordano, two leading educators and advocates for high-quality education and school choice across the country. As founders, Sen. Romero and Mr. Giordano believe that education is a civil right, and that all students are entitled to an education that meets their academic needs, fosters their abilities and curiosity, develops their talents and personalities, and challenges them to question, seek, and grow.

A forceful advocate for education reform and civil rights, former California State Senator Gloria Romero is nationally recognized as a leader on school choice and parental rights. Romero possesses a keen knowledge of the legislative, fiscal and political processes impacting California public education. She was elected to the 24th Senate District in 2001, representing East Los Angeles and the greater San Gabriel Valley.

Senator Romero has hands-on experience in the founding and operations of California charter schools. She co-founded Scholarship Prep, now a multi-county charter network in California and served as its first Executive Director.

Mr. Giordano is American Charter Development's Senior Vice President of Business Development, where he is responsible for all new business development and national relationships with schools, charter organizations, authorizers, associations, and key stakeholders to include funders. For the first 17 years he worked with the highly regarded SABIS Educational Systems, and Renaissance School Services. During those years of service, he worked with founding boards, community-based organizations, and state authorizers. Mr. Giordano began overseeing the startup of new and turnaround schools around the United States. Concurrently Mr. Giordano also spearheaded new school development in numerous states, including New York, Massachusetts, Michigan, New Jersey, Pennsylvania, Delaware, North Carolina, Louisiana, Georgia, Florida, Maryland, Tennessee, Arizona, and Washington D.C.

The school's goal is to increase educational equity and ultimately eliminate the achievement gap for all students by providing an innovative and proven educational program that has demonstrated success with similar student populations. The three cornerstones of the school's educational program are:

- Increased student accountability using a standards-driven system in course design and academic reporting where each course is anchored by a specific subset of academic

standards. Student achievement is based on their performance in standards-based course, or as they are termed by the Charter School, “seminars.” Enrollment in seminars is predicated on successful academic performance in the prerequisite seminars. In this way, student accountability is tied to mastery of standards.

- Selectivity and student choice for all classes to promote both a customized and individualized form of education.
- College preparation through the implementation of a curriculum which increasingly resembles and simulates college academics in structure, rigor, and content.

SCHOOL DESCRIPTION

Explore Academy Will provide students with the power of academic choice, allowing each student to create a unique educational pathway in preparation for a college future. The goal is for all students to master the Common Core State Standards, Next Generation Science Standards, History-Social Science Framework, English Language Development Standards, and the remaining State Content Standards

Across the curriculum, students will engage in differentiated learning seminars and “flavors,” coursework that is inherently elective in nature, standards-aligned, and tailored to a student’s choice in study. In the elementary grades, teachers will collaborate with parents to identify the seminars and flavors that are most engaging for students. At the secondary level, students will have the autonomy to select their own coursework—decisions that will be supported and guided by the counseling staff, teachers, and parents as needed. Explore Academy is specifically targeting a less affluent student population that, without this new countywide network, would not have the same choices and opportunities available to them.

The organization is planning to open three Explore Academy campuses within the county during the first five years of operation. To best serve a student population that reflects the ethnic, racial, language, special needs, and socioeconomic diversity of the county, and locate strategically within the county to facilitate commuting to and from school sites, Explore Academy is in the process of identifying school facilities within the following school districts:

- Anaheim Elementary School District
- Anaheim Union High School District
- Capistrano Unified School District
- Fullerton Joint Union High School District
- Garden Grove Unified School District
- La Habra City School District
- Lowell Joint School District
- Newport-Mesa Unified School District
- Santa Ana Unified School District
- Tustin Unified School District

In 2023-24, the Santa Ana Unified School District (SAUSD) provided educational

services to approximately 40,328 students. The student body at the schools served by SAUSD is 0.9% White, 0.2% Black, 2.2% Asian or Asian/Pacific Islander, 95.9% Hispanic/Latino, 0.3% American Indian or Alaska Native, and 0.1% Native Hawaiian or other Pacific Islander. Approximately 81.4% of the SAUSD student population was designated as coming from low-income families, and 41.6% are English Learners.

In 2023-24, the Orange Unified School District (OUSD) served a student population of 25,364. 57.9% of students were Hispanic or Latino, 23% were White, 10.1% were Asian, 2.0% were Filipino, and 1.2% were Black or African American. 16.4% of students were English Language Learners, and 56.18% were eligible for free and reduced lunch.

Explore Academy Opening and Enrollment

ExploreK12 submitted the school charter petition for consideration and was approved by Orange County Board of Education in Fall 2021, with a projected opening of Summer 2021-22. Staff reached out to ExploreK12 to clarify why the school delayed the opening to Summer 2024. ExploreK12 stated that the delay was based on the slow processing of Explore Academy’s applications with the US Department of Justice and CA Employment Development Department.

The school plans to open with grades TK-5 and enroll an initial class of 150 students in year one, while adding an additional grade and classes each subsequent year. The school will reach an initial capacity in 2028-29 although this is currently restricted by facility availability. As Explore Academy adds additional permanent sites, they anticipate growing the school to 850 students. At full capacity, Explore Academy will serve approximately 1,750 students across grades TK-12, over 3 sites located throughout Orange County.

	#of Classes/ Class Size/ Total Enrollment	2024-25	2025-26	2026-27	2027-28	2028-29
TK	Total Enrollment	12	24	24	24	24
Kinder	Total Enrollment	13	24	24	24	24
Grade 1	Total Enrollment	25	50	50	50	50
Grade 2	Total Enrollment	25	50	50	50	50
Grade 3	Total Enrollment	25	25	50	50	50
Grade 4	Total Enrollment	25	25	25	50	50
Grade 5	Total Enrollment	25	25	25	25	50
Grade 6	Total Enrollment	0	25	25	25	25
Grade 7	Total Enrollment	0	0	25	25	25
Grade 8	Total Enrollment	0	0	0	25	25
Total Enrollment (TK-8)		150	248	298	348	373

STAFF RECOMMENDATION

Staff recommends the Board adopt Resolution No. 24-33, approving ExploreK12. in the amount of \$250,000. The staff's recommendation is based on the methodology outlined in Exhibit A of this staff summary. Once approved, staff will notify the organization of the conditional loan approval, confirm the school meets all funding criteria before releasing funds, distribute and execute the loan agreement, and carry out all other necessary steps to disburse funds to this charter school.

1. **Applicant / Borrower:** ExploreK12
2. **Amount of Loan:** Not-to-exceed \$250,000
3. **Loan Term:** 3 years (Maximum of 5 years)
4. **Repayment/Security:** Loan Payments
5. **Interest Rate:** Projected 3.00%
6. **Not an Unconditional Commitment:** The CSFA resolution shall not be construed as unconditional commitment to finance the loan, but rather CSFA's approval pursuant to the resolution conditioned upon entry by CSFA and the Borrower into a loan agreement, in form and substance satisfactory to CSFA and its counsel.
7. **Limited Time:** The Board's approval expires at the end of the 2024-25 Fiscal Year. Thus, CSFA must enter into the loan agreement no later than June 30, 2025. Once the approval has expired, the item must return to the Board for new approval.

EXHIBIT A Program Information

Loan Information

The California School Finance Authority (Authority) opened the application period for the 2023-24 Funding Round of the Charter School Revolving Loan Fund Program (Program) in August 2023. The Program has approximately \$25 million available to award for this funding round. The Authority has received five (5) applications, thus far, with a funding request totaling \$1.15 million.

Authority staff has assessed the application from the Explore Academy in accordance with the framework established by statute and regulations. Explore Academy is a Priority One School that is opening in August 2024.

LOAN OVERVIEW

In an effort to reduce losses to the Program, Staff will continue to reduce loan defaults by (1) increasing the frequency of attendance monitoring in the year of loan award, and (2) limiting loan disbursements to borrowers with attendance certified at levels consistent with previously submitted projections. For any loan amount approved by the board for lower risk applicants, the first of two potential loan disbursements would occur after loan documents are executed, up to a maximum amount of 40% of loan amount. A subsequent disbursement of the remaining 60% will occur once CDE certifies the applicant's attendance, typically in mid to late December. Borrowers reporting attendance at levels which are not adequate to repay the loan will have future disbursements downsized or eliminated.

For your review and consideration, Staff provides summary findings for each recommended school in the attached Exhibit B – RLF Board Matrix. In order to receive funding through the Program, schools must meet the following criteria, once approved by the Authority board:

- Continue to meet all eligibility criteria;
- Have an approved charter in place;
- Have a Charter Number from CDE;
- Have been assigned a County-District-School Code from CDE; and
- Provide an executed loan agreement and related governing board resolution to the Authority.

APPLICATION REVIEW

Due Diligence Undertaken to Date:

1. **Application Eligibility & Package Review:** Confirmed the submittal complied with application terms such as:

- Met application deadline;
- Eligibility requirements set forth in regulations (Section 10170.18);
- Submitted required documentation with signatures, where applicable;
- Requested a loan amount equal to or less than \$250,000; and
- Requested a loan repayment period of five years or less.

1. **Operational Analysis:** Determined whether minimum qualifications were met such as:

- Articles of Incorporation are in place;
- Approved charter is in place or is in process;
- Projected enrollment and ADA are supported by student enrollment and/or waiting lists;
- Student population was deemed representative of the demographic in the school's proposed location; and
- A facility has been secured or is in the process of being secured.

2. **Financial Analysis:** Conducted fiscal evaluation based on a variety of indicators and 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:

- Availability of other sources of funding;
- Reasonableness of budget assumptions (Staff applied uniform LCFF funding rates to all applicants);
- Alignment of revenue and expenditure projections with comparable data available from the California Department of Education (CDE);
- Consideration of sale of apportionments to third parties (“factoring”); and
- Adequacy of debt service coverage (DSC) metrics relative to threshold levels, with and without net assets.

Staff's financial analysis utilizes three DSC metrics: (1) DSC from total state aid subject to CSFA intercept; (2) DSC from net revenues; and (3) DSC from net revenues plus beginning net assets. Threshold levels are set for each of these three metrics. If the applicant attains these threshold levels during the years of loan repayment, then a maximum 70 points are recorded. The applicant may receive up to an additional 30 points, for a maximum score of 100 points, if the DSC threshold levels are attained under a scenario wherein projected attendance levels are reduced by 25% (the stress test). Applicants that meet or exceed the 50-point threshold qualify as passing in the context of the Program's loan underwriting standards. Staff also reduced loan amounts for applicants that do not otherwise meet the threshold underwriting DSC standards, with a minimum \$100,000 loan.

The financial model also determines the risk profile of an applicant with a passing score. Applicants with scores ranging from 50.0 to 75.0 are viewed as “higher risk”, while applicants with scores ranging from 74.9 to 89.9 are deemed “medium risk”, and applicants with scores ranging from 90.0 to 100.0 are considered “lower risk”. Schools assessed as medium risk and lower risk have attained DSC threshold levels in some or all years under the stress test scenario. Additionally, any application, which includes a loan guarantee from an affiliated organization

deemed credible by Staff, has its risk profile improved by one level, such as from “higher risk” to “medium risk”.

- 3. Amount and Term:** Furthermore, Staff used Section 10170.21(b)(1) of the Program regulations to identify the recommended loan amount and repayment period of each loan. The regulations state the Authority shall consider the term of the charter as well as the loan amount in determining the repayment period.

To further mitigate default risk, Staff based the recommended loan amount and repayment period on the school’s charter term. Staff recommended each applicant have a repayment period that does not exceed the school’s charter term. Additionally, staff recommended each applicant be awarded a loan that can be repaid within the loan term based on the results of the financial analysis described above.

EXHIBIT B Program Information

RLF Board Matrix

No.	School (Obligor)	Affiliated Organization (Guarantor)	Chartering Authority	County	Priority (1 or 2)	Approved Loan Amount	First Disbursement Amount	Loan Term (Years)	Total Points (Out of 100)	Risk Level	Risk Level Improvement								
1	California Republic Leadership Academy Yorba Linda	CRLA Southern California	Orange County Board of Education	Orange	1	\$250,000	\$250,000	Four	71.3	High	Medium								
2	Explore Academy	ExploreK12	Orange County Board of Education	Orange	1	\$250,000	\$100,000	Three	61.7	High	High								
3	Ednovate - College Prep 6	Ednovate, Inc.	Los Angeles Unified School District	Los Angeles	1	\$250,000	\$250,000	Three	61.7	High	Medium								
		Number of Schools Approved	3	Total		\$750,000													
										Any application, which includes a loan guarantee from an affiliated organization deemed credible by staff, has its risk profile improved by one level, such as from "higher risk" to "medium risk".									
* All staff recommendations are contingent upon complete verification of all legal documents, including but not limited to: loan agreement, lease agreement(s), an affirmative Good Standing Letter, etc.										RISK PROFILE <table style="width: 100%; border: none;"> <tr> <td style="background-color: green; width: 20%;">Pass</td> <td>Minimum score of 50.0 out of 100</td> </tr> <tr> <td style="background-color: red;">Higher Risk</td> <td>Score ranges from 50.0-75.0</td> </tr> <tr> <td style="background-color: orange;">Medium Risk</td> <td>Score ranges from 75.1-90.0</td> </tr> <tr> <td style="background-color: yellow;">Lower Risk</td> <td>Score ranges from 90.1-100</td> </tr> </table>		Pass	Minimum score of 50.0 out of 100	Higher Risk	Score ranges from 50.0-75.0	Medium Risk	Score ranges from 75.1-90.0	Lower Risk	Score ranges from 90.1-100
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