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PART 1. COMPETITIVE PREFERENCE PRIORITY I

a) Periodic Review and Evaluation: California's Education Code Sections 47600 et seq. constitute California's Charter Schools Act of 1992 (the "Charter Act"). The Charter Act provides multiple layers of academic and operational oversight by chartering agencies in order to ensure that charter schools are meeting the terms of their respective charters, including those related to student performance, governance, and financial stability and oversight. Chartering agencies must engage in mandatory oversight activities including assigning a designated lead charter school contact, conducting annual site visits, and monitoring the fiscal and operational condition of the charter school.

Charter-authorizing entities can authorize an initial charter for a period of one to five years, as a means of formally examining whether the school can meet the terms of its charter and state academic performance requirements and goals early in the life of the charter school. Material revisions to the charter may be made at any time, but only with the approval of the charter-authorizing entity, as prescribed by California Education Code Section 47607(a)(1). To ensure a higher degree of autonomy and facilitate charter schools' ability to borrow, charter renewals are legally required to be for a period of exactly five years (California Education Code Section 47607(a)(1)). When a charter authorizing entity reviews a charter for renewal, it is required by California law to evaluate that the charter school is using the same standards as employed in the initial review. California Education Code Section 47605 delineates 16 elements that must be contained in charter petitions, including measurable pupil outcomes and the method

used to measure student progress in meeting those outcomes. Consequently, every renewal process requires that charter-authorizing entities examine whether a school is meeting the general terms of its charter and the academic performance requirements and goals contained in the charter.

Charter schools are required to specify and meet self-directed measurable pupil outcomes, as well as meet the same statewide standards and perform the same statewide assessments as traditional public schools (California Education Code Section 47605(c)(1)). Moreover, to further ensure that only high-quality charter schools are serving California public school children, California's legislature passed Assembly Bill (AB) 1137, (Chapter 892, Statutes of 2003), requiring that charter schools fulfill minimum quantifiable assessment standards before charter-authorizing entities may consider their renewal. Specifically, charter schools must attain a score of "4" or higher on the State's 10-point Academic Performance Index comparison ranking or meet specified academic performance growth targets in the years preceding renewal. The section of AB 1137 that mandates such requirements became effective January 1, 2005.

It is the responsibility of the chartering agencies to examine whether a charter school under its jurisdiction is meeting the terms of its charter and the academic performance requirements and goals for charter schools as provided under state law and the school's charter. Although California's Charter Act shields charter-granting agencies from liability arising from charter schools' actions and performance, such immunity is lost in the event that the chartering authority fails to implement the above described oversight and monitoring activities. As a consequence, granting agencies

have an extremely strong incentive to exercise diligence when attending to their oversight responsibilities. This standard further encourages the proliferation of high-quality charter schools.

b) Number of High Quality Charter School: California's charter schools have increasingly become a viable reform strategy for public school students and their parents. Two independent statewide evaluations of charter schools in California have concluded that they are meeting the original legislative intent – expanding families' choices, encouraging parental involvement, increasing teacher satisfaction, and raising academic achievement, particularly for certain groups of disadvantaged students. According to a report commissioned by the State's non-partisan Legislative Analyst's Office, a study by the RAND Corporation concluded that, "charter schools are cost-effective – achieving academic results similar to those of traditional public schools even though they obtain less state and federal categorical" funding. RAND's research also concludes that the quality of California's charter schools is at least comparable with traditional public schools, despite serving a higher proportion of disadvantaged students.¹ As a testament to charter schools' increasing popularity, approximately 1,100 charter schools operate in California as of the 2013-14 school year (FY 2014) and serve roughly 520,000 students. Based upon these figures, the number of charter schools has grown at an annually compounded rate in excess of 11 percent over the prior twenty-year period.

As further described under "Periodic Review and Evaluation" above, the Charter Act seeks to implement a number of safeguards to ensure that only high quality charter

¹ Assessing California's Charter Schools, California Legislative Analyst's Office, January 2004.

schools serve California students. Such precautions include the ability of the chartering authority to revoke a given charter in the event that the charter beneficiary has (i) committed a material violation of any of the conditions, standards, or procedures set forth in the Charter Act; (ii) failed to meet or pursue any of the pupil outcomes identified in the charter; (iii) failed to meet generally accepted accounting principles or engaged in fiscal mismanagement; or (iv) violated the law.

c) One Authorized Public Chartering Agency Other than an LEA: California enacted its Charter School Act (California Education Code, Section 47600 et seq.) in 1992, which sets forth comprehensive standards for charter schools to receive charter petitions from charter authorizers, which in turn consider the quality of academic performance as well as the competence and expertise of charter school administrators. Pursuant to California Education Code (EC) Section 47605(i), a charter school's charter petition may be approved by the governing body of the school district within which the charter school is physically located. In the event that a school district denies a charter, pursuant to the appeals process set forth at EC Section 47605(j), the petition may be approved by either the county board of education in which the charter school is physically located, or the California State Board of Education. In either case, once approved, the approving agency is also designated as the chartering authority, and pursuant to EC Section 47607(a)(1), a charter may be granted for a period of up to five years. EC Section 47604.32(a) through (d) require the chartering authority to: (a) "Identify at least one staff member as contact person for the charter school"; (b) "Visit each charter school at least annually"; (c) "ensure that each charter school under its authority complies with all reports required of charter schools by law"; and (d)

“governing boards to monitor the fiscal condition of each charter school under its authority.” EC Section 47607(b) requires, in part, that prior to charter renewal, at least once every five years, each charter school’s chartering authority must conduct periodic evaluations to ensure that the charter school meets one of the following criteria: (1) “attained its Academic Performance Index (API) growth target in the prior year or in two of the last three years, or in the aggregate for the prior three years”; (2) “ranked in deciles 4 to 10, inclusive, on the API in the prior year or in two of the last three years; or (3) “ranked in deciles 4 to 10, inclusive, in the API for a demographically comparable school in the prior year or in two of the last three years.” In addition, pursuant to EC Section 47607(b)(4), prior to charter renewal, the chartering authority is required to ensure that the academic performance of the charter school is at least equal to the academic performance of the public schools that the charter school pupils would otherwise have been required to attend. These requirements may continue to evolve as LCFF is further implemented and components such as Local Control and Accountability Plans are implemented and evaluated.

d) High Degree of Autonomy: California’s Charter Act provides for a high degree of autonomy and operational flexibility. The Charter Act contains a sweeping “mega waiver” which exempts charter schools from many of the laws governing school districts (California Education Code Section 47610). Moreover, California’s charter schools enjoy an extremely high degree of autonomy over their budgets and expenditures. The New Local Control Funding Formula permits charter schools to use general-purpose entitlement funds for any public school use determined by their governing bodies. Charter schools may form as or be operated by an independent, non-

profit corporation. Most charter schools have established governance structures that operate autonomously from their authorizing districts. These governance structures exercise site-based control over school priorities and related budgets. Some charter schools report to the governing boards of their charter-authorizing entities, but this practice is established at the discretion of the charter developers.

PART 2. COMPETITIVE PREFERENCE PRIORITY II

Through its experience administering the federally-funded State Charter School Facilities Incentive Grants Program (“Program”) (CFDA #84.282D) since 2004, and the Charter School Facilities Credit Enhancement Grant Program (CFDA #84.354A) since 2010², and numerous other funding programs for California charter schools, the California School Finance Authority (“CSFA”) is confident that its Program rubric meets the Competitive Preference Priority. Below we have highlighted the aspects of our program that: 1) target moderate to high-performing charter schools in areas with a large proportion of schools under program improvement; 2) target moderate to high-performing schools in areas with a high proportion of schools below proficient on standardized tests; and 3) target schools serving low-income students.

1) Targeting Moderate to High-Performing Charter Schools in Geographic Areas with Public Schools Under Program Improvement: Through its Program award criteria, CSFA will continue to target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring. Through its Program “school choice” criteria, CSFA

² CSFA received its award notification in 2010 from USDE, but did not start accepting applications for the grant award until 2012.

targets high performing charter schools in geographic areas in which a large proportion of public schools are identified for improvement or corrective action. Within this model, which is incorporated into regulations (California Code of Regulations, Title 4, Division 15, Article 2, Sections 10182(e)(1) and (2)), 20 out of 150 preference points are awarded to charter schools that demonstrate favorable performance on two statewide academic indicators where such schools are within a specified number of miles of a public school that does not demonstrate adequate performance on one or both of these indicators.³ These indicators are: 1) meeting both school-wide and all student group growth targets under the State’s Academic Performance Index (“API”); and 2) meeting all Adequate Yearly Progress (“AYP”) criteria per the No Child Left Behind Act of 2001. Since this preference point category was adopted by CSFA in 2010, 54 out of 100 schools that were awarded grants received preference points in this category, indicating the importance of this criterion, and demonstrating that a majority of schools in the Program are providing a better school choice to students and parents in areas in which school are underperforming.

To meet the *Competitive Priority*, CSFA intends to amend its existing Program regulations (Attachment A) to incorporate a similar criteria based on Program Improvement (“PI”) status per the No Child Left Behind Act of 2001, and/or comparable state academic performance indicators. Under this criterion, CSFA will give preference to charter schools that are not on PI status, and/or are performing above average on state standardized tests, and located in a geographic area (such as a school district, an

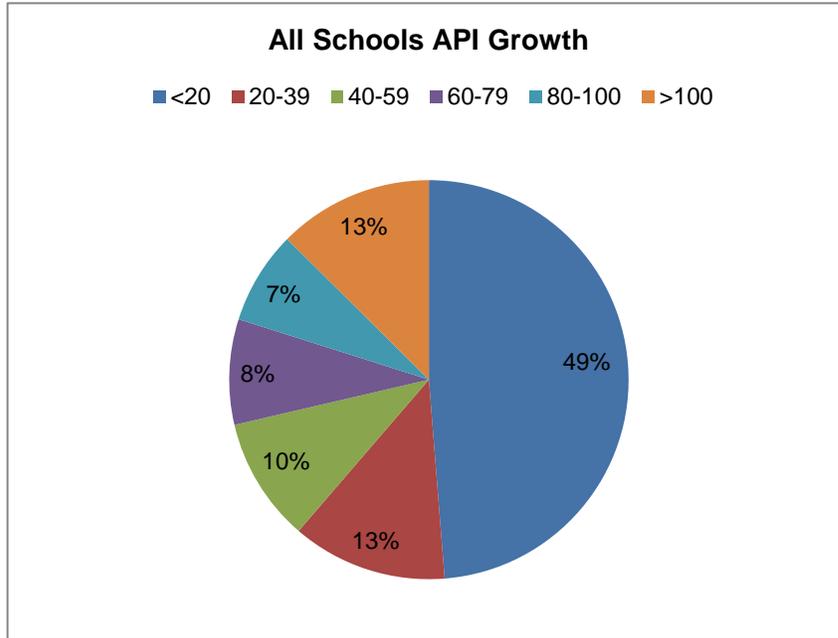
³ Specified number of miles depends on whether charter schools are designated as urban (3 miles), suburban (10 miles), or rural (15 miles) based on Locale Code assigned by the U.S. Department of Education, and found on the National Center for Education Statistics (NCES) website).

attendance area, or within a county office of education boundaries) with a moderate to high percentage of schools on PI status and/or are performing below average on state standardized tests. CSFA will use data from the California Department of Education (“CDE”) as it assigns preference in the category. By adding this Program requirement to the regulations, CSFA will target schools in geographic areas in which a large proportion or number of public schools have been identified for improvement, while giving preference to high performing charter schools in those same areas.

Since CSFA began accepting applications for its Program in 2006, CSFA has completed ten funding rounds resulting in total awards of \$93.9 million to 285 charter schools and serving approximately 90,000 charter school students. Among charter schools benefitting from the Program, 111 out of 266⁴ schools (42%) have Academic Performance Index (“API”) scores of 700 or more, and 99 of these schools (37%) have API scores of over 800⁵. Additionally, as noted in the table below, of the 199 schools which have API data for their first and last years participating in the Incentive Grants Program, 39% experienced above a 40-point growth and 20% experienced above an 80-point growth. These numbers reflect our success in targeting moderate and high performing schools in geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring.

⁴ Only 266 schools have reported student performance data as reported by the California Department of Education.

⁵ The purpose of API is to measure the year-over-year growth in academic performance for California schools. The API summarizes a school’s standardized test scores into a single number, which ranges from 200 to 1000. The statewide API goal is 800 for all schools.

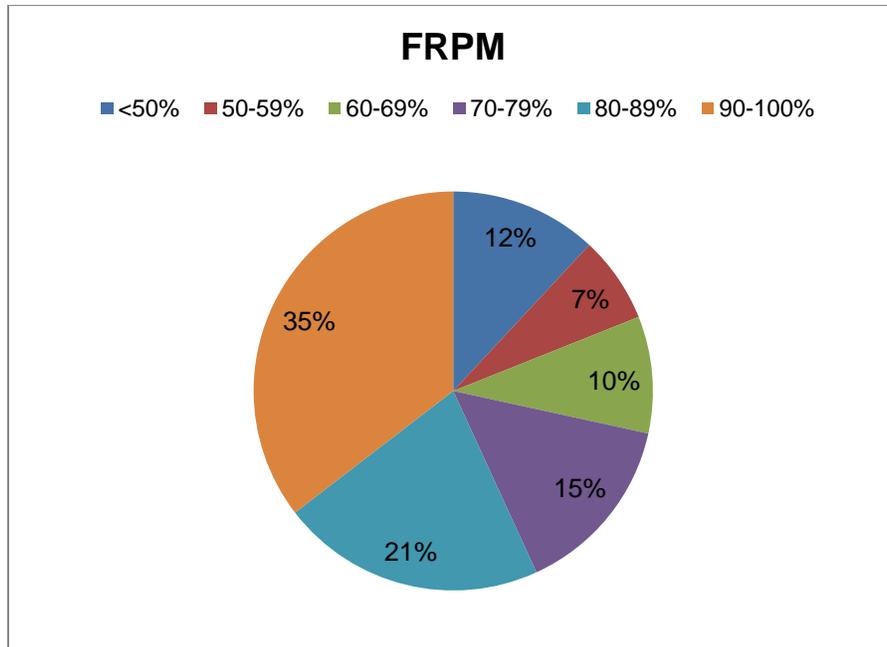


2) Targeting Moderate to High-Performing Charter Schools in Areas with Schools Performing Below-Proficient: Existing Program regulations are designed to target funds to charter schools serving students that demonstrate the most need. As stated in the previous section, our 150-point rubric awards up to 60 preference points to applicants based on percentage of low-income students, and 10 preference points for schools located near overcrowded schools. Additionally, 20 points are assigned based on non-profit status, and 20 points for student academic achievement. Charter schools also providing a school choice option in a community of greatest need, may receive up to 20 points. The final 20 points are awarded to those schools who have not received an award. It has been our experience that there is a correlation between socioeconomic standing in a community, and a demonstrated need for school choice. Accordingly, we believe that the Program has been successful in not only targeting aid to communities with a large proportion of low-income students, but also geographic areas in which a large proportion of students perform poorly on State academic assessments Based on

available data of schools receiving grants to date, over the three-year grant period, 29% of charter schools grantees increased their student performance scores by more than 60 points with an average API growth across all schools of 39 points. In subsequent rounds, CSFA will continue to target schools that are providing students an option for a better education.

3)Targeting Charter Schools in Predominantly Low-Income Communities:

CSFA directs services to communities with large proportions of students from low-income families under its current Program regulations. Section 10182(a) of Incentive Grants Program regulations states that additional consideration may be given to applicants “based on the percentage of pupils at the charter school” who are eligible for free and/or reduced meals (“FRPM”) as reported by the California Department of Education for the most current year. CSFA notes that, within its regulations for its Incentive Grants Program, CSFA has established a preference-point methodology, which provides for a higher number of points based on the percentage of students eligible for FRPM. As shown in the table below, since the start of the Program, 88% of charter schools awardees have had FRPM levels of greater than 50%, 56% had FRPM levels of greater than 80%, and 35% of schools had FRPM levels of greater than 90 percent. The average FRPM level for all awardees under the Program was 78%. As such, within the implementation of its current Program award, CSFA has demonstrated success in targeting services to communities with a large proportion of students from low-income families and has far exceeded its intended Program objective.



PART 3. SELECTION CRITERIA

a) Need for Facility Funding:⁶ California adopted its charter school legislation in 1992, becoming the second state in the nation to do so. Since California's charter school law was passed, charter schools have rapidly grown in popularity. At the close of 2013-14, there were approximately 1,100 charter schools educating roughly 520,000 students in California as compared to approximately 9,400 traditional schools teaching six million children. As a percentage of the total student population, charter school enrollment has increased from one percent in FY 1994 to nine percent in FY 2014, which is equivalent to a compounded annual growth rate in excess of 20 percent. Enrollment at traditional schools grew by an annual average of less than one percent over the same period. It comes as no surprise to California educators that charter

⁶ The Charter Schools Development Center (CSDC) prepared this section. CSDC is a non-profit organization whose goal is to help public education change from a highly regulated, process-based system to one that allows and encourages schools to be more creative, performance-based centers of effective teaching and learning. CSDC aims to achieve this by providing technical assistance to the charter school reform movement in California, nationally, and internationally.

schools' access to suitable facilities has been a challenge in light of such rapid expansion in relation to funding opportunities.

1. Charter School Funding in California: California has demonstrated its support for its extensive charter school network (serving nearly 9% of its public student population) *through a broad base of funding programs in the form of grants, loans, and other financing sources.* California enacted a major overhaul of its K-12 school funding system in 2013. The new funding system, called the Local Control Funding Formula (“LCFF”), represents a major shift away from the prior system that funded school districts using an inequitable general-purpose grant formula and away from the prior practice of funding dozens of restrictive state categorical programs. The LCFF, as outlined in more detail below, moves toward uniform, statewide funding rates for all charter schools and school districts, and increases local control over spending decisions—much like the prior charter school funding system. The LCFF is a multi-part grant system that includes the following major elements:

- A **“base grant”** that provides the bulk of the funding on a per-ADA⁷ basis, with amounts varying by grade span (K-3, 4-6, 7-8, 9-12).
- **“Grade span adjustments”** providing a 10.4% boost to the base grant in grades K-3 and a 2.6% boost to base grants in grades 9-12. These adjustments partially compensate for the termination of prior funding programs that supported reduced class sizes in grades K-3 and career-technical education programs in grades 9-12.

⁷ Average daily attendance (ADA) is a metric that tracks actual student-days of attendance during the course of specified attendance periods during the school year and is the primary formula driver for California’s school finance system. In a typical school, ADA equates to roughly 92 to 98 percent of enrollment, but can vary more widely in schools serving special populations.

- **“Supplemental funding”** for high-need students in all grades, providing a 20% boost to the adjusted base rates based on the percentage of high-need students served by the school. “High need” students are defined as English learners, low-income (qualifying for free or reduced-price meals under federal income guidelines), and/or foster youth.
- **“Concentration funding”** providing additional funding for high-need students to those schools/districts where the proportion of high-need students exceeds 55% of total enrollment. In such schools/districts, the LCFF provides an additional 50% boost to adjusted base rates, based on the percentage of students that exceeds the 55% threshold.

The LCFF is very similar to the system previously used to fund California’s charter schools. The prior charter school funding system included a so-called “General-Purpose Grant” that is identical to the base grant component in the new LCFF. The prior charter funding system also included a so-called “Charter Categorical Block Grant” component that provided both (1) a “no strings attached” share of state categorical program funds, along with (2) additional supplemental and concentration funding for low-income and English learner students, albeit in more modest amounts than under LCFF. The prior charter funding system also allowed these funds to be spent flexibly, without regard to the prior categorical funding restrictions. The new LCFF functions in a similarly flexible fashion, accompanied by a new “local control accountability planning” requirement, and an accountability system to assist and intervene in schools that fail to meet the goals specified in their local plans.

The following table illustrates the LCFF. It shows estimated “target” funding rates for FY 2014-15. Since state resources currently fall short of the cost of amounts needed to pay for these target rates, funding for average charter schools and/or districts will fall significantly short of these target rates until the state fully funds the formulas. In practice, funding is allocated to schools based on a multi-year transition formula that compares each charter school or school district’s funding under the pre-LCFF formulas versus the LCFF target rates. In an average school in 2013-14, the gap between prior and target funding levels is approximately 20-40%. The transition formula boosts the prior-year rates by a uniform, statewide percentage of the gap between the “old” and new LCFF target rates for each charter school and district.

Currently, state finance officials estimate that 11.78% of this gap will be funded in 2013-14 and an additional 29.56% of the (smaller) remaining gap will be funded in 2014-15. State officials also estimate that the transition to the LCFF will be fully funded by 2020-21 (a 7-8 year transition), with the actual speed of transition dictated by available state funding. As such, the figures below overstate average funding levels.

During the transition years, actual funding varies widely from school-to-school depending on the level of funding the school received in the prior year from the many pre-existing state funding programs that have been discontinued. When the transition to the LCFF is completely funded, all school districts and charter schools will be funded pursuant to these formulas.

Local Control Funding Formula “Target” Funding Formula Components (FY 2014-15)				
	K-3	4-6	7-8	9-12
Target Base Rate	\$7,011	\$7,116	\$7,266	\$8,419
K-3 Class Size Adjustment	\$723			
9-12 Career-Tech Adjustment				\$219
Totals—LCFF Target Rates	\$7,734	\$7,116	\$7,266	\$8,638
Supplemental Funding	Supplement above target rates by 20% for each EL/FRM/foster youth student (unduplicated count).			
Supplemental Concentration Funding	Supplement above target base rates by an additional 50 % for each EL/FRM/foster youth student (unduplicated count) in excess of 55% of the school's enrollment. Charter unduplicated percent capped at local district percent.			
Home-To-School Transportation & /TIIG Add-On	<i>Augment above funding entitlements by amount by prior receipts from the Home-to-School Transportation and Targeted Instructional Improvement Grant programs</i>			

The LCFF also supplements formula funding by amounts previously provided under the state’s Home-To-School Transportation and Targeted Instructional Improvement Grant programs. Unlike other state categorical programs, these programs are not swept-in to the larger LCFF. Currently, they will remain as “add-ons” to the general LCFF formula based on school districts’ historical funding receipts.

The LCFF is funded from a mix of State and local sources such that local property taxes are subtracted from the school or district’s total entitlement to LCFF funding in order to calculate the funding amount provided by the State. In California, local property taxes are capped at one percent of the property’s assessed value, which is not necessarily equal to the property’s market value. Charter schools may opt to apply for and receive their state and federal funding either in partnership with their local school district (local/indirect funding) or independently (direct funding). California has also designed a special advance apportionment process to ensure that new and

growing charter schools receive their funding early in the school year to reduce the need for costly short-term borrowing.

In addition, California continues a small number of stand-alone, state-funded categorical funding programs. The largest of these is a state aid program that provides in excess of \$3 billion per year for special education programs based on counts of disabled students. Other remaining stand-alone state categorical programs support before/after school programs, childcare, preschool, school milk/meal subsidies, and a modest supplement from the California State Lottery. Most of these remain as stand-alone programs due to their protected status as constitutionally mandated programs or as programs that were enacted through voter initiatives and can only be modified via a statewide ballot measure. The federal government provides a relatively small, but significant and growing, share of funding for California's schools. Key federal funding programs include funding for special education and the large "Title I" compensatory aid programs.

2. Funding for School Facilities (Public vs. Charter): As is commonplace in most states, California public schools facilities are financed utilizing a combination of State and local funding. State contributions are generally made through the School Facilities Program ("SFP") under which local districts and county offices of education may apply for State matching grants for both new construction (50 percent matching contribution) and modernization projects (60 percent matching contribution), among others. Historically, the primary funding source for this program has been statewide voter-approved indebtedness, including three voter-authorized issuances since 2002

totaling roughly \$28.7 billion for school K-14 facilities.⁸ For their part, traditional public schools typically finance project costs not covered by State assistance through a variety of sources ranging from local ad valorem general obligation bonds to developer impact fees and other general fund revenues. It should be noted, however, that local general obligation bonds have come to comprise a substantial majority of all available facilities resources. Between 1998 and 2006, for example, approximately 94 percent of all facilities costs were paid from three primary sources, including local general obligation bonds (54 percent), State bond apportionments (31 percent), and developer fees (nine percent).⁹ Moreover, the reliance on local bond elections has only increased in recent years as a result of the passage of Proposition 39 in 2000 (Proposition 39 effectively reduced the voter approval threshold for school district bonds from a 66 percent to 55 percent majority). Further constraining the amount of resources available for school construction / rehabilitation is that there has not been a statewide ballot measure for school facilities since 2006, and it unclear if a new statewide ballot measure bill will be supported in Sacramento at this time.

Although the SFP has made efforts to set-aside significant allocations of State funding for charter schools—including a total of \$900 million from the last three state K-12 bond authorizations—charters still face a number of obvious disadvantages relative to traditional schools when it comes to financing facilities expenses. First and foremost is their inability to issue tax-supported debt. As highlighted above, general obligation bonds have come to be traditional schools' dominant source of construction funding

⁸ State Allocation Board Office of Public School Construction, An overview of the State School Facility Programs.

⁹ Eric J. Brunner, Department of Economics, Quinnipiac University, "Financing School Facilities in California", INSTITUTE FOR RESEARCH ON EDUCATION POLICY & PRACTICE, March 2007, www.irepp.net.

since they not only allow the issuing districts to raise large upfront amounts required for capital projects and matching State funds, but also permit them to do so without having to tap general fund revenues (rather, bonds are paid from local property tax overrides that are outside the one percent limitation under Proposition 13). Provided that they are not the beneficiary of one of the State's programs, and absent substantial fundraising or endowments, charter schools in comparison must pay for facilities costs by borrowing against what would otherwise be per-pupil operational monies. Exacerbating the problem, charter schools also experience greater challenges raising upfront funds. For instance, public schools unable to pass successful general obligation bonds measures may still at least borrow at competitive rates by accessing the tax-exempt capital markets through the issuance of lease-backed financings that do not require voter approval under State law (e.g., lease revenue bonds, certificates of participation). In contrast, such financing mechanisms are not readily available to charter schools, primarily due to their typically below investment grade credit ratings (i.e., nonprofit charter schools have the statutory authority to borrow on a tax-exempt basis, but generally are perceived as too weak from a credit perspective to access capital markets). Instead, charters must rely on an extremely small universe of mostly philanthropic lenders. Lastly, charter schools do not have access to all the same sources of local revenues, particularly developer fees on new residential or commercial construction.

Despite staggering state budget crises over the last decade (although improving in the last two fiscal years) as well as a State constitution that restricts the ability of State and local agencies to levy additional taxes, the State Legislature and the voters of

California have adopted and endorsed a number of statutes to assist charter schools in meeting their respective facilities needs in the form of grants, loans and bond financing programs. Some statutes, such as Proposition 39 (greater detail below), have helped charter schools make significant strides with respect to meeting these facilities requirements. Nonetheless, even in light of California's strong commitment, arguably one of the most comprehensive efforts in the nation, most of these programs have traditionally been oversubscribed and charter schools continue to face significant hurdles to securing long-term, permanent facilities. A brief overview of the various State grants, loans, and other programs available to charter schools to address facilities follows (more detailed descriptions of these programs can also be found under the "State Experience" section).

Projected Costs & Funding Sources for New Charter Schools in California

	Project Yr 1 (CA FY 2015)	Project Yr 2 (CA FY 2016)	Project Yr 3 (CA FY 2017)	Project Yr 4 (CA FY 2018)	Project Yr 5 (CA FY 2019)	Totals
Demographics						
Charter School Students (1)	530,561	578,311	630,359	687,092	748,930	
Number of Charter Schools	1,183	1,289	1,405	1,532	1,669	
Up-Front Cost of New Schools						
Unhoused Students	43,808	47,750	52,048	56,732	61,838	
Facility Space per Student (sq. feet)	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	
Facility Cost per Square Foot	<u>\$266.64</u>	<u>\$274.64</u>	<u>\$282.87</u>	<u>\$291.36</u>	<u>\$300.10</u>	
Facility Cost	\$934,458,635.40	\$1,049,116,709.96	\$1,177,843,330.28	\$1,322,364,706.90	\$1,484,618,856.44	\$5,968,402,238.98
Land Cost (25.0% of Facility Cost)	<u>\$233,614,658.85</u>	<u>\$262,279,177.49</u>	<u>\$294,460,832.57</u>	<u>\$330,591,176.73</u>	<u>\$371,154,714.11</u>	<u>\$1,492,100,559.74</u>
Total Up-Front Cost of New Schools	\$1,168,073,294.25	\$1,311,395,887.45	\$1,472,304,162.84	\$1,652,955,883.63	\$1,855,773,570.55	\$7,460,502,798.72
Estimated Up-Front Funding Sources						
Facilities Funded/Provided per Prop. 39 (3)	\$175,210,994.14	\$196,709,383.12	\$220,845,624.43	\$247,943,382.54	\$278,366,035.58	\$1,119,075,419.81
Facilities Funded/ Provided by Leasing (4)	\$416,715,466.79	\$454,219,858.80	\$495,099,646.09	\$539,658,614.24	\$588,227,889.52	\$2,493,921,475.45
Charter School Facility Program (5)	\$50,000,000.00	\$50,000,000.00	\$75,000,000.00	\$75,000,000.00	\$0.00	\$250,000,000.00
Charter School Facility Grant Program (SB740)	<u>\$92,000,000.00</u>	<u>\$92,000,000.00</u>	<u>\$92,000,000.00</u>	<u>\$92,000,000.00</u>	<u>\$92,000,000.00</u>	<u>\$460,000,000.00</u>
Total Estimated Up-Front Funding Sources	\$733,926,460.93	\$792,929,241.92	\$882,945,270.52	\$954,601,996.78	\$958,593,925.10	\$4,322,996,895.25
Net Unfunded Up-Front Costs	\$434,146,833.32	\$518,466,645.54	\$589,358,892.33	\$698,353,886.84	\$897,179,645.44	\$3,137,505,903.47

Assumptions:

(1) Annual enrollment growth from FY 2014 through FY 2019 is projected at 9% based upon recent historical growth rate

(2) For simplification purposes this analysis assumes the facilities needs of the 486,753 students in 2014 have been met and funded. Facility Cost is the product of unhoused students, space per student, and cost per sq. foot. Cost per sq. foot escalates by 3% per year.

(3) Estimated based on 15% share provided by school districts pursuant to Prop.39

(4) Estimated based on assumption that charter school may reasonably devote \$1,000 per student on operational funds toward repayments on leases and long-term debt.

(5) Projected apportionments of \$250 million on Proposition 1D from CSFP

b) Quality of Plan

1. Continuation of Facilities Aid Program: Since its two awards under the State Charter School Facilities Incentive Grants Program (one in 2004 and a second in 2009), California has administered ten successful rounds of grant awards to charter schools to address their on-going facility needs. As of June 26, 2014, California's Program has granted approximately \$94 million to 285 charter schools throughout the State, serving 89,493 students. The Program's awards have been utilized for the following purposes: 1) 261 awards or 91.6% for annual lease, rent, or debt service payments of private or public school facilities; 2) 16 awards, or 5.6%, for constructing or rehabilitating facilities; and 3) 2.8% or 8 awards for the purchase of facilities (refer to "Other Attachments" for a summary of the Program's funding results). Based on dollar amount of Program awards, 16% of total awards have been made to purchase, construct or renovate an existing facility, and 84% has been used to pay on-ongoing annual costs such as lease, rent, debt or mortgage payments for private and/or public school facilities. The State is putting forth this application to continue funding this Program, which enjoys overwhelming support from state officials as well as the charter school community (See Attachment B –"Letters of Support").

The State of California has two charter school per-pupil facilities funding programs that serve to leverage the Program funding in accordance with Program guidelines. These are the California School Facilities Program ("CSFP") and the Charter School Facility Grant Program ("CSFGP") or the SB740 Program. CSFP provides a matching grant and loan program for purposes of new construction and renovation, and CSFGP provides a State grant for purposes of facilities lease costs as

well as costs for remodeling buildings, deferred maintenance, initial installation of or extending service systems and other built-in equipment, and improving sites. California intends to designate the same programs as its non-Federal matching funds for purposes of this application. SB 740 funds and remaining CSFP monies to be allocated in FY 2015 should be more than sufficient for purposes of meeting the non-Federal match (see Table 1 and Table 3). Note that the total amount of assistance under the various programs is expected to increase over the five-year Federal grant period.

2. Flexibility of Funding: California's three major per-pupil facilities aid programs provide for a vast array of possible uses of funds to support the financing of charter school facilities. California structured, with extensive feedback from charter school stakeholders, its federal Program regulations to provide very broad uses of funds. Funds are awarded to charter school applicants in the amount of \$750 per student (\$250,000 cap per year for up to three years) for grant awards that are used toward the annual cost of rent, lease, mortgage or debt service payments. Similarly, grant awards that are used toward the purchase, design, construction, or renovation of facilities are awarded in the amount of \$1,000 per student (\$500,000 cap per year for up to three years). The following additional limitations also may apply: (i) if a school is eligible for both the federal Program and the State's CSFGP, the school's grant will be funded out of the state program in order to comply with the federal requirement that federal funds supplement and not supplant state funding for charter schools; (ii) no more than 75 percent of the annual eligible costs for which the applicant is applying may be funded by the Program; (iii) awards may not be used to reimburse a charter school for costs incurred for any school year prior to the year in which the grant is awarded;

and (iv) funds may not be used to pay any facility costs for school sites already receiving aid under the CSFP. Additionally all publicly funded school facilities, including charter school projects constructed using Program funds, must comply with certain building safety codes. Nonetheless, charter school operators and developers enjoy a great deal of flexibility in their use of facility funds.

3. Identifying Charter School Applicants and Determining Eligibility:

California has achieved success in identifying and notifying California's charter schools of the opportunity for funding through the Program and ensuring consistency and fairness in establishing eligibility for charter school applicants. Prior to each funding round, and well in advance of the application deadline, CSFA notifies each California charter school regarding the forthcoming funding round utilizing California Department Education's most current listing of all charter schools. These notifications include standard application forms and general information (including frequently asked questions) relating to the Program, as well as information regarding how to access CSFA's website and how to contact CSFA staff directly (both email and phone number) for additional questions. At the same time that CSFA notifies the charter schools regarding each funding round, we post all related information on its website and notifies the charter school associations within California of the funding opportunity. This information is routinely disseminated by these associations to their member schools. Program information also is widely distributed at charter school conferences throughout the year. Lastly, through a contract with the State Treasurer's Office, interpreter services are available to communicate program information in several languages, if needed. The Program regulations set forth stringent requirements that all charter school

applicants must meet in order to be eligible for grant awards. These eligibility requirements ensure that all charter school applicants have a high likelihood of success, that the charter school applicants have a fair and equitable admission process for all student applicants, and that the charter school applicants meet the federal definition of charter schools as set forth in section 5210(1) of the Elementary and Secondary Education Act of 1965 (20 USCA section 7221(i)). In order to confirm compliance with these requirements for charter school applicants, Authority staff requests verification from the chartering authorities regarding compliance with the terms of the charter and good standing with the chartering authority, reviews information made available by the California Department of Education (“CDE”) regarding instructional operations, and reviews application materials, including copies of current charters, submitted under attestation of the accuracy of their content by the charter school applicants. In addition to setting forth basic eligibility requirements, the Program regulations include rigorous evaluation criteria that assign preference points based on the percentage of students eligible for free or reduced lunches, level of overcrowding in the school district within which a charter school applicant is physically located, non-profit status, and student academic performance.

Eligibility and Selection Criteria: Through its Program regulations, CSFA ensures appropriate criteria for determining the amount of the award and the financing, use of grant funds, and provides that charter school applicants met minimum requirements. Specifically, these regulations have specific minimum eligibility requirements, including, but not limited to, having an approved charter in place, meeting the State and the federal definition for charter schools, being in good standing with

chartering authorities and in compliance with terms of charters, and having completed at least one year of instructional operations.

The development of Program regulations involves a rigorous vetting process pursuant to the California Administrative Procedure Act under the auspices of the California Office of Administrative Law (“OAL”). Prior to OAL’s approval of regulations, this process requires: 1) CSFA’s distribution of proposed regulations to constituents that have requested notification of regulatory actions; 2) justification of necessity to OAL; 3) a 45-day public comment period upon OAL’s publication of the proposed regulations in the “California Regulatory Notice Register”; and 4) CSFA’s consideration of public comments. The development of Incentive Grants Program regulations has involved CSFA’s consideration of input from multiple charter school stakeholders, and the Incentive Grants Program regulations have the support of the California charter school community at-large.

4. Targeting Charter Schools with the Greatest Need: Since receiving its first grant award in 2004, California has developed, implemented, and amended Program regulations to ensure that resources are targeted to charter schools with the greatest need, the highest proportion of students in poverty based on percentage of students on free/reduced price meals, and percentage of overcrowding. The existing preference-point methodology within the Program regulations provide that, out of a total of 150 possible preference points, charter school applicants are given up to 60 preference points (40 percent of total) based on percentage of students eligible for free/reduced-price lunches and up to 10 preference points (6.67 percent of total) for percentage overcrowding in the district within which they are located. Charter schools also providing

a school choice option in a community of greatest need, may receive up to 20 points (13 percent of total). An additional 20 points (13 percent of total) is provided based on non-profit status while 20 points (13 percent of total) is assigned for student academic achievement. The final 20 points (13 percent of total) are awarded to those schools who are applying for the Incentive Grant for the first time. Hence, the Program regulations have been designed to ensure that, to a large extent, charter schools receiving funds through the Program represent those having the greatest need.

CSFA also may incorporate a new Program Improvement (“PI”) indicator to our existing Program regulations. If amended, a provision will be added to our regulations that grant additional points to charter schools that are not on PI status, and/or are performing above average on state standardized tests, and located in a geographic area (such as a school district, an attendance area, or within a county office of education boundaries) with a moderate to high percentage of schools on PI status. This addition will allow CSFA to further target schools in geographic areas in which a large proportion or number of public schools have been identified for improvement, while giving preference to high performing charter schools in those same areas.

5. Use of Grant Funds for Evaluation, Technical Assistance and Other:

CSFA prides itself on its commitment to utilizing grant funds to reach charter schools, rather than pay for Program administration costs. California’s total administrative costs charged to the Program over the course of nine years totaled \$800,293; representing only 0.852% of the total grant award. Having been a grantee under the 2004 and 2009 Program, CSFA has a detailed expenditure history for the past ten years which we used to project future administrative costs. As far as personnel costs to administer the grant,

we have budgeted \$69,704 in FY 2015 (recent years have ranged from \$40,000 to \$80,000). The majority of such costs, roughly 80 percent, would be directly attributable to personnel costs to evaluate program applications, with the remainder covering ongoing monitoring and compliance. Accordingly, for FY 2015, we have included \$55,554 and \$14,150 under the headings “Evaluation” and “Personnel costs not associated with evaluation”, respectively, in Table 2 attached hereto. In addition, CSFA has historically allocated to the Program a portion of its general office expenses including communications charges, rent, and supplies, among others. A pro-rata share of communications charges and rent for the Program have been included under “Indirect expenses” for a total of \$5,750 in FY 2015. Office supplies and equipment totaling in \$5,000 for Project year 1 are included under “Evaluation”. Also included under “Evaluation” are a portion of travel costs incurred in connection with the Program (the remainder of travel costs are included under “Dissemination” along with delivery costs, etc.). Additionally, technical assistance, including accounting and legal fees, and other miscellaneous costs are anticipated to be \$31,500 in year one. It should be noted that total administrative costs are budgeted at \$120,000 (a little over one percent of the grant request) during the first year and are projected to grow at three percent per year. At this level, aggregate administrative costs are well below the five percent maximum threshold during all years. Note, “sub-grantees” (i.e., individual charter school recipients) may only use grant funds toward facility-related expenses.

6. Timeline of Project Goals, and Objectives and Measurability: CSFA will adopt project goals, objectives, and timelines that will be clearly specified, measurable, and appropriate for the purpose of the new grant under the Program. CSFA’s

commitment to meeting the financing needs of the California charter school community in a timely manner is one of our guiding principles. As such, CSFA has established five project goals, listed below, consistent with the purpose of the Program, that incorporate specific metrics. Through our semi-annual and annual reporting to the United States Department of Education, CSFA will provide data that demonstrates that the Program goals have been met.

Project Goals	Description and Metric
1. Serve Communities and Charter Schools in Need	CSFA will continue to direct Program funds to charter schools serving students with demonstrated need. To ensure that the Program is meeting this goal, eligibility data will be collected when applicants apply for Program funds and this data will be sent annually through our reporting to USDE.
2. Provide Flexibility for Project Purpose and Use of Grant Funds	CSFA maintains the importance of continuing to be flexible in terms of the types of projects for which awards can be granted therefore will continue to include awards for rent, lease, debt service or mortgage payments, acquisition, rehabilitation or construction. CSFA will continue to work with California’s charter schools and stakeholders to seek additional avenues to promote and improve the Program.
4. Implement Grant Project in a Timely Fashion	<p>CSFA will work quickly to get the next Program funding round implemented. CSFA has proposed the following timeframe from receiving the Grant award notification to bringing funding recommendations to our board for approval.</p> <p>CSFA Board Approves Regulations November 2014 Regulations Implemented November 2014 Application Posted to CSFA Website January 2015 Program Awards June 2015 Review on Additional Applications On-Going</p>
5. Target Schools in Areas Targeted for Program Improvement	As demonstrated in our Competitive Priority section of the application, CSFA considers targeting high performing charter schools to be the optimal investment of resources, while at the same time recognizing the importance of serving communities in which a high proportion of public schools are designated for

	improvement. CSFA will direct funds to schools that are not on PI status, or meet API performance targets, and are near public schools that are on PI status and/or do not meet state standardized testing targets.
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7. Project Supported by Strong Theory: CSFA’s Project Goals (especially Goals 1, 2, and 5) are specifically supported by Strong Theory as defined in 34 CFR 77.1(c), based on the logic model (see Attachment C). The large proportion of low-income students, and high-quality charter schools the Program has been able to consistently represent, evidence that the assumptions within the logic model are sound and measurable. Additionally, CSFA basis for Strong Theory also is supported by a comprehensive Data Collection and Reporting Methodology (see Attachment D).

c) Grant Project Team

Qualifications of Project Personnel: California’s team of professionals brings a wide range of expertise in the area of finance, with specific and unique charter school facilities financing experience. In addition to the federally and state funded programs administered by CSFA, our conduit financing program has issued cash flow working capital notes, to long term fixed rate tax-exempt bonds, to federal subsidy bonds such as qualified zone academy bonds and qualified school construction bonds. In the last four years, our conduit bond program has issued over \$330 million in notes and bonds for 132 schools serving 61,670 students. Financing team members are drawn from state agencies, top-ranked underwriting, advisory and bond counsel firms, as well as professionals from the Public Finance Division of the State Treasurer’s Office.

Members of California's charter school community and associations also provide input as CSFA implements its financing programs.

CSFA's Executive Director, Katrina Johantgen, has over 22 years of municipal finance experience, having served as an investment banker and financial advisor for over eight years, and has been with CSFA for fourteen years. Ms. Johantgen has experience working with the legislature and has been successful in her efforts to secure statutory amendments that support charter schools. Over the last 12 years, Ms. Johantgen has overseen the implementation and administration of CSFA's financing programs. Ms. Johantgen has experience designing and developing new programs and securing new funding opportunities for charter schools. Ms. Johantgen, and her nine colleagues within CSFA, also relies on the administrative support of the California State Treasurer's Office for assistance with accounting, budgeting, legislative advocacy, contracting, and legal matters to ensure the timely delivery of funds to charter schools through our multitude of programs.

Mark Paxson, General Counsel to the State Treasurer, works closely with CSFA to ensure the program's compliance with federal and state law and regulations. Mr. Paxson has provided legal and program financing advice to CSFA since 2002, and will be an integral part of the successful implementation of the new Incentive Grants Program. Along with the Executive Director, CSFA's support team has acquired a significant amount of experience and knowledge about CSFA and California's charter school system, and will be actively involved in the administration of the Incentive Grants Program.

Program administration is augmented by support from state agencies such as California's Department of Education and the Office of Public School Construction, as well as through charter organizations. This ensures that CSFA staff has access to the most up-to-date information and trends relevant to California's charter schools as well as insight and expertise related to the various data sources and measurements needed to meet program goals and objectives in areas such as overcrowding, low-income, or student performance. Detailed resumes which include staff members' educational background and experience in the fields of education finance and charter schools have been provided for all key personnel and attached as Attachment E.

Project Staffing and Implementation Plan: The Program will continue to be administered by CSFA, with Katrina Johantgen serving as Project Director. CSFA's *project staffing and implementation plan* will ensure the successful implementation of a new grant award under the Program. Assuming an award notification in September 2014, CSFA can ensure that funds will be disbursed within the next 12 months.

d) Budget

1. Authority's Financial Stability: CSFA is a governmental entity that is housed within the California State Treasurer's Office ("STO"). CSFA contracts with the administrative division of the STO to provide accounting, budgeting, contracting, personnel, legal and other services to ensure that CSFA has the support needed to sustain its operations in a manner that is consistent with sound governmental practices. CSFA is not reliant on the state general fund to sustain its operations, rather CSFA is funded through the programs it administers and the fees collected through its conduit debt financings. Our audits are consistently free from any material findings and

demonstrate CSFA's adherence to sound accounting practices and compliance with all accounting principles. These audited financial statements speak to our *financial stability*. Additionally, audits conducted of other CSFA-administered programs have been clear of any material findings.

Given the imbalance between the need for charter school facilities and the amount of funding available, our requested Grant amount of \$10 million is reasonable, and will help continue to alleviate the facilities crisis that is experienced by California charter schools. For purposes of this grant application, California is requesting a \$10 million grant in order to continue to administer as well as bolster the same program it has successfully administered since 2004. This requested amount is consistent with the 2004 grant amount of \$49.3 million and \$48.5 million in 2009 from which California has allocated, on average, about \$9.5 million per year to charter school applicants in support of their various facilities needs. California's objectives and design for a renewed Program award are consistent with the current Program construct.

Given the availability of California's other funding sources including the state funded Charter School Facilities Program, California will continue to offer multiple per-pupil facilities aids programs to charter schools. Based on the success achieved since the Program's implementation in 2004 with the level of funds originally awarded, California considers the requested amount to be reasonable and sufficient to maintain the current level of per-pupil facilities aid. Please see Table 2: Grant Funds Expenditures for further details on California's proposed use of grant proceeds. As we have demonstrated in our "Adequacy of Facility Funding" section, California is

committed to housing and educating its charter school students, yet the demand for funding has far exceeded the available resources.

2. Reasonableness of Costs: The cost of school facilities in California are reasonable in relation to the number of students served, bearing in mind the high cost of real estate in the State as compared to most other regions of the country. All publicly funded construction projects in California are competitively bid on by qualified bidders in order to ensure that costs are competitive and reasonable. Additionally, all federally funded projects must adhere to the Davis-Bacon Act which ensures that laborers are earning fair wages on any project receiving a federal subsidy.

3. Request Does Not Exceed Federal Allowance: As described in greater detail under “Continuation of Facilities Aid Program” herein, California plans to meet the non-federal matching requirements utilizing appropriations made pursuant to the Charter School Facilities Grant Plan (“SB 740”) and Charter School Facilities Plan (funded through statewide bond measures). The total federal grant request is \$50 million over a five-year period. In comparison, State matching funds are projected to total \$1.5 billion for CSFP, SB 740, and Prop 39, combined, during the same timeframe. Given the demand for charter school facilities and California, and the amount of funding available, the proposed budget does not exceed the percentages allowed under section 5205(b)(2)(c) of the ESEA. Table 3 – Grant Funds as a Percentage of the Cost of Per Pupil Facilities Aid shows that California’s proposed Grant amount is well below the percentage guidelines set forth in the applicable regulations. Although State per-pupil facilities aid is expected to increase over the next five fiscal years, this federal grant is

considered essential in helping the State to meet its considerable projected unfunded need.

e) Quality of Project Evaluation:

CSFA has demonstrated success in implementing project plans under its existing grants, including lower costs of financing, targeting charter schools in geographic areas where a high proportion of schools are designated for improvement or correction, and targeting charter schools with a high percentage of students coming from low-income households. Recognizing the need for additional grant funds into the Incentive Grants Program, CSFA will work quickly to implement a funding round. CSFA has proposed a timeframe from receiving the Program award notification to getting funds disbursed to charter schools. As it did under its existing Program grant, CSFA is confident it can meet and exceed its program timing and leveraging goals to get funds out to charter schools within a 5-year period.

CSFA Board Approves Regulations	November 2014 ¹⁰
Regulations Implemented	November 2014
Application Posted to CSFA Website	January 2015
Program Awards	June 2015

Ability to Replicate Results: CSFA's demonstrated success with its regulatory requirements, sound infrastructure, and streamlined procedures provide strong evidence that CSFA will be able to replicate its successful Program results. Through the implementation of the Program regulations, CSFA has ensured that uniform and

¹⁰ This timeline assumes a September 2014 Program award notification.

consistent standards are applied in determining minimum eligibility for charter schools participating in the Program, eligible use of Program funds, and application review and evaluation criteria. These regulations have ensured, for example, that all participating charter schools are in compliance with the terms of their charters and in good standing with their chartering authorizers. This regulatory framework also resulted in CSFA reaching high performing charter schools that are serving the state's neediest student population.

f) State Experience

Authority Experience to Carry Out Project Activities: Since its inception, CSFA¹¹ has developed a number of school facilities financing programs; and since 2002, has been primarily focused on assisting charter schools to meet their facility and working capital needs. As a testament to our successful administration of funding programs, in his 2013-14 Budget, Governor Brown proposed, and the Legislature enacted, the transfer of the administration of the Charter School Facility Grant Program and the Charter School Revolving Loan Fund from the California Department of Education to CSFA. CSFA not only ensured a smooth transition of the two programs, but has already begun developing ways of expanding access to these programs to a greater number of schools, and creating greater efficiency in how these programs are managed.

CSFA currently administers six charter school programs that provide no- to low-cost financing opportunities for charter schools. Our successful administration of these programs is a testament to our ability and expertise to carry out project activities and

¹¹ California School Finance Authority Act has been included as Attachment E.

ensure the on-going success of the Incentive Grants Program. Support of CSFA's ability to carry out these programs, and to secure an additional grant under the Program, is widespread from State officials and from the charter community at large. Support letters have been attached for your review as Attachment F. Current CSFA programs consist of the following:

Program	Description
Conduit Financing Program	CSFA serves as a conduit bond and note issuer on behalf of charter schools organized as non-profit entities which allows access to the tax-exempt and other tax-advantaged bonds through capital markets. Since 2010, CSFA has issued \$327.9 million in bonds to assist 132 charter schools serving 61,670 students.
State Charter School Facilities Incentive Grants Program	This \$100 million federally-funded grant program provides high performing charter schools that demonstrate the most need with 3-year grants to offset their on-going facility costs as well as acquisition, construction and renovation. The program provides funding for rent, lease, mortgage, or debt service payments or toward the costs associated with the purchase or acquisition of land or the design, construction, or renovation of a facility. Since implementing the program in 2006, the program has provided over \$93.9 million in funding to 285 charter schools serving over 89,493 charter school students.
Charter School Facility Grant Program	In 2013-14, this program will provide up to \$92 million in grants to charter schools serving a high-percentage of students eligible for free or reduced price meals or be located in a public elementary school boundary serving a similar demographic. Since July 2013, this program has provided \$46.2 million in funding more than 300 charter schools.
Charter School Credit Enhancement Grant Program	This federally funded grant program provides grants to fund debt service reserve accounts. This grant reduces the overall cost of borrowing for charter schools as it eliminates the need to fund the reserve through bond proceeds. The Program has leveraged \$8.3 million to nearly \$142.8 million in bond financings, resulting in a leverage ratio of over 17 times.
Charter School Facilities Program	The CSFP was enacted in 2002 by Assembly Bill 14, amended by Senate Bill 15 and Assembly Bill 16, and funded through Proposition 47 (\$100 million), Proposition 55 (\$300 million), and Proposition 1D (\$500 million) for the purposes of constructing, acquiring or renovating new facilities for site-based charter school students. The CSFP allows charter schools to access state facility funding for new construction directly or through the school district where the charter school is physically located. The program funds 50% of project costs as a grant (paid by the State), while the charter school, in the form of a long-term lease or a lump sum payment, repays the

	other 50%.
Charter School Revolving Loan Fund Program	The Revolving Loan Fund Program provides low-cost loans of up to \$250,000 to new charter schools. The program currently has approximately 200 outstanding loans for 175 charter schools. By the end of July 2014, CSFA will make approximately 50 loans totaling approximately \$12.5 million under 2013-14 funding round.