

PROJECT NARRATIVE (CFDA NUMBER: 84.282)
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The California School Finance Authority (“CSFA” or the “Authority”) was the recipient of a \$49.25 million award under the U.S. Department of Education’s 2004 State Charter School Facilities Incentive Grants Program. Over the past five years, the Authority has disbursed these grant proceeds in annual funding rounds through its Charter School Facilities Incentive Grants Program (the “Program”) and, to date, has successfully allocated all proceeds to more than 125 schools serving in excess of 42,000 students. It should be noted that the Program has become an important source of facility funding for California charter schools, particularly those serving students from low-income families, and is considered a vital component of the State’s plan for addressing the facility needs of a rapidly increasing number of charter school students projected over the next five years. The Authority is hereby requesting a federal grant in the amount of \$10 million per year over the next five years to continue this worthwhile program.

I. Competitive Preference Priority 1

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. 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

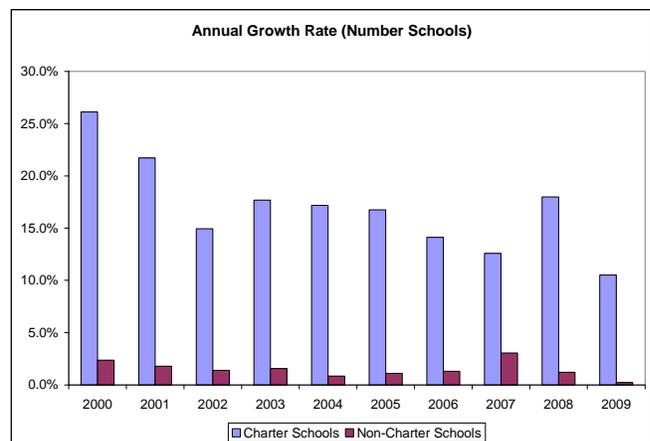
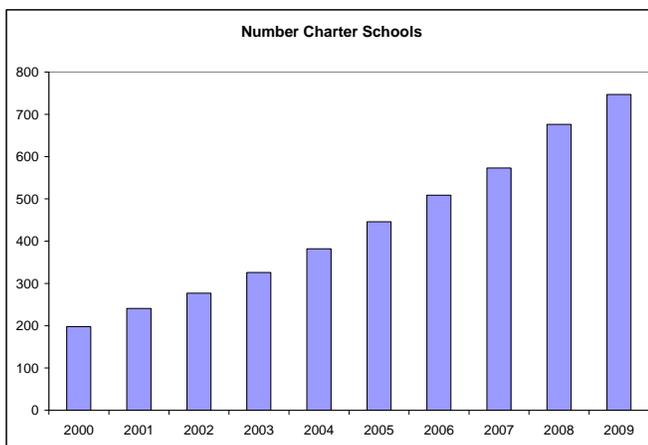
consider their renewal. Specifically, charter schools must attain a score of “4” or higher on the State’s 10-point Academic Performance Index comparison ranking or meet specified academic performance growth targets in the years preceding renewal. The section of AB 1137 that mandates such requirements 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 Schools

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. As a testament to charter schools’ increasing popularity, approximately 750 charter schools operate in California as of the

2008-09 school year and serve roughly 285,000 students. Based upon these figures, the number of charter schools has grown at an annually compounded rate in excess of 15 percent over the prior ten-year period and the number of students now enrolled in such schools account for approximately five percent of the State’s public K-12 grade students. The charts below evidence not only a sustained increase in the total number of charter schools operating in the State, but also a rapid pace of growth for charter schools which far surpasses that of traditional public schools over the same timeframe.



Although the quality of charter schools operating within the State continues to be a subject of debate, most independent research suggests that, at least for the most part, students enrolled at charter schools perform at levels equal to or exceeding traditional schools. 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 Alternative studies have reached relatively similar findings. EdSource, for example, conducted an analysis comparing 2008 test scores of California charter schools with those of non-charters. After controlling for student background characteristics most strongly associated with academic performance, EdSource determined that (i) charter high schools score modestly higher than non-charters in English but lag in math; (ii) charter middle schools outscore non-charters; and (iii) charter elementary schools lag behind non-charters. A comparable analysis focusing on charter management organizations (“CMOs”) concluded that CMOs fared favorably as compared to non-charters at virtually all levels (i.e., elementary, middle, and high school) with the caveat that there was little difference to be found at the elementary school level when applying the “broadest” definition of a CMO.² It should be noted that CMOs account for 59 to 128 (depending on the definition of CMO) of California’s 747 charter schools.

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 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 principals or engaged in fiscal mismanagement; or (iv) violated the law.

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

² California’s Charter Schools: 2009 Update on Issues and Performance, EdSource, June 2009, www.edsource.org/pub_CharterPerf6-09.html.

c) One Authorized Public Chartering Agency Other than an LEA

While the vast majority of California's charters are granted and monitored by local school districts, California's Charter Act also provides a robust appeal process and authorizes county boards of education and the State Board of Education to grant charters. California's Charter Act places the primary responsibility for reviewing and granting charters on local school district governing boards. The Charter Act, at California Education Code Section 47605, establishes very specific timelines and criteria for consideration of charter proposals. These laws are generally designed to compel local boards to grant charters when they are well-crafted and are proposed by a credible developer. In the event that a local district denies a charter petition, the developers may appeal the denial to the local county board of education. In the event that the county board also denies the charter, the charter developers may appeal to the State Board of Education. There are currently eight charter schools operating with charters granted by the State Board of Education with three additional schools slated to open in fall of 2009. Furthermore, the Board also has granted three statewide benefit charters to charter management organizations.

In addition to the above-referenced appellate charter-granting authority, county boards of education may grant charters directly to charter schools that serve the types of populations that they typically serve (e.g., adjudicated students, low-incidence special needs students, etc.). Finally, the Charter Act also gives county boards of education the authority to grant "county-wide" charters to schools that would serve students in multiple school districts across the county and whose structure cannot be accommodated through a district-level granting process. The State Board of Education has the

authority to grant “statewide” charters to schools that operate across multiple counties and whose structure cannot be accommodated through other types of charters.

In summary, California’s Charter Act authorizes three different types of agencies to grant charters—local school district boards, county boards of education, and the State Board of Education. California Education Code Section 47605(j)(1) establishes the parameters of California’s appeal process, and experience has demonstrated that this process is effective.

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. California Education Code Section 47633(c) allows 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.

California relies on a charter school block grant funding model that is essentially comprised of two block grants — a general purpose revenue block grant and an in-lieu

categorical block grant. The general purpose revenue portion of the funding model is based on the statewide average for the grade level(s) taught, and is provided to charter schools on a per-pupil basis calculated on each school's average daily attendance ("ADA"). The in-lieu categorical portion of the funding model provides charter schools with funding based on a per-pupil statewide average for a variety of state categorical and special grant programs and is also calculated on each school's ADA. Funding for charter schools under the categorical block grant may also be spent for virtually any purpose determined by the school's governing body (California Education Code Section 47635(a)). Additionally, state law (California Education Code Section 47651(a)) gives charter schools the option of receiving state and federal funds directly from the state, autonomously from their charter-authorizing entities. A charter school may annually choose to select direct or local funding, at its sole discretion. Direct-funded schools are treated as local education agencies ("LEAs") for fiscal purposes only and may autonomously apply for any funds for which they are eligible. Locally-funded schools receive their funds through the appropriate LEA and the LEAs compete for funds on their behalf. The Charter Act also strictly limits the amount of funding that a charter-granting agency may charge for oversight activities at actual costs, not to exceed one percent of the school's operating revenues (three percent if the district provides rent-free facilities).

In addition to fiscal autonomy, California charter schools enjoy an extremely high degree of instructional flexibility. They may select and adopt their own curricula and texts without regard to state adoption lists, may employ non-credentialed teachers in non-core and non-college preparatory classes, and may operate in virtually any setting

(traditional classrooms, on-line, home-based, etc.). This flexibility has spurred the development of a broad array of instructional paradigms including Montessori, Waldorf, and Core Knowledge, as well as a diverse mix of “networked” schools such as Edison, KIPP, Aspire, Green Dot Public Schools, and others. Instructional autonomy has led to the development and implementation of highly focused curricula that meet the needs of adjudicated, chemically-dependent, and other special need (at-risk) students.

II. Competitive Preference Priority 2

Existing regulations for the Charter School Facilities Incentive Grants Program are designed to target funds to charter schools serving students that demonstrate the most need. The 110-point preference matrix awards up to 60 preference points to applicants based on percentage of low-income students attending the school and up to 20 preference points for the percentage of overcrowding in the district. An additional 20 points is provided based on non-profit status and ten points for student academic achievement. It has been our experience that there is a high degree of 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. Moreover, we plan to further amend existing guidelines for the Program in subsequent rounds to target more measurably those schools that are providing students an option for a better education. Please refer also to our discussion regarding proposed regulation changes under “Quality of Plan”.

III. Selection Criteria

a) Need for Facility Funding

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 the 2008-09 school year (FY 2009), there were approximately 750 charter schools educating roughly 285,000 students in California, compared to close to 9,500 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 five percent in FY 2009, which is equivalent to a compounded annual growth rate in excess of 14 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 schools' access to suitable facilities has been a challenge in light of such rapid expansion.

1. Charter School Funding in California

California has a large and complex system for funding K-12 schools. School funding is largely state-driven and governed by provisions in California's constitution that use detailed formulas to establish funding levels. These state laws govern both state and local property tax funding for the K-12 system as well as a growing list of special-purpose state categorical funding programs. The federal government provides a relatively small, but significant and growing share of funding for California's schools. Federal, state and local sources are supplemented by various special sources such as state lottery dollars. General-purpose funds are provided to school districts through the "revenue limit" system.

The revenue limit is a specific entitlement of funding for each student, measured by average daily attendance (“ADA”) generated by the district’s students. The revenue limit is funded from State and local sources such that local property taxes are subtracted from the school district’s total entitlement to revenue limit 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, a valuation which often is less than the property’s market value due to Proposition 13 passed by the voters in 1978. Categorical funding is provided to schools through more than 30 state-funded programs and over a dozen major federal programs. The larger state-funded categorical programs include funding for special education, incentives to reduce class sizes and home-to-school transportation, etc. School districts must often complete lengthy applications to qualify for categorical funding, and the laws governing the programs often dictate the use of the funds. Since such a high proportion of funds are provided through these often restrictive categorical funding programs, per student funding is dependent on the diligence of staff and thus will vary between school districts.

California's charter schools are funded much like other non-charter California public schools. They receive funding from local property taxes, state education aid programs, the California Lottery, the federal government, fundraising, and other sources. They are prohibited from charging tuition, but may charge fees for certain items to the same extent as non-charter public schools may. As public schools, charters receive state and federal general-purpose and categorical funding for operations based upon a per-pupil formula. During the FY 2000 and FY 2005 budget processes, the California Legislature significantly amended the California Charter

Schools Act to ensure a high degree of autonomy and flexibility in operational funding. The Legislature created a charter school funding system that is relatively simple, provides similar levels of operational funding for serving similar students, cuts regulatory “red tape” from state funding programs and provides charter schools with the option to receive aid directly from the State, without the local district receiving funds first.

The following table illustrates the primary elements of California’s charter school funding system. First, charter schools receive a per-ADA General Purpose Block Grant that is based on the average level of general-purpose funding the state provides to school districts serving the various grade spans. Second, charter schools receive a per-ADA Categorical Block Grant that provides charter schools with a proportionate share of funding from over 35 different state categorical aid programs. This block grant approach greatly simplifies charter schools financial affairs and provides the schools with a deregulated “no strings attached” share of state aid. The Categorical Block Grant is supplemented with so-called “In-Lieu Economic Impact Aid.” These funds are provided to charter schools that serve economically disadvantaged students (students whose family incomes fall below specified federal poverty income caps) and students who are English learners. The funding is provided in lieu of a large categorical funding program for school districts called “Economic Impact Aid.” The funding provided varies each year.

Basic Charter School Funding Rates per ADA (FY 2009)				
	<u>K-3</u>	<u>4-6</u>	<u>7-8</u>	<u>9-12</u>
General Purpose Block Grant	\$5,452	\$5,536	\$5,698	\$6,607
Categorical Block Grant	500	500	500	500
In-Lieu Economic Impact Aid	<u>318</u>	<u>318</u>	<u>318</u>	<u>318</u>
TOTAL	\$6,270	\$6,354	\$6,516	\$7,425

In addition to these basic funding entitlements, charter schools may (1) apply for funding from federal education aid programs, (2) receive a proportionate share of funding from the California Lottery, and (3) may also apply for funding from several special state sources, that are not included in the above-referenced block grants, which could increase revenue per ADA by an additional \$500 to \$2,000.

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.³ 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

³ State Allocation Board Office of Public School Construction, An overview of the State School Facility Programs, May 2009, WWW.OPSC.DGS.CA.GOV.

developer fees (nine percent).⁴ 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).

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 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

⁴ 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.

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 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 (please refer 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 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). Enabling statutes for these programs have been included under "Other Attachments".

Per-Pupil Facility Aid Programs

1. Charter School Facilities Program (“CSFP”). This \$900 million per-pupil facilities program provides 100 percent upfront project costs, and the charter school repays the State 50 percent of the costs through a low-interest, 30-year loan.
2. Charter School Facility Grant Program (“SB 740”). This per-pupil funding program provides facility cost reimbursement to charter schools housing low-income students.
3. State Charter School Facilities Incentive Grants Program. This federally funded per-pupil grant program awarded in 2004 targets resources to charter schools serving impoverished students housed in overcrowded districts, or surrounded by overcrowded schools.

Other Facility Aid Programs

1. Proposition 39. Statewide voter approved ballot measure which requires school districts to provide adequate facilities for charter school students.
2. Charter School Revolving Loan Fund Program. This program provides up to \$250,000 in start-up funding to new charter schools.
3. Authority’s Charter School Conduit Financing Program. The Authority’s conduit financing program is anticipated to provide charter schools access to the capital markets for facilities and other financing.
4. Qualified Zone Academy Bond and Qualified School Construction Bonds. The State has an active QZAB program and the Authority has been allocated a “carve out” of the State’s QSCB amount to develop a pooled program for charter school facilities.

3. Adequacy of Facility Funding

Notwithstanding California's success in targeting resources to charter schools with the greatest need and highest proportion of students in poverty through its charter school facilities aid programs, California continues to have a large degree of unmet need and the continuation of California's State Charter School Facilities Incentive Grants Program is considered critical in maintaining and furthering the gains thus far achieved. Based on the methodology detailed below, it is estimated that the aggregate unfunded up-front costs of new charter school facilities over the next five fiscal years will be approximately \$650 million.

The table on page 19 provides annual estimates of the facilities needs of new charter school students for the next five fiscal years. Annual growth in charter school enrollment is projected at 7.5 percent per year (growth rates have been almost double this figure over the prior ten years). For simplification purposes, this analysis also assumes the facilities needs of the roughly 285,000 students enrolled during FY 2009 have been met and funded; the facilities needs presented would be significantly higher without this assumption. The \$493 million cost of providing facilities for new charter school students in FY 2010 is based on the 80 sq. feet per student space demands of 21,433 new students at a per sq. foot cost of \$288 (cost figure is based on averages reported by the Office of Public School Construction and assumes that land value equals 25 percent of base construction costs). Annual increases in the up-front cost of new facilities are a function of enrollment growth and 3 percent per annum increases in the cost per sq. foot such that the annual need is \$741 million by FY 2014. The aggregate cost of new facilities over the five years is \$3.05 billion.

Based on the foregoing demand analysis, we have provided an annual estimate of the unfunded cost of new charter school facilities in California for FY 2010 through FY 2014 in the table below. From the aggregate up-front cost of new facilities, we have deducted an estimated \$458 million (15 percent of the total up-front requirement) to be provided by local districts pursuant to Proposition 39, an estimated \$1.4 billion to be satisfied by leases, mortgages, and other forms of borrowings (i.e., charter school operational funding), \$250 million from Proposition 1D apportionments through the Charter Schools Facilities Program from FY 2010 through FY 2013, and roughly \$295 million through the Charter School Facility Grant Program (SB 740 funds). With respect to long-term borrowings covered by operational funding, we have assumed that a charter school can reasonably be expected to devote up to \$1,000 per student toward repayment of facility-related expenses and we have used this figure to calculate a “capitalized” up-front value in each fiscal year. As far as Proposition 1D apportionments are concerned, we have only included the 50 percent portion of the allocation offered as a grant to charter schools (the remaining half must be repaid over 30 years and would be included under long-term borrowings paid from operational funding). It should also be noted that although Proposition 1D funds were allocated to qualifying charter schools in FY 2008, we expect the funds to meet future demand over the next few years as school sites are actually completed and placed in service.

Projected Costs & Funding Sources for New Charter Schools in California (\$000s)						
	Project Yr 1 (CA FY 2010)	Project Yr 2 (CA FY 2011)	Project Yr 3 (CA FY 2012)	Project Yr 4 (CA FY 2013)	Project Yr 5 (CA FY 2014)	TOTALS
Demographics						
Charter School Students ⁽¹⁾	307,202	330,242	355,010	381,636	410,258	
Number of Charter Schools ⁽²⁾	803	863	928	998	1,072	
Up-Front Cost of New Schools ⁽³⁾						
Unhoused Students	21,433	23,040	24,768	26,626	28,623	
Facility Space per Student (sq. feet)	80.0	80.0	80.0	80.0	80.0	
Facility Cost per Square Foot	<u>\$230.00</u>	<u>\$236.90</u>	<u>\$244.01</u>	<u>\$251.33</u>	<u>\$258.87</u>	
Facility Cost	\$394,361	\$436,656	\$483,488	\$535,342	\$592,757	\$2,442,605
Land Cost (25.0% of Facility Cost)	<u>\$98,590</u>	<u>\$109,164</u>	<u>\$120,872</u>	<u>\$133,835</u>	<u>\$148,189</u>	<u>\$610,651</u>
Total Up-Front Cost of New Schools	\$492,952	\$545,821	\$604,360	\$669,177	\$740,947	\$3,053,256
Estimated Up-Front Funding Sources						
Facilities Funded/Provided per Prop. 39 ⁽⁴⁾	\$73,943	\$81,873	\$90,654	\$100,377	\$111,142	\$457,988
Facilities Funded/ Provided by Leasing ⁽⁵⁾	241,284	259,381	278,834	299,747	322,228	1,401,474
Charter School Facility Program ⁽⁶⁾	50,000	50,000	75,000	75,000	0	250,000
Charter School Facility Grant Program (SB740)	<u>30,960</u>	<u>46,602</u>	<u>62,244</u>	<u>77,885</u>	<u>77,885</u>	<u>295,576</u>
Total Estimated Up-Front Funding Sources	\$396,187	\$437,856	\$506,732	\$553,009	\$511,255	\$2,405,039
Net Unfunded Up-Front Costs	\$96,765	\$107,965	\$97,628	\$116,169	\$229,691	\$648,217
Assumptions						
⁽¹⁾ Annual enrollment growth from FY 2009 through FY 2014 is projected at 7.5% per year.						
⁽²⁾ 380 students per school based on FY 2009 average.						
⁽³⁾ For simplification purposes, this analysis assumes the facilities needs of the projected 285,769 students in FY 2009 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 3.0% per year.						
⁽⁴⁾ Estimated based on 15.0% share provided by school districts pursuant to Proposition 39.						
⁽⁵⁾ Estimated based on assumption that charter school may reasonably devote \$1,000 per student in operational funds toward repayments on leases and long-term debt.						
⁽⁶⁾ Projected apportionments of \$250 million in Proposition 1D funds from CSFP.						

b) Quality of Plan

1. Continuation of Facilities Aid Program

Since its award in 2004 under the State Charter School Facilities Incentive Grants Program, California has administered five successful rounds of grant awards to charter schools to address their facility needs. As of June 30, 2009, California's State Charter School Facilities Incentives Grant Program has issued approximately \$49 million in grant awards to 128 charter schools throughout the State, serving over 42,000 students. The Program's awards have been utilized for the following purposes: 109 for annual lease or debt service payments; 9 for the purchase of a facility; 9 for constructing a facility; and 5 for renovating an existing facility (refer to "Other Attachments" for a summary of the Program's funding results). *The State is putting forth this application to*

continue this Program which enjoys overwhelming support from the charter schools community (several indicative support letters have been attached hereto).

California School Finance Authority					
State Charter School Facilities Incentive Grant Program					
Funding Round Data					
	Purpose of Grants				
	Lease/ Debt Service	Purchase	Construction	Renovation	# of Schools
Round 1	24	3	4	0	31
Round 2	20	1	1	1	23
Round 3	29	2	0	0	31
Round 4	21	2	2	0	23
Round 5	15	1	2	4	20
Totals	109	9	9	5	128*
Percentage	82%	7%	7%	4%	

Since its award of federal funds in 2004, California has relied upon the following state programs to satisfy its per-pupil facilities aid program match requirement for non-Federal matching funds: 1) Charter School Facilities Program (“CSFP”); and 2) Charter School Facilities Grant Program (“SB 740”). California intends to designate the same programs as its non-Federal matching funds for purposes of this application. In FY 2009, the State awarded approximately \$24 million to charter schools through SB 740. Projecting forward, funds awarded pursuant to SB 740 are expected to increase \$6 million in FY 2010 and by roughly \$15 million per year during each of the three fiscal years thereafter (i.e., annual funding will range from \$31 million to \$78 million). Additionally, approximately \$50.9 million is available to be allocated under CSFP in FY 2010. Although it is extremely difficult to identify future allocations under CSFP beyond FY 2010 (existing funds will soon be exhausted and future allocations are dependent on the passage of bond measures which may or may not take place), any subsequent

successful statewide ballot measures for school facilities will be utilized as well. In any event, SB 740 funds and remaining CSFP monies to be allocated in FY 2010 should be more than sufficient for purposes of meeting the non-Federal match (please refer also to Table 1 and Table 3 attached hereto). Note that the total amount of assistance under the various programs is expected to increase materially 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 apply: (i) no more than 75 percent of the annual eligible costs for which the applicant is applying may be funded by the Program; (ii) 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 (iii) 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 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 State Charter School Facilities Incentive Grants 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, the Authority 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 the Authority's website and how to contact the Authority directly (both email and phone number) for additional questions. At the same time that CSFA notifies the charter schools regarding each funding round, the Authority posts 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.

4. Targeting Charter Schools with the Greatest Need

Since receiving its award in 2004, California has developed, implemented, and amended Program regulations to ensure that resources are targeted to charter schools with the greatest need and highest proportion of students in poverty based on percentage of students on free/reduced price meals and percentage of overcrowding. A copy of our current Program regulations has been provided as Attachment C. The existing preference-point methodology within the Program regulations provide that, out of a total of 110 possible preference points, charter school applicants are given up to 60

preference points (55 percent of total) based on percentage of students eligible for free/reduced-price lunches and up to 20 preference points (18 percent of total) for percentage overcrowding in the district within which they are located. An additional 20 points (18 percent of total) is provided based on non-profit status while ten points (nine percent of total) is assigned for student academic achievement. 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.

As part of the Authority's application to the Department for the 2009 State Charter School Facilities Incentive Grants Program, the Authority proposes to modify (subject to CSFA Board approval) the preference points used as evaluation criteria in existing Program regulations in order to target grant awards to charter schools offering school choice in the communities of greatest need. The table below compares the proposed preference point allocations with those in existing Program regulations. Creating a new category of evaluation criteria, the proposed methodology would assign up to 20 percent of total preference points to charter schools operating within three miles of traditional schools not meeting both federal AYP and the State's API Growth Target for the most recent year. Moreover, the proposed methodology would continue to target grant awards to charter schools serving large proportions of low-income students by assigning up to 50 percent of total preference points (sliding scale) to charter school students receiving free/reduced price lunches. The remaining 30 percent of preference points would be assigned as follows – 10 percent for overcrowding (charter schools located within three miles of a traditional school receiving an Overcrowding Relief Grant from CDE), 5 percent for non-profit status, and 15 percent

for good student performance (charter schools meeting API Growth Targets for most recent year).

Preference Points for Evaluation Criteria - Existing and Proposed

EXISTING PREFERENCE POINTS	PROPOSED PREFERENCE POINTS
1. <u>Low-Income</u> – Sliding scale of percentage of charter school students receiving Free/Reduced Price Lunch. Current maximum of 55% of total preference points.	1. <u>Low-Income</u> – Sliding scale of percentage of charter school students receiving Free/Reduced Price Lunch. Proposed maximum of 50% of total preference points.
2. <u>Overcrowding</u> – Greater of 9% of total preference points for charter school located within three miles of a traditional school receiving Overcrowding Relief Grant from CDE and up to 18% of total preference points for charter school located in a overcrowded school district as determined by OPSC (sliding scale).	2. <u>Overcrowding</u> – A charter school located within three miles of a traditional school receiving Overcrowding Relief Grant from CDE will receive 10% of total preference points.
3. <u>Non-profit Entity</u> – Charter school or CMO determined to be a non-profit will receive 18% of total preference points.	3. <u>Non-profit Entity</u> – Charter school or CMO determined to be a non-profit will receive 5% of total preference points.
4. <u>Charter School Student Performance</u> – Charter school meeting its API Growth Target for most recent year will receive 9% of total preference points.	4. <u>Charter School Student Performance</u> – Charter school meeting its API Growth Target for most recent year will receive 15% of total preference points.
5. <u>Neighboring Traditional School Student Performance (School Choice)</u> – Not included.	5. <u>Neighboring Traditional School Student Performance (School Choice)</u> – Charter school operating within three miles of a traditional school not meeting AYP for most recent year will receive 10% of total preference points and an additional 10% of total preference points for operating within three miles of a traditional school not meeting its API Growth Target for the most recent year (maximum of 20% of total preference points.)

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

Having been a recipient under the 2004 State Charter School Facilities Incentive Grants Program, the Authority has relatively detailed expense figures with respect to costs incurred in connection therewith over the past five years. Considering that the new grant request is in an amount comparable to the prior award, we would expect

future administration expenses to mirror recent results. As far as personnel costs may be concerned, we have budgeted \$70,750 in FY 2010 (recent years have ranged from \$40,000 to \$80,000). The majority of such costs, roughly 80 percent, would be directly attributable to the evaluation of program applications with the remainder covering ongoing monitoring and compliance. Accordingly, for FY 2010, we have included \$56,600 and \$14,150 under the headings "Evaluation" and "Personnel costs not associated with evaluation", respectively, in Table 2 attached hereto. In addition, the Authority 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" and total \$5,750 in FY 2010. 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 \$30,500 in year 1. 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.

c) Grant Project Team

1. Team Overview

The Charter School Facilities Incentive Grants Program would continue to be administered by the California School Finance Authority, an agency created in 1985 to oversee the statewide system for the sale of revenue bonds to acquire, reconstruct, or replace existing school buildings for public school and community college districts, and charter schools, and to provide access to financing for working capital and capital improvements. The Authority has five years of specific experience administering the Program and, accordingly, is well-situated to ensure that federal funds efficiently reach California charter schools. Assuming a September 2009 award notification, the Authority can ensure that funds will be disbursed within the next 12 months (see schedule below).

Timing	Event	Responsible Party
Fall 2009	Propose Changes to Program Regulations	Authority Staff and Charter School Community
Early 2010	Approval of Regulations Changes	Authority Board
March 2010	Changes to Regulations Become Effective / Application Available	All Parties
April – June 2010	Application Review and Assignment of Preference Points	Authority Staff
June 2010	Awards Made and Funds Disbursed	Authority Board and Staff

Grant project team members and other personnel resources include staff members from the Authority, the State Treasurer's Office, the California Department of Education, the Office of Public School Construction, the State Allocation Board, and charter organizations.

Katrina Johantgen, Executive Director of the Authority, will continue to serve as Project Manager. Ms. Johantgen has over 17 years of experience in municipal finance and served as an investment banker and financial advisor for many entities, including school districts, for over eight years. Ms. Johantgen has experience working with the legislature and has been successful in her efforts to secure statutory amendments that support charter schools financially, including being instrumental in drafting the legislation that created the Charter School Facilities Program. Over the last eight years, Ms. Johantgen has administered two per-pupil facilities aid programs for charter schools: the \$900 million CSFP, and the \$49 million State Charter School Facilities Incentive Grants Program awarded by the U.S. Department of Education in 2004. In her roles with the State of California, Ms. Johantgen has experience designing and developing new programs and funding opportunities for charter schools.

The Authority's current staff includes four permanent analysts and three part-time retired annuitants. Terri Kizer, an Associate Governmental Program Analyst, has State government experience in program development and implementation since 2001. She has been with the Authority since 2004 and through her involvement with both of the Authority's per-pupil facilities aid programs, has developed an in-depth understanding and expertise in all aspects of charter school facilities financing. Ms. Kizer has extensive experience with rulemaking files, staff training, and ensuring all programs are developed and administered consistent with State and Federal laws. Ms. Kizer's has first-hand knowledge and expertise in the area of charter schools and will be an invaluable resource as we implement this new grant award.

The State Treasurer's Office provides resources through its legal office and accounting unit. Most notably, Kristin Smith and Mark Paxson provide legal support to the Authority. Ms. Smith has been with the Treasurer's office since 2007 and is actively involved in all of the Authority's charter school financing programs. Mr. Paxson has been with the Treasurer's office since 2002 and has provided legal counsel to the Authority since that time. Both Ms. Smith and Mr. Paxson have acquired a significant level of expertise related to California's charter school system, school facilities, and school financing.

Additional Authority staff and State Treasurer's Office staff provide technical, administrative, and accounting support for the Authority's programs. All Authority staff, with expertise provided by colleagues in other agencies and organizations, have expertise in administering the annual funding round, including reviewing applicants for eligibility, assessing those with the most need, assigning preference points, and evaluating eligible costs. The on-going activities of verifying continued eligibility and ensuring funds are disbursed on schedule are provided by the retired annuitants with oversight by Ms. Johantgen and Ms. Kizer.

Additional personnel and technical resources are provided to the Authority's Grant Team through California's Department of Education and Office of Public School Construction, as well as through charter organizations. This ensures that Authority 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 hereto under "Other Attachments".

2. Adequacy and Appropriateness of Staffing Plan

Given that the requested grant award is roughly the same dollar amount as the 2004 award, the Authority's existing staffing level would be sufficient to implement and administer the new grant program over the next five years. Staff includes the Authority's executive director, serving as project manager, four permanent analysts, and three part-time retired annuitants. It is not anticipated that it will be necessary to hire new staff or incur additional costs, other than the allowable administrative costs incurred to administer the new grant. Authority staff is very familiar with the requirements and responsibilities involved in administering a federal grant (i.e. EDGAR, semi-annual reports, A-133 audits, Davis-Bacon requirements, etc.). The Program will be phased out over the next three years and Authority staff members with experience and expertise in federal grant administration are already in place and would be immediately available for the 2009 Program.

d) Budget

1. Reasonableness of Request

Given the imbalance between the need for charter school facilities and the amount of funding available, our requested Grant amount of \$50 million (\$10 million per year for five years) 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 \$50 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 original grant amount of \$49.3 million from which California has allocated, on average, about \$9.5 million per year to charter school “sub-grantee” applicants in support of their various facilities needs. California’s objectives and design for a renewed State Charter School Facilities Incentive Grants Program are largely the same as for the current program (apart from the suggested preference point modifications described under “Quality of Plan”). Given the availability of California’s CSFP program during 2009-10, and the Program over the next five years, 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 relative 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. As the Program is administered by the State, the same bidding requirements would apply.

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 exceed \$50 million and \$295 million for CSFP and SB 740, respectively, during the same timeframe. Given the demand for charter school facilities and California, and the amount of funding available through the CSFP and SB 740, 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) State Experience

California has demonstrated experience addressing the facility needs of charter schools through a broad array of approaches, including direct grants, loans, and other programs. Below, we have described the major programs available to the California charter school community.

Charter School Facilities Program (“CSFP”). The CSFP was enacted in 2002 by AB 14, amended by SB 15 and AB 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 facilities for site-based charter school students. Under the CSFP, the State provides funding for charter school facility project costs with 50 percent of the costs awarded as a grant, and with the charter school being responsible for repaying the State for the 50 percent balance. Ownership of facilities funded by the CSFP is retained by the local school district for the benefit of the public education system.

The Authority and the Office of Public School Construction (“OPSC”) jointly administer this \$900 million per-pupil facilities program. The Authority’s primary role is to determine the financial soundness of the each participating charter school at the time of preliminary, advance, and final apportionments. Twenty-six applications requesting \$438 million were received for the Proposition 47 (first) funding round. Preliminary apportionments were awarded to six charter schools for projects totaling approximately \$98 million in January 2004. In February 2005, a second round funding was awarded to 28 eight schools for projects totaling approximately \$286 million. In 2007, 79 eligible applicants requested in excess of \$1.51 billion of \$500 million in Proposition 1D moneys. Third funding round awards were made in May 2008 to 24 charters schools with a combined apportionment of \$463 million. The 2008 per-pupil grant amounts were \$8,839 for grades K-5, \$9,348 for grades 6-8 and \$11,893 for grades 9-12.

To ensure that a variety of project types are funded by the CSFP, applications are apportioned based on both preference points and funding category. Preference points are calculated by OPSC based on the following four categories, each with a maximum of 40 points: (1) the percentage of overcrowding for the school district where

the project will be located, (2) the percentage of low-income pupils in the school district or in the existing charter school, (3) whether or not the school is a non-profit entity and (4) whether the charter school is rehabilitating facilities owned by the school district. After the preference points have been calculated for each application, the application with the highest number of points is funded in each of the categories: (a) geographical region of the State; (b) urban, rural or suburban area type; (c) size of the charter school; and (d) grade levels served by the project.

Charter School Facility Grant Program. This funding program was enacted by Senate Bill 740 (Chapter 892, Statutes of 2001, Education Code Section 47614.5) for the purpose of providing per-pupil facilities funding for charter schools in low-income areas. Eligible charter schools may receive reimbursement for facilities rent and lease costs in an amount of up to \$750 per unit of ADA, but no more than 75 percent of their total annual facilities rent and lease costs. This program is targeted toward schools serving exceptionally high proportions of economically-disadvantaged students. Only schools that either serve a student population with a high proportion (70 percent or higher) of free/reduced price meal-eligible students or are physically located in the attendance area of a public elementary school in which 70 percent or more of pupil enrollment is eligible for free or reduced price lunches are eligible for funding from this lease aid program. Over the past four years, charter schools have received approximately \$56.6 million through this program.

State Charter School Facilities Incentive Grants Program. In 2004, the Authority was awarded a \$49.25 million federal grant under the United States Department of Education's State Charter School Facilities Incentive Grants Program to assist charter

schools in meeting their facility needs. Historically, the Program has funded charter schools that demonstrate the most need, based on a 110-point preference point matrix: (1) the number of students at the school who are eligible for free and/or reduced priced meals; (2) the level of overcrowding the charter school's district is experiencing; (3) whether the charter school is operated by a non-profit entity; and (4) whether the school met its student performance target set by the State. The grant is being allocated over a five-year period, averaging annual awards of \$9.85 million through FY 2009. Charter schools may use the grant funds to pay a portion of their rent, lease or debt service payments, or to fund the cost of acquiring, renovating or constructing new facilities. Since 2004, five funding rounds have been conducted and 128 charter schools, serving in excess of 42,000 students have received awards totaling approximately \$49 million.

Proposition 39 Facilities. This proposition, adopted by voters in November 2000, requires school districts to provide charter schools having a projected average daily attendance of at least 80 students with reasonably equivalent facilities to those provided to students in the area where the charter school students reside. This measure took effect on November 8, 2003, generally requiring all California school districts to provide facilities to charter schools that meet the requirements of the regulations. The school district may charge the charter school a pro-rata share of the district's facilities costs which are paid with unrestricted general fund revenues, based upon the ratio of space the charter school uses divided by the total space of the district.

Charter School Revolving Loan Fund Program. This funding program was enacted by SB 1759 (Charter 586, 2000, Education Code Section 41365 through 41367) to help meet purposes established in a school's charter, such as leasing

facilities, making necessary improvements to facilities, purchasing instructional materials and equipment, and program expansion. This program provides start-up loans of up to \$250,000 per school. The loans must be repaid within five years, beginning with the first fiscal year after receipt of the loan. The loan is available to any charter school that is not a conversion of an existing public school and has not yet been renewed for a second five-year term by its chartering entity. Over the past four years, more than 130 loans totaling roughly \$34 million have been provided to charter schools.

Authority's Charter School Conduit Financing Program. The Authority was created in 1985 to provide tax-exempt, low-cost capital and working capital financing to school districts and community college districts for use in the repair and construction of school facilities, as well as for working capital purposes. The Authority's act was amended in 2007, and the Authority can now serve as a conduit bond issuer on behalf of charter schools.

Qualified Zone Academy Bond and Qualified School Construction Bonds. The State has an active QZAB program (California has had a volume limitation of approximately \$48 million per year over the past several years) and the Authority is expected to receive a ten percent "carve out" of the State's QSCB allotment (\$773.5 million excluding large local educational agencies in FY 2009). This \$77.3 million set-aside will be used to develop a pooled financing program through which charter schools may access capital markets.