



MAR 12 2012

March 7, 2012

Ms. Julie Baltazar
Charter Schools Division
California Department of Education
1430 N Street, Room 5401
Sacramento, CA 95814

Re: SB 740 Funding Redetermination for 85% funding with mitigating circumstances
Charter #1131 Options For Youth – Hermosa Beach

Dear Ms. Baltazar:

In accordance with 5 CCR 11963.6(g), Options For Youth – Hermosa Beach ("OFY-HB") is requesting a redetermination of its September 7, 2011 funding determination. We are requesting that the Advisory Commission on Charter Schools ("ACCS") review OFY-HB's funding determination for 2011-2013 and approve an 85% funding recommendation at their April 11, 2012 meeting.

Enclosed for department and ACCS review is the revised 2010-2011 SB740 filing, which included the allowable facilities expenditures, provided to the department during the previous funding determination process (Exhibit A.1) as well as the original SB740 Submission for OFY-HB (Exhibit B.1).

At its March 11, 2010 meeting the State Board of Education ("SBE") considered and recognized that mitigating factors, including funding cuts and cash deferrals, warranted the approval of a reasonable reduction in required expenditure levels and permitted OFY-HB to meet 35% certificated expenditures and 61.25% overall instructional expenditures to qualify for 85% funding under the funding determination process. OFY-HB relied upon and implemented these reduced expenditure levels.

On September 7, 2011, the SBE considered the 2011-13 funding determination for OFY-HB. The school requested mitigating factors again be considered due to the continuing budget crisis and the forms submitted documented 2010-11 audited expenditure levels that complied with those approved by the SBE for 85% funding based on mitigating factors. The SBE made a determination of a 70% funding rate for 2011-13.

Because of the short time frame, we will be following up with a phone call to confirm receipt and placement on the agenda. We also request a time to meet with you to discuss the submission.

If you should have any further questions, please feel free to contact me by phone at (626)204-2500 or e-mail at joanhall@ofy.org.

Sincerely,


Joan Hall
President

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EXHIBIT B.1

Original Submission 1-31-11. Approved Mitigation
Prior Year Only Missing Allowable Facilities (2F)

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MEMORANDUM

TO: ADVISORY COMMISSION ON CHARTER SCHOOLS *JAH*

FROM: JOAN HALL, PRESIDENT—OPTIONS FOR YOUTH-HERMOSA BEACH PUBLIC CHARTER SCHOOLS

SUBJECT: REQUEST FOR MITIGATING CIRCUMSTANCES FOR SB740 FUNDING DETERMINATIONS

DATE: 1/31/2011

This memo outlines Options For Youth-Hermosa Beach Public Charter Schools' request for funding and operational flexibility through the "reasonable basis" provisions provided for in the regulations that govern the nonclassroom-based funding determination process.

Options For Youth Public Charter Schools appreciate the opportunity to request these mitigating circumstances that have resulted from the recent budget cuts due to the State's economic crisis. During the pendency of the budget crisis, Options For Youth-Hermosa Beach Public Charter School would be deemed to have met the requirements for eighty-five percent funding under the funding determination process providing they meet the below criteria in lieu of the ones currently specified by law. The "reasonable basis" would be deemed to exist until such time as funding for the Charter General-Purpose Grant and Categorical Block Grants return to levels specified in statute and confirmed by the ACCS.

Charter School Name	Charter School Number	Current Funding Level
Options For Youth – Hermosa Beach	1131	85%

Circumstance:

The schools face great uncertainty of further funding cuts for the 2011-12 school year, and it is generally understood and recommended that California's charter schools anticipate a budget cut of 6.10%. The deferred payments of ADA, Supplemental and P2 adjustments account for 25.00% of the schools' total revenue which is deferred until the next fiscal year, an increase from the 22.80% deferral in the prior years. Educational support organizations including, the CSDC School Services and the Department of Finance advised charter schools to a develop a "two-track" budget proposal for the 2011-12 school year, one based on the Governor's flat funding proposal and the second track based on an approximate budget cut of 6.10%, creating a total budget cut of approximately 14.00% since 2008. The unpredictable nature of the state's budget also creates uncertainty of possible

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retroactive budget cuts. For example, schools were not informed until July 2009, that the expected 8% cut, would actually be only 2.6%, which created a 5.4% variance in total funding for the 2008-09 school year creating structural uncertainties relative to whether or not certificated and instructional thresholds could be met because of the 5.4% variance in total funding for a school fiscal year which had already closed. These structural uncertainties and deferred payments from the state delays the information required to complete and submit the schools' audited financials by approximately 6 months after the June close of the fiscal year. This resulted in the schools not knowing if they had met their certificated and instructional "thresholds" until half way through the following year.

The school determined that a 35% expend rate for certificated staff compensation would be the amount of flexibility needed due to the approximate 14.00% funding cuts the school received since 2008. We have reviewed all expenses and recognized certain fixed costs such as rent, maintenance and utilities remained relatively constant. Our relief would need to be from the variable certificated and instructional costs. The Charter School calculated a 12.5% reduction of certificated and instructional expenses would be sufficient. The school is requesting to maintain this relief for the new funding determination request for the fiscal year 2011/2012 for the duration of the funding determination approval.

40%	Current Certificated Spending Requirement
(5%)	Less Reduction of 12.5% (40% times 12.5%)
35%	New Certificated Spending Requirement

The school determined that a 61.25% expend rate for instructional compensation would be the amount of flexibility needed due to the approximate 14.00% funding cuts the school received since 2008. We have reviewed all expenses and recognized certain fixed costs such as rent, maintenance and utilities remain relatively constant. Our relief would need to be from the variable certificated and instructional costs. The Charter School calculated a 12.5% reduction of certificated and instructional expenses would be sufficient. The school is requesting to maintain this relief for the new funding determination request for the fiscal year 2011/2012 for the duration of the funding determination approval.

70%	Current Instructional Spending Requirement
(8.75%)	Less Reduction request of 12.5% (70% times 12.5%)
61.25%	New Instructional Spending Requirement

The Charter School also requested to increase the reserve limit to 10% of the expenses in order for the Charter School to build a prudent reserve while experiencing funding cuts and payment delays. A 10% cash reserve over a 12 month fiscal calendar is a 1.2 month reserve which is necessary because of the significant delay in funding

Options For Youth-Hermosa Beach opened its first center in September 2009 and is in the process of opening additional locations during the school year 2011-12, and as a non-classroom based program, OFY-Hermosa Beach is ineligible for Proposition 39 funding. Since 2009, Options For Youth-Hermosa Beach has grown by 90 ADA. This increase directly impacts the facilities of the Charter Schools, as they must ensure adequate room is available for the student population growth. Each new center has an initial opening start-up cost of \$250K-\$300K with additional monthly costs for the first year. The breakeven duration of a center is approximately 2 – 3 years.

Options For Youth-Hermosa Beach success in assisting students in graduation has been remarkable. OFY-Hermosa Beach served 510 students during the 2009-10 school year and graduated 19 students with a 88% socioeconomically disadvantaged student population (see attached). OFY-Hermosa Beach received a 2010 Growth API score of 632 and is ranked well within Jack O'Connell's selection of Model Continuation High Schools (see attached).

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A recent study by Dr. James Catteral, Professor at the Graduate School of Education and Information, University of California at Los Angeles focuses on benefits and costs of recovering school dropouts through societal, individual and various public services. Based on annual numbers of actual graduates, the benefit-cost ratio of dropout recovery through this charter school returns \$4,000 for every \$1,000 invested.

Relief

- **Spending on instructional costs**—Options For Youth-Hermosa Beach Public Charter Schools would be required to direct at least 61.25 percent of their expenditures on “instruction and related services” whereas current law requires spending at a 70 percent level for 85 percent funding. Options For Youth Public Charter Schools would have the option of averaging expenditures over any two consecutive years, that includes the current fiscal year and either the prior or successive fiscal year period to comply with expenditure requirements.
- **Spending on certificated staff compensation**— Options For Youth-Hermosa Beach Public Charter Schools spending on certificated staff compensation would be required to direct at least 35 percent of their expenditures toward eligible certificated staff costs whereas current law requires spending at a 40 percent level for 85 percent funding. To comply with the expenditure requirement, schools would have the option of averaging expenditures over any two consecutive years, that includes the current fiscal year and either the prior or successive fiscal year period to comply with expenditure requirements.
- **Reserves**— Options For Youth-Hermosa Beach Public Charter Schools would be permitted to establish and maintain budget reserves for economic uncertainty at a level of 10 percent of budgeted expenditures whereas current law establishes a 5 percent reserve threshold. This level of reserve would permit a modest degree of additional flexibility to enable the schools to establish more prudent reserves and to more readily “smooth” the impact of budget changes over a multi-year period.
- **One-time funding sources excluded**—when calculating the above spending targets and reserve thresholds, schools would be permitted to exclude “one-time” funding sources (e.g., federal stimulus funding).
- **Coping with cash flow deferrals**—for funding determination purposes, Options For Youth-Hermosa Beach Public Charter Schools would be permitted to book the receipt of deferred state funding on either an accrual or cash basis. Thus, schools would ultimately be required to still meet the expenditure targets specified above, but could defer booking of income into the year when the cash is actually received.

Circumstance:

Options For Youth-Hermosa Beach Public Charter Schools, in recent years, have experienced an increased number of students looking for alternative schooling options. In our current economy, there has been an additional influx of students who are working full time to support their families. Due to this increase, Options For Youth-Hermosa Beach Charter Schools have expanded their services, added new programs, expanded their hours of operations to include Saturday and night school and acquired new facilities. However, the funding cuts and deferred payments have placed a huge strain on the schools’ ability to meet the increasing demand of the at-

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risk population of dropouts. In addition, the State of California has added a significant burden to charter schools when opening or expanding a location. This requirement, a "Conditional use Permit" is administered by each local municipality and has added additional time of approximately 6 months and increased costs by approximately 30% for each additional location.

Options For Youth – Hermosa Beach has experienced an ADA growth of 26.20% since September 2009. The additional growth has increased the Charter school's required spending for Certificated Staff and Instructional costs as outlined by SB740. To provide the flexibility that is needed due to the approximate 14.00% funding cut from the State since 2008, and the 3-6 month delay in State funding payments, the Charter School requests the reserve limit to be increased to 10%. This increase will also allow the Charter School to provided relief in the certificated staff and instructional costs for economic uncertainties and future growth due to the increased at-risk student population. The 10% cash reserve over a 12 month fiscal calendar is a 1.2 month reserve which is necessary because of the significant delay in funding.

Relief

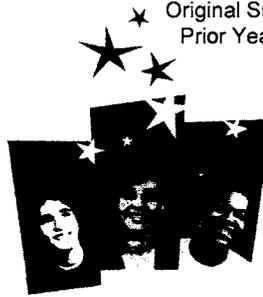
- **Allowable facilities expenditures**— Options For Youth Public Charter Schools would be given an additional option to count up to 60 (sixty) percent of their facilities costs as "instruction and related services" costs toward the above-referenced 61.25 percent spending target for instruction and related costs. The simple 60 percent formula proposed here would be an optional, alternative method that could be chosen in lieu of the existing facilities formula (schools would choose one of the two methods but could not combine them).

Given the unprecedented magnitude of the funding cuts and cash deferrals, and given the unstable and unpredictable nature of charter school funding streams, the above request represents a modest and reasonable adjustment to the pre-existing requirements for Options For Youth-Hermosa Beach Public Charter Schools to qualify for 85 percent funding under the funding determination process. We hope, the flexibility proposed here will strike a reasonable balance between the state's desire to ensure that Options For Youth-Hermosa Beach Public Charter Schools' funds are directed primarily for the benefit of students while still permitting a reasonable degree of flexibility and stability in an otherwise chaotic budgetary environment.

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Prior Year Only Missing Allowable Facilities (2F)

January 31, 2011



Mr. James Harris
Charter Schools Division
California Department of Education
1430 N Street, Room 5401
Sacramento, CA 95814

Re: Funding Determination submission for 85% funding with mitigating circumstances
Charter #1131 Options For Youth – Hermosa Beach

Dear Mr. Harris:

Enclosed is the 2010/2011 Funding Determination package for Options For Youth (OFY) Public Charter School-
Hermosa Beach.

At the meeting held on March 11, 2010, the California State Board of Education approved our request for 85%
funding with mitigating circumstances.

The mitigating circumstances as approved are summarized as follows:

- **Spending on instructional costs**—OFY Public Charter Schools were required to direct at least 61.25 percent of their expenditures on “instruction and related services” whereas current law requires spending at a 70 percent level for 85 percent funding. The schools had the option of averaging expenditures over any two consecutive years, which includes the current fiscal year and either the prior or successive fiscal year period to comply with expenditure requirements.
- **Spending on certificated staff compensation**—OFY Public Charter Schools were required to direct at least 35 percent of their expenditures toward eligible certificated staff costs whereas current law requires spending at a 40 percent level for 85 percent funding. To comply with the expenditure requirement, schools had the option of averaging expenditures over any two consecutive years, which includes the current fiscal year and either the prior or successive fiscal year period to comply with expenditure requirements.
- **Reserves**—OFY Public Charter Schools were permitted to establish and maintain budget reserves for economic uncertainty at a level of 10 percent of budgeted expenditures whereas current law establishes a 5 percent reserve threshold. This level of reserve permitted a modest degree of additional flexibility to enable the schools to establish more prudent reserves and to more readily “smooth” the impact of budget changes over a multi-year period.
- **Coping with cash flow deferrals**—for funding determination purposes, OFY Public Charter Schools were permitted to book the receipt of deferred state funding on either an accrual or cash basis. Schools that took advantage of this flexibility would, for funding determination purposes, be required to book expenditures related to deferred revenues in the same year as they book the related revenues. Thus, schools would ultimately be required to still meet the expenditure targets specified

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above, but could defer booking of income and the related expenditures into the year when the cash was actually received.

- **Allowable facilities expenditures**— OFY Public Charter Schools were given an additional option to count up to 60 (sixty) percent of their facilities costs as “instruction and related services” costs toward the above-referenced 61.25 percent spending target for instruction and related costs. The simple 60 percent formula was an optional, alternative method that could be chosen in lieu of the existing facilities formula (schools would choose one of the two methods but could not combine them).

The enclosed Funding Determination package has been completed utilizing the approved mitigation criteria with the allowable facilities expenditures. The summary table below indicates the percentages exceed the approved mitigating criteria:

	Actuals		Mitigating
OFY-Hermosa Beach	June 30, 2010	%	Approved %
Information taken from the SB740 column on Page 10 of the independent auditor's reports			
Total SB740 Revenues	1,280,950		
Salaries and benefits - Certificated	494,628	38.61%	35.00%
Total Instruction and related services and allowable facilities expenditures:	799,690	62.43%	61.25%

Please feel free to contact me at (626)204-2508 or e-mail bmiller@ofy.org if there are any questions on our submission.

Sincerely,



Brenda Miller
Director of Accounting