

Attention DaVinci Academy Stakeholders

The Legislature and Governor Are Threatening The Future of Charter Schools

We Need Your Immediate Help

This is a somewhat lengthy communication, but the issue is critical to the future of DaVinci Academy and all charter schools. We need your help and encourage you to take the time to review what is happening in the State's budget negotiations regarding education funding, and take action to help your school.

The *Star Tribune* has posted on its website some of the final offers made between the Governor and Legislature before the July 1 shutdown, and the Governor's latest offer made July 6. It would appear that the bulk of the final balancing of the gap between the two will be on the backs of the schools and, like most things related to education funding, will have a disproportionate impact on charter schools. The DaVinci Academy of Arts and Science Board asks that you contact the Governor's office, and your State Senator and Representative immediately to ask that certain protections be made for charter schools as part of any such agreement.

For those who are not aware, of the money that is to be paid to school districts and charter schools each year, a portion of it is held back by the State in anticipation of end of the year final adjustments to account for students moving during the year and other factors. For several years, the amount held back was 10% of the payments. For 2009-10, the amount held back was increased to 27% in order to help balance the budget gap, and for 2010-11 the amount was again increased to 30% for the same reason. Governor Dayton proposed to increase the amount to 50%. The Legislature rejected that offer but offered to increase it to 40%. The Governor agreed to the 40% but would not agree to the overall offer for other reasons. In his latest proposal made July 6, the Governor offers two options (one that would increase the hold back to 37% and another that would increase it to 40%) but more disturbing, he references "non-repayment" of the current school aid shift. That would mean not paying schools for the extra 20% held back for the 2010-11 school year that just ended (keeping that money rather than paying it to the schools). This would amount to keeping 2/3 of last year's holdback.

This means that the two parties have agreed to fund around \$700 million of the budget shortfall by increasing the holdback amount to 40%. In other words, 40 cents of every dollar DaVinci Academy is supposed to receive from the State next year will not be paid until the following year. The two parties appear to have

agreed to a funding increase of \$50 per student to cover borrowing costs. However, that does not solve any potential cash flow problem and requires that the charter school have access to borrowing. Many charter schools do not have such access, at least through traditional lenders, because they have very few assets that can be used as collateral for a loan (we are not allowed to own our buildings and therefore that is not an asset). A report on how charter schools have handled the increased hold back during the last two years and some of the differences in the treatment of charter schools versus regular school districts can be found at

http://www.nonprofitassistancefund.org/clientuploads/MNAF/Impact_of_State_Holdback_on_MN_Charter_Schools_Report_March_2011.pdf.

The Governor's latest proposal makes the cash flow issue even worse. The Governor wants to save another \$1.44 billion by keeping 2/3 of the money owed to DaVinci Academy and all other schools in the State from the last school year. The amount held back for one year is paid in payments made August 30, September 30 and October 30. A number of schools rely on those payments to pay off the cash flow loans from prior years and fund operations for the current year as long as possible before having to access cash flow loans again. Keeping that money will mean many cannot pay off last year's loans and also will likely lead to charter schools not being able to find loans for the current year because no lender will want to take the risk that the State keeps part of the holdback again, which is what the lender is relying on to pay back the loan. As a result, many charter schools will likely go into financial default and close. Regular school districts will deal with this by asking for levy referendums this fall and will be able to say 20% of their money for last year was taken by the State, and use that fact to gain enough votes to pass the referendum. As a result, they won't feel the same impact as charter schools. Under Minnesota law, charter schools cannot utilize the referendum process.

DaVinci Academy has a back-up line of credit in place because we have planned for such worst case scenarios. Even at the 30% level, due to great fiscal management by our administration and the Board, we have not had to use the line of credit. At 40%, we likely would use the line of credit, and the size of the line of credit should be sufficient to cover cash flow needs. However, this level of cash flow and the uncertainty about whether next year will see another increase in the holdback funds is difficult to sustain for several years in a row because it leads to not spending money that would otherwise be spent for the overall betterment of the school.

In the report referenced above, it mentions some charter schools borrowing at 6%, which is the rate DaVinci Academy had at the time of survey. However, we have since renewed the line of credit at 5.5%. That sounds good, but that same report makes reference to regular school districts having access to other low rate programs. The rate for one of the State-sponsored program is set periodically and is currently 0.45%. That means a regular school district can borrow money

from the State at 0.45%, so they have access to cash flow loans that would cost DaVinci Academy 5.5%. Charter schools need to be given access to the same borrowing sources that regular school districts enjoy. Otherwise, many charter schools, especially new ones that are starting with nothing, will likely find themselves in financial default and ultimately have to close.

What does all of this mean and what can you do to help? Please contact the Governor by phone, fax or e-mail at:

Telephone: 651-201-3400

Toll Free: 1-800-657-3717

Minnesota Relay: 1-800-627-3529

Fax: 651-797-1850

E-mail: <http://mn.gov/governor/contact-us/form>

Also contact your State Senator and State Representative. To determine your State Senator and State Representative and their contact information, go to <http://www.gis.leg.mn/OpenLayers/districts>.

Give them the clear message that charter schools already operate on less than regular school districts and because they typically have no assets that can be used as collateral for regular cash flow financing, or financing at all, we need their help. Ask for their support of the following:

1. That charter schools be exempt from any plan to keep last year's holdback or be given the referendum revenue from regular school districts for each child served by the charter school; and
2. That charter schools be able to access the same low cost borrowing programs available to regular school districts to cover cash flow shortages; and
3. That charter schools be afforded one of the following options:
 - a. That schools in operation five years or less be exempted from the proposed increase in holdback funds
 - b. That the holdback not be increased at all

The Governor and Legislature are under extreme pressure to get a budget agreement done as soon as possible. It is urgent that any calls, faxes or e-mails be completed as soon as possible.

Thanks very much for your help in this matter, which is critical to the future of DaVinci Academy and all charter schools.