

**CHARTER SCHOOL FACILITIES PROGRAM
PROP 1D FUNDING ROUND
STAFF SUMMARY REPORT – JULY 2013**

Applicant/Obligor:	KIPP Bay Area Schools
Project School:	KIPP King Collegiate High School
CDS (County – District – School) Code:	01-61309-0114421
School Address/Proposed Site:	San Lorenzo, CA, 94580
Type of Project:	New Construction/Rehabilitation
County:	Alameda
District in which Project is Located:	San Lorenzo Unified School District
Charter Authorizer:	San Lorenzo Unified School District
	NC: \$8,282,844
	<u>Rehab: \$3,607,942</u>
Total OPSC Project Cost:	Total: \$11,890,786
	NC: \$4,141,422
	<u>Rehab: \$1,803,971</u>
State Apportionment (50% Project Cost):	Total: \$5,945,393
Lump Sum Contribution:	N/A
	NC: \$4,141,422
	<u>Rehab: \$1,803,971</u>
Total CSFP Financed Amount:	Total: \$5,945,393
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
	NC: \$211,292
	<u>Rehab: \$92,037</u>
Estimated Annual CSFP Payment:	Total: \$303,330
First Year of Occupancy of New Project (Rehabilitation):	2014-15

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that KIPP Bay Area Schools is financially sound for the purposes of the CSFP Advance and/or Final Apportionment for Rehabilitation. This determination of financial soundness also is contingent upon KIPP Bay Area Schools agreeing to have its CSFP payments intercepted at the state level, pursuant to sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Background: On May 6, 2008, the Authority determined that KIPP King Collegiate High School was financially sound for purposes of a preliminary apportionment. The State Allocation Board subsequently awarded the preliminary apportionment in the amount of \$14,649,816, which included \$3,607,942 for rehabilitation and \$11,041,874 for new construction. Effective July 1, 2008, KIPP King was subsumed under KIPP BAS through a merger with that organization, which is now the financial obligor and the umbrella organization for the following seven schools: KIPP Bayview Academy; KIPP Bridge College

Preparatory Academy; KIPP Heartwood Academy; KIPP San Francisco Bay Academy; KIPP Summit Academy; KIPP King; and KIPP San Jose Collegiate High School. KIPP Bay Area Schools, on behalf of KIPP King Collegiate High School, was found financially sound for Final Apportionment for its new construction project on Nov 9, 2011, and received its Final Release of Funds for its new construction award in the amount of \$8,282,844 on August 16, 2012. KIPP King commenced occupancy of the new construction project in mid-December 2012, and KIPP will commence CSFP payments on behalf of the King, in January 2014.

KIPP Bay Area Schools (KIPP), on behalf of KIPP King Collegiate (King), is currently seeking a Proposition 1D Advance Apportionment for design of \$360,794 for the Rehabilitation portion of its total Charter School Facilities Program (CSFP) award.

Application Highlights: Below staff has highlighted key criteria that were evaluated when conducting our financial soundness review of KIPP. Detailed information is contained in the body of the report.

Criteria	Comments
EMO Information	
Demographic Information	<ol style="list-style-type: none"> 1. In 2012-13, KIPP operated 7 charter schools chartered by 5 districts; enrollment totaled 2,602 students (up 5.3% from previous year); the system-wide ADA rate was 96%. 2. By 2015-16 (1st Year after Project Occupancy for the Rehabilitation Project), KIPP plans to operate 11 schools with total projected enrollment of 3,545 students.
Student Performance	For the most recent reported year, 2011-12, all seven KIPP schools had growth scores of greater than 800. In addition, for 2010-11 and 2011-12, 4 of 7 schools and 6 of 7 schools, respectively, met all AYP criteria.
Debt Service Coverage	Based on KIPP's financial projections, the projected debt service coverage levels for the anticipated combined CSFP lease payment in 2013-14 and 2014-15 are 1,346.2% and 1,140.3%, respectively. KIPP will need to receive at least 74% (\$8.5 million) of expected contributions in 2015-16 and 2016-17 in order to meet the 100% projected debt service coverage ratio threshold.
Other Financial Factors	<ol style="list-style-type: none"> 1. Measured as a percentage of total revenues, contributions from 2012-13 through 2016-17 are projected to average 31% annually, which is significantly higher the 15.0% threshold level employed by staff. 2. KIPP's net working capital (NWC) at June 30, 2012 was \$17.2 million, or 75.5% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.
School Information	
Eligibility Criteria	King has met all eligibility criteria: (1) King commenced operations in 2007-08; (2) King's current charter is in place;

	and (3) King is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	All AYP criteria for King were met in 2008-09, 2010-11, and 2011-12, but not in 2009-10. King met its API growth target for 2011-12 with an API growth score of 833. However, due to irregularities in testing during 2009-10, no API growth information was available for 2010-11. King was ranked 8 out of 10 statewide and 10 out of 10 among similar schools in 2011-12.
Demographic Information	King has grown from 98 students in grade 9 in 2007-08 to 474 students in grades 9-12 in 2012-13 and has achieved an average annual growth of 9% over the past two years. King's enrollment is anticipated to grow to 514 students during the first year of project occupancy, 2014-15, and remain stable in subsequent years. During 2012-13, King achieved an ADA of 96.6% and a year-to-year retention rate of 92.8%.

Program Eligibility: On July 10, 2013, at CSFA staff's request, verification was received from San Lorenzo Unified School District (SLUSD) confirming that KIPP King Collegiate (1) is in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Legal Status Questionnaire: Staff reviewed the applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead the staff to question the financial or legal integrity of this applicant.

Project Description: The rehabilitation project includes renovation of certain existing classrooms and related core area in the original building on the school's current site. Among other things, the rehabilitation project consists of updating life and safety systems and technology infrastructure. The rehabilitation project is expected to cost \$3.61 million. The school site will be shared with the KIPP Summit Academy, which is anticipated to house 402 students in grades 5th through 8th for the upcoming academic year. Project completion is expected in September 2014, and students will be occupying the facility during the course of the project. The new construction project was completed in December 2012 and added 15 new classrooms and related core area, including a gymnasium, dining hall, administration and music/theater facilities. The combined projects provide for a student capacity of approximately 520 students.

KIPP anticipates funding its 50% local matching share of the OPSC calculated Project cost of \$11,890,786 (Both construction and rehabilitation) through a 30-year agreement with the State. CFSP payments are assumed to commence in January 2014 for the new construction and in 2015-16 for the rehabilitation. KIPP will make the payments on behalf of the King.

CMO Organization and Management: KIPP is a non-profit, public benefit corporation with 501(c)(3) status, which currently operates seven public charter schools in the San Francisco Bay Area. KIPP Bay Area Schools is associated with the KIPP national network of schools, which has 110 schools across the nation all managed by local, regionalized nonprofits. The

KIPP Foundation is located in San Francisco. The KIPP Foundation provides professional development, evaluation, and advocacy support for all KIPP schools nationwide.

KIPP King was established following the national KIPP model, as set forth by the KIPP Foundation. The hallmarks of the KIPP program include the following five pillars: 1) High Expectations: KIPP schools have clearly defined and measurable high expectations for academic achievement and conduct that make no excuses based on the students' backgrounds. Students, parents, teachers, and staff create and reinforce a culture of achievement and support through a range of formal and informal rewards and consequences for academic performance and behavior; 2) Choice & Commitment: Students, their parents, and the faculty of each KIPP school choose to participate in the program. No one is assigned or forced to attend a KIPP school. Everyone must make and uphold a commitment to the school and to each other to put in the time and effort required to achieve success; 3) More Time: KIPP schools know that there are no shortcuts when it comes to success in academics and life. With an extended school day, week, and year, students have more time in the classroom to acquire the academic knowledge and skills that will prepare them for competitive high schools and colleges, as well as more opportunities to engage in diverse extracurricular experiences; 4) Power to Lead: The principals of KIPP schools are effective academic and organizational leaders who understand that great schools require great school leaders. They have control over their school budget and personnel. They are free to swiftly move dollars or make staffing changes, allowing them maximum effectiveness in helping students learn; 5) Focus on Results: KIPP schools relentlessly focus on high student performance on standardized tests and other objective measures. Just as there are no shortcuts, there are no excuses. Students are expected to achieve a level of academic performance that will enable them to succeed at the nation's best high schools and colleges.

Following the national KIPP model, all KIPP students spend "more time on task" by devoting nine hours every weekday, plus alternate Saturdays throughout the extended school year, to class work and school-based activities. In addition, summer school is in session four hours a day for three weeks. The School correlates its curriculum objectives to California standards and works to ensure that all students master all areas of the contents standards. KIPP King Collegiate correlates its curriculum objectives to California standards and works to ensure that all students master all areas of the content standards.

In October 2008, KIPP Bay Area Schools was created through a consolidation of seven charter schools, including five middle schools and two high schools, under its auspices. Each of these schools was established under the KIPP model, and KIPP Bay Area Schools assumed all fiscal and operational oversight responsibilities.

The co-founders of KIPP, Mike Feinberg and Dave Levin, are deeply involved with the organization, providing oversight for the school's leadership program, assisting in recruitment, real estate, growth and other issues that individual schools might face.

CMO Management: Kendra Ferguson joined KIPP as Chief of Schools in July 2012. As Chief of Schools, Ms. Ferguson uses her expertise in building organizational, instructional, and operational capacity in schools to help reshape opportunities in the communities

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served. Prior to this role, Ms. Ferguson served as a consultant to San Francisco Unified School District’s Assistant Superintendent, a Leadership Coach for the KIPP Foundation, founding CEO of an education non-profit organization, and the founding principal of Monarch Academy, an Aspire Public School. Her background includes more than two decades of experience in the education sector as a public school teacher, traditional and charter school principal and principal coach, national school reviewer, professional development trainer of school leaders, and organizational development consultant for non-profit organizations. Ms. Ferguson holds an M.A. in Education from Stanford University.

Emily Rummo, Chief Operating Officer, KIPP Bay Area Schools- Ms. Rummo leads KIPP Bay Area operations, talent recruitment, marketing, and technology departments. She is also responsible for various strategy, human resources, and facilities initiatives. Prior to joining KIPP Bay Area Ms. Rummo worked as a Senior Analyst with NewSchools Venture Fund and as an Analyst at Dean & Company, a boutique strategy consulting firm in Washington D.C.. Ms. Rummo holds a M.B.A. and an M.A. in Education from Stanford University, and a B.A. in English from Dartmouth College.

Board Experience: KIPP Bay Area is governed by a Board of Trustees and currently includes members with a variety of occupations and experiences, as noted below. The Board of Trustees is responsible for variety of functions, which include; Define and refine the organization’s mission, vision, and strategic direction, recruit, support, and evaluate the executive director (e.g., including hire and fire authority), monitor and evaluate the organizations programs and services, and ensure fiscal, legal and ethical integrity and maintain accountability.

NAME	OCCUPATION	COUNTY OF RESIDENCE	CURRENT TERM
Lauren Dutton, Chair	Former Partner, NewSchools Venture Fund	Alameda	3 year term ending in 2017
Chuck Daggs, Vice Chair	Executive Vice President, Wells Fargo	Contra Costa	3 year term ending in 2016
Rick Intrater, Founding Chair	President and CEO, Long-Term Solutions, LLC	San Francisco	3 year term ending in 2015
Jay Allen	EVP, Human Resources & Employee Services, Charles Schwab & Co., Inc.	San Francisco	3 year term ending in 2018
John Philip Coghlan	Former President and CEO, VISA USA	San Francisco	3 year term ending in 2017
Doris Fisher	Co-Founder Gap, Inc.	San Francisco	Director for life
Laura Fisher	Community Volunteer	San Francisco	3 year term ending in 2016
Abe Friedman	Managing Partner, CamberView Partners, LLC	Alameda	3 year term ending in 2018
Ron Gonzales	President and CEO, Hispanic Foundation Silicon Valley	Santa Clara	3 year term ending in 2018
Sukey Grousbeck	Community Volunteer	San Mateo	3 year term ending in 2016
Ken Hirsch	Managing Director and Partner, Goldman Sachs	San Mateo	3 year term ending in 2018
Tom Holland	Partner, Bain & Company, Inc.	Contra Costa	3 year term ending in 2018

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Tonia Karr	Community Volunteer	San Francisco	3 year term ending in 2016
Mimi Kingsley	Community Volunteer	San Francisco	3 year term ending in 2015
Katie Paige	Grants Chair, Charles and Helen Schwab Foundation	San Francisco	3 year term ending in 2016
Salva Patel	Former VP, Product, Twitter	San Mateo	3 year term ending in 2017
David Paulson	Partner, Jones Day, KKP	Alameda	3 year term ending in 2016
Jenny Shimizu Risk	Community Volunteer	San Mateo	3 year term ending in 2018
Mary Robinson	Community Volunteer	Marin	3 year term ending in 2015
Lisa Sobrato Sonsini	Board President, Sobrato Foundation	Santa Clara	3 year term ending in 2016
Grace Voorhis	Former Partner, Morgan Stanley Venture Partners	San Mateo	3 year term ending in 2018
Ted Williams	Managin Partner, Springbok Partners	Marin	3 year term ending in 2016

King Organizational Information: King’s charter was approved by the SLUSD on July 2007. The school began operations in 2007-08 with the current charter effective until June 30, 2017.

During the most recent academic year, 2012-13, King currently served 474 students in grades 9-12, and King is budgeted to serve 493 students in 2013-14. Enrollment expected to increase to 514 students in 2014-15 when the CSFP facility is projected to be completed, and remain approximately at that level in subsequent years. . Based on the 2010-11 P2 report, King’s ADA rate was 97%. ADA rates of 92%, 96%, and 95% were achieved in 2007-08, 2008-09, and 2009-10 respectively. KIPP’s financial projections assume an ADA rate of 95.0% for King.

Management Experience for Schools Open Less than Two Years: Not applicable as King began operations in 2007-08, exceeding the two years of instruction requirement.

School Management: Kate Belden was promoted to School Leader at King in 2012-13. Kate Belden, current Principal at King, moved to the Bay Area in 2007 to serve as King’s founding English teacher. Ms. Belden graduated from the University of Notre Dame with a B.A. in English and Anthropology. After graduating, she joined Teach for America and taught English language arts at a large public middle school in the Washington Heights neighborhood of New York City. In 2006, she received her M.S. in Teaching from Fordham University and in 2010 she earned her Masters in Educational Administration and Supervision from National–Louis University. Before becoming Principal, Ms. Belden served in many different roles at King, include Grade Level Chair, Department Chair, Dean of Curriculum, Student Government Founder and Assistant Principal of Student Support. Ms. Belden has taught grades 6-12 and remains in the classroom as the Leadership I., I, and III teacher.

Enrollment Trends and Projections: The table on the following page presents school and enrollment information for KIPP’s schools open during 2012-13 and projections for 2013-14

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through 2016-17. As of June 30, 2013, KIPP operated 7 charter schools chartered by five districts. Beginning with 2013-14, KIPP will be opening an additional charter school, KIPP San Francisco Preparatory. KIPP will be opening two additional middle schools in San Jose in 2014-15, and a third middle school in San Jose in 2015-16, resulting in a total of 11 schools under the KIPP system. In 2008-09 KIPP opened KIPP San Jose Collegiate, the last school to be opened under the organization of KIPP Bay Area Schools.

From 2008-09 through 2012-13, total KIPP enrollment was 1,810, 2,098, 2,293, and 2,470, and 2,602, respectively, representing an average annual growth rate of 10.9% and growth of 5.3% for the most recent year. In addition, from 2010-11 through 2012-13, KIPP schools had overall ADA rates of 95.1%, 95.7%, and 96.3%, respectively, representing an average of over 95% for the last three years.

Projected enrollment totals for 2013-14 through 2016-17 are 2,811, 3,140, 3,545, and 3,948 students, respectively, representing an average annual increase of 12.9%. About 5% of the projected average annual increase is due to the growth of currently existing schools, with the remainder due to the addition of four new schools. The organization’s financial projections incorporate these expected enrollment levels as well as an assumed system-wide ADA rate of 95.0%.

School	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
KIPP Bayview	212	241	223	244	233	250	255	253	267	267	270	270
KIPP Bridge			251	234	304	261	262	323	320	320	320	320
KIPP Heartwood	158	239	358	360	369	392	401	398	401	401	401	401
KIPP King			98	185	294	402	448	474	493	514	517	517
KIPP S.F. Bay	181	257	284	314	348	332	351	348	363	372	379	379
KIPP S.F. College Prep.									120	239	357	470
KIPP San Jose				88	161	262	356	409	445	461	473	473
KIPP Summit		328	362	385	389	394	397	397	402	402	402	402
KIPP San Jose Middle School (1)										82	172	272
KIPP San Jose Middle School (2)										82	172	272
KIPP San Jose Middle School (3)											82	172
Total	551	1,065	1,576	1,810	2,098	2,293	2,470	2,602	2,811	3,140	3,545	3,948

King has shown consistent growth since its inception in 2007-08, growing from 98 students in grade 9, and adding a grade each subsequent year to 402 students in 2010-11. With the full array of high school grades, King has grown to 474 students for 2012-13, representing an average annual growth of 9% in the past two years. For the most recent year, 2012-13, King achieved an ADA of 96.6% and a year-to-year retention rate of 92.8%.

Overall, staff considers KIPP’s enrollment projections to be reasonable, given the consistent historical growth across schools. In addition, staff considers King’s enrollment projections to be reasonable given its consistent growth since inception as well as the overall project capacity.

King Academic Performance: Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school’s financial position. Schools with improving student performance trends are viewed favorably, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by the CDE. The API is also used as an indicator for measuring AYP per the No

Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of federal Title 1 funds.

King has more than four years of reported API scores, allowing a review of progress and comparison to similar schools. The following table summarizes the school’s trend in student performance.

KIPP King Collegiate	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	No	Yes	Yes
Criteria Met / Required Criteria	6 / 6	4 / 5	13 / 13	9 / 9
Met API Indicator for AYP?	Yes	No	Yes	Yes
Met Graduation Rate?	Yes	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	No	N/A	Yes
Met Comparable Improvement Growth Target?	Yes	No	N/A	No
Met Both Schoolwide & CI Growth Targets?	Yes	No	N/A	No
API Base Statewide Rank (10 = best)	9	10	N/A	8
API Base Similar Schools Rank (10 = best)	N/A	10	N/A	10
School's Actual Growth	N/A	N/A	N/A	N/A
Similar Schools Median of Actual Growth	N/A	N/A	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A	N/A	N/A

King met all AYP criteria for three of the past four years. For 2009-10, King did not record any API scores due to a testing irregularity, which also contributed to King not making AYP. When staff inquired about the Testing Irregularity that occurred in 2009-10, KIPP stated, *“The testing area with too few tests was 10th grade Life Science. KIPP King Collegiate did not administer this test, due to the Principal at KIPP King not realizing it was required of all 10th graders. The Principal assumed wrongly that Life Science was similar to Summative Math. Since almost all the KIPP King 10th graders take Biology or Chemistry, the Principal assumed their science testing was covered. The Principal followed up with the San Lorenzo Unified School District and the CDE. KIPP King will not repeat this mistake in the future.”*

For 2007-08, the school’s first operational year, King recorded a base API score of 804. For 2008-09 King recorded a growth API score of 862, which was 58 points above its base API score of 804. The school ranked “9” out of “10” statewide in 2008-09. For 2011-12, King achieved a API growth score of 833, meeting its API schoolwide growth target, and had a API base score of 820, resulting in a statewide rank “8” and a similar schools rank of “10” (“10”=best). For 2012-13, King had an API base score of 833, resulting in a statewide rank of “9” and a similar schools rank of “10”.

KIPP Bay Area Schools Academic Performance: As mentioned previously, staff views student performance as a leading indicator of a school’s financial position. Student performance data is available for all seven KIPP schools operating during 2011-12.

For the most recent reported year, 2011-12, all seven KIPP schools had growth scores of greater than 800. API Growth scores for all KIPP schools have consistently been above 700, with most schools scoring above 800 and one school, KIPP Heartwood, consistently

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scoring above 900. Due to the high API growth scores from year to year, API growth targets are not applicable¹.

KIPP Bay Area Schools API Growth Scores/ Met API Growth Target (Schoolwide)								
School	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
KIPP Bridge	803/Yes	747/No	763/Yes	761/NA	789/Yes	864/Yes	911/Yes	901/Yes
KIPP Bayview	711/Yes	706/No	741/Yes	728/No	757/Yes	825/Yes	867/Yes	864/Yes
KIPP San Francisco Bay	698/Yes	838/Yes	866/NA	857/NA	832/NA	845/NA	859/Yes	907/Yes
KIPP Heartwood	900/NA	921/NA	914/NA	903/NA	894/NA	915/NA	900/Yes	906/Yes
KIPP San Jose					883/NA	893/NA	909/Yes	900/Yes
KIPP King				804/NA	862/NA	No Score/TI	819/NA	833/Yes
KIPP Summit	801/Yes	817/Yes	805/NA	808/NA	817/NA	845/NA	859/Yes	912/Yes

As shown in the table below, the KIPP schools’ statewide and similar schools rankings (base API scores) have been consistently high in past years and have stayed consistent. Based on state and similar school rankings, KIPP Bay Area Schools have been consistently some of the best in the state.

KIPP Bay Area Schools API Base Rank: Statewide/Similar Schools								
School	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
KIPP Bridge	9/10	6/10	7/10	6/10	7/10	9/10	10/10	9/10
KIPP Bayview	4/8	5/10	4/10	5/10	5/9	8/10	9/10	8/10
KIPP San Francisco Bay	3/7	9/10	10/10	9/10	8/10	8/10	8/10	9/10
KIPP Heartwood	10/NA	10/10	10/10	10/10	10/10	10/10	9/10	9/10
KIPP San Jose					10/NA	10/10	10/10	10/10
KIPP King				9/NA	10/10	N/A	NA/NA	10/10
KIPP Summit	7/10	9/10	8/10	8/10	8/8	8/10	8/8	9/10

In the period between 2004-05 and 2006-07, all KIPP Bay area schools met all AYP criteria. In 2007-08 and 2008-09, 4 of 5 schools (80%) and 6 of 7 schools (86%), respectively, also met all AYP criteria. In 2009-10, 6 of 7 schools (86%) met all AYP criteria. In 2010-11 and 2011-12, 4 of 7 schools (57%) and 6 of 7 schools (86%), respectively, met all AYP criteria. KIPP has been able to effectively maintain student performance while adding schools to their system. The following table presents AYP target data for each KIPP school over the eight year period. Staff notes that the percent-proficient threshold requirement for AYP, both for English-language arts and mathematics, in accordance with the Elementary and Secondary Education Act (ESEA), reflects increases each year and will continue to reflect increases until 2014. Therefore, with each successive year, charter schools are increasingly challenged in “making AYP” (meeting all AYP criteria). This requirement applies to both school wide performance and performance of each numerically significant subgroup within any school. As an example, since 2002, the percent-proficient requirements for English-language arts (elementary schools, middle schools, and elementary school districts) are as follows: 13.6% for each of 2001-02, 2002-03, and 2003-04; 24.4% for each of 2004-05, 2005-06, and 2006-07; 35.2% for 2007-08; 46.0% for 2008-09; 56.8% for 2009-10, 67.6% for 2010-11; 78.4% for 2011-12; and 89.2% for 2012-13. This specific requirement will increase to 100% for 2013-14. The English-language arts percent-proficient requirement for high schools shows a similar trend, as do the percent-proficient requirements for mathematics for both elementary schools and high schools. Given that each numerically significant subgroup within a school must meet the percent-

¹ If a school maintains both an API base score and API growth score of 800 or above, the school-wide growth target is considered to have been met.

proficient requirement in English-language arts and mathematics in order for the school to make AYP, and given the high prevalence of English-language learners in California, charter schools are faced with increasing difficulty in making AYP². In spite of these targets becoming increasingly more difficult, KIPP has demonstrated the ability to meet AYP criteria year to year.

KIPP Bay Area Schools Met All AYP Criteria								
School	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
KIPP Bridge	Yes	Yes	Yes	No	Yes	Yes	No	No
KIPP Bayview	Yes	Yes	Yes	No	Yes	Yes	No	No
KIPP San Francisco Bay	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
KIPP Heartwood	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
KIPP San Jose					Yes	Yes	Yes	Yes
KIPP King				Yes	Yes	No	Yes	Yes
KIPP Summit	Yes	Yes	Yes	Yes	No	Yes	No	Yes

Overall, notwithstanding the irregularity with King’s 2009-10 testing results, Staff considers KIPP’s and King’s academic performance to be supportive of a recommendation for financial soundness.

Financial Analysis: Staff’s financial analysis of KIPP is based upon review of the following documents: (1) three years of audited financial statements (2009-10 through 2011-12), (2) 2012-13 financial forecast; and (3) multi-year budget projections from 2013-14 through 2016-17. Additionally, KIPP provided enrollment projections through 2016-17.

KIPP’s financial projections are based upon the following assumptions: (1) occupancy of the construction CSFP project in 2014-15; (2) increases in enrollment as described above; (3) 2012-13 funding rates for the charter school general purpose block grant of \$5,153, \$5,306, and \$6,148 for grades 4-6, 7-8, and 9-12, respectively; (4) projected ADA rates of 95%, which is consistent with KIPP’s historical performance; (5) revenue growth (cost of living adjustments) on charter school block grant of 0% in 2013-14 and 2014-15, with 2.5% growth in 2015-16 and 2016-17. Certified salaries are projected to increase by 0% in 2013-14 and 3.5% from 2014-15 through 2016-17; and (6) cost of living adjustments for the expense categories are as follows: 0% for 2013-14 and 2.5% through 2016-17.

Highlighted in this section are financial data and credit indicators used to evaluate KIPP’s ability to meet its CSFP obligations for its projects funded by Proposition 1D. Staff’s financial analysis is based on information for KIPP as an organization and not for KIPP King Collegiate on a stand-alone basis. Please note that the revenue, expenditure and changes to net assets recorded in financial audits and provided in KIPP’s financial projections have been modified by staff, where necessary, to include capital outlays, operating leases and repayment of debt and other significant obligations, and to exclude non-cash items such as depreciation.

² Information regarding AYP requirements is derived from the California Department of Education’s “2010 Adequate Yearly Progress Report Information Guide.”

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KIPP Bay Area Schools (Kipp King Collegiate High School)	Actual FY 2010-11	Actual FY 2011-12	Forecast FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16	Projected FY 2016-17
ENROLLMENT PROJECTIONS							
Enrollment	2,293	2,470	2,602	2,811	3,140	3,545	3,948
Average Daily Attendance	2,155	2,322	2,505	2,670	2,983	3,368	3,751
Average Daily Attendance (%)	94%	94%	96%	95%	95%	95%	95%
FINANCIAL PROJECTIONS							
Total Revenues Available for CSFP Lease Payment	\$ 23,451,829	\$ 36,761,590	\$ 30,203,133	\$ 30,239,792	\$ 37,729,448	\$ 39,207,696	\$ 42,529,317
Total Expenses Paid Before CSFP Lease Payment	21,419,248	22,764,211	24,469,083	27,046,133	30,838,010	35,634,109	39,502,362
Accounting Adjustments	-	-	-	-	-	-	-
Net Revenues Available for CSFP Lease Payment	\$ 2,032,581	\$ 13,997,379	\$ 5,734,050	\$ 3,193,659	\$ 6,891,438	\$ 3,573,587	\$ 3,026,955
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265,461	\$ 265,461
Net Revenues After CSFP Lease Payment	\$ 2,032,581	\$ 13,997,379	\$ 5,734,050	\$ 3,193,659	\$ 6,891,438	\$ 3,308,126	\$ 2,761,494
FINANCIAL INDICATORS							
Net Revenues Available for CSFP Lease Payment	\$ 2,032,581	\$ 13,997,379	\$ 5,734,050	\$ 3,193,659	\$ 6,891,438	\$ 3,573,587	\$ 3,026,955
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	1346.2%	1140.3%
Contributions	\$ 6,451,414	\$ 18,402,863	\$ 10,058,794	\$ 8,900,000	\$ 14,000,000	\$ 11,800,000	\$ 11,300,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	-3098.9%	-3116.5%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	0.7%	0.6%
Contributions / Revenues	27.5%	50.1%	33.3%	29.4%	37.1%	30.1%	26.6%
Net Revenues After CSFP Lease Payment / Revenues	8.7%	38.1%	19.0%	10.6%	18.3%	8.4%	6.5%
Revenues / ADA	\$ 10,880	\$ 15,833	\$ 12,057	\$ 11,324	\$ 12,648	\$ 11,642	\$ 11,339
Expenses / ADA	\$ 9,937	\$ 9,805	\$ 9,768	\$ 10,128	\$ 10,338	\$ 10,660	\$ 10,603
Surplus (Deficit) / ADA	\$ 943	\$ 6,029	\$ 2,289	\$ 1,196	\$ 2,310	\$ 982	\$ 736
Net Working Capital	\$ 11,217,344	\$ 17,191,316					
Net Working Capital / Expenses	52.4%	75.5%					

Long-Term/Short-Term Liabilities – No long-term debt was outstanding through June 30, 2012 or indicated by the school’s financial projections other than the anticipated CSFP obligation. KIPP Bay Area Schools has a revolving line of credit with a financial institution for \$1,000,000. It carries a variable interest rate of prime plus 1.75% with a 5% minimum rate. This line of credit is collateralized with KIPP Bay Area Schools’ accounts, inventory, and equipment. KIPP Bay Area Schools has no amounts outstanding under this line of credit as of June 30, 2012.

School Facilities: KIPP leases a building for an administrative office in Oakland and leases land and buildings in Oakland, San Francisco, San Jose, and San Lorenzo under various operating leases. The aggregate rental payments required under the terms of their operating leases range from \$596,996 to \$456,062 from 2012-13 through 2015-16, respectively.

The aggregate facility costs for all KIPP schools incorporated into the financial projections are as follows: \$979,856 (2012-13), \$921,378 (2013-14), \$1,122,857 (2014-15), \$1,357,747 (2015-16), \$1,564,154 (2016-17). These estimated expenses are equivalent to an average of 3.6% of annual total revenues including contributions. These levels are below the 10-15% affordability range and these commitments are not expected to impact the organization’s flexibility to respond to any unforeseen costs.

*Item 7 –KIPP Bay Area Schools
(KIPP King Collegiate High School)*

KIPP Bay Area Projected Facilities Costs					
School	2012-13	2013-14	2014-15	2015-16	2016-17
KIPP Bayview	\$175,112	\$171,698	\$175,990	\$180,390	\$184,899
KIPP Bridge	\$106,414	\$118,299	\$119,145	\$119,726	\$120,322
KIPP Heartwood	\$130,231	\$132,855	\$136,176	\$139,581	\$143,070
KIPP SF Bay	\$105,653	\$96,543	\$98,957	\$101,431	\$103,966
KIPP Summit	\$125,378	\$55,625	\$57,016	\$49,155	\$50,384
KIPP King	\$69,635	\$42,397	\$43,457	\$30,470	\$31,232
KIPP San Jose	\$113,974	\$104,342	\$102,339	\$85,399	\$87,534
KIPP SF College Prep	\$0	\$41,623	\$57,984	\$94,759	\$97,128
KIPP SJ MS #2	\$0	\$0	\$84,924	\$151,897	\$209,889
KIPP SJ MS #3	\$0	\$0	\$84,924	\$151,897	\$209,889
KIPP SJ MS #4	\$0	\$0	\$0	\$87,047	\$155,695
Support Office	\$153,460	\$157,996	\$161,946	\$165,995	\$170,144
Total	\$979,856	\$921,378	\$1,122,857	\$1,357,747	\$1,564,154

Non-Operating Revenues from Contributions - Over the last three years, KIPP received the following total amounts of private grants and contributions: \$4.21 million (2009-10), \$ 6.45 million (2010-11), \$18.4 million (2011-12). The financial projections estimate the following donations: \$10.0 million (2012-13), \$8.9 million, (2013-14), \$14.0 million (2014-15), \$11.8 million (2015-16), and \$11.3 million (2016-17). Historically, fundraising annual receipts averaged 39% of revenues the years of 2010-11 and 2011-12 and projections indicate a comparable average for projected years through 2016-17. Contributions as a percentage revenues are still significantly higher than the 15.0% threshold level employed by staff and has increased since KIPP King’s most recent financial soundness review (25%).

Based on a stress test of KIPP’s reliance on private contributions, KIPP would need to receive at least 74% (\$8.5 million) of expected contributions in 2015-16 and 2016-17 to maintain debt service coverage ratios of at least 100.0%. When looking at KIPP’s historical average (\$12.4 million) over the past two years and future projections in regard to their contributions, staff believes that the school will be able to raise their projected contributions in the future, but due to the large percentage of contributions that must be realized, if any unforeseen decrease in private contributions occurs, KIPP will not be able to cover the debt service payment. KIPP stated that in the event that projected contributions are not met, the organization does have the ability to reduce staff and services but maintains a strong track record of fundraising and a broad base of contributors.

A significant trend that staff has identified through its review of KIPP’s current year’s budget and multi-year budget projections, as described above, is that in spite of KIPP’s ability to substantiate its projected private contributions, KIPP relies on such contributions in order to operate on at least a break even basis and that without such contributions, KIPP would be operating at a deficit during each of the projected years, in which KIPP averages a net loss of (\$6.7 million). As such, staff has stress-tested KIPP’s ability to withstand a reduction in anticipated contributions, described above. KIPP acknowledges its dependence on philanthropy and recognizes that this source of revenue is built into their business model for the foreseeable future.

Staff Adjusted Changes in Net Assets - KIPP's historical and projected financial operations incorporate the aforementioned described enrollment trends, facility costs and non-operating revenues from contributions.

Staff notes that KIPP has been able to maintain positive ending fund balances due to receipt of sizeable donations. Factoring in their contribution revenues, KIPP experienced a decrease to net assets in 2009-10 of \$580,866, while increasing net assets in 2010-11 by \$2.03 million. For 2011-12, KIPP indicated a sizable increase in net assets of \$14.00 million due in large part of \$18.4 million in contributions. KIPP's projections include increases to net assets in the amounts of \$5.7 million, \$3.2 million, and \$6.9 million from 2012-13 through 2014-15.

Projected Debt Service Coverage – Debt service coverage ratios on CSFP payments are calculated using net revenues available after payment of debt service on any existing and projected indebtedness. Assuming a 2.0% interest rate, a 30-year repayment period, an estimated combined project cost of \$11,890,786, KIPP's annual CSFP payment will be \$265,461 beginning 2015-16, the year following project occupancy. KIPP's projected net revenues of \$3.6 million for 2015-16 and \$3.0 million for 2016-17 would provide debt service coverage of 1,346.2% and 1,140.3%, respectively. The CSFP payments would represent 0.7% of projected revenues for each of these years, which is well below the preferred maximum range of 10-15% (total facilities costs including CSFP payments represent 4.2% of projected revenues). However, if projected contributions are not realized, debt service coverage for 2015-16 and 2016-17 would be -3,098.9% and -3,116.5%, respectively.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. KIPP's NWC for 2010-11 was \$11.2 million, or 52.4% of total expenses, increased to \$17.2 million for 2011-12, or 75.5% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

- + KIPP Bay Area schools have consistently scored above the 800's in regards to their API growth scores, and rank among the highest schools in the state, both in the similar school and statewide rankings.
- + Staff projects debt service coverage ratios for 2013-14 and 2014-15 of 1,346.2% and 1,140.3%, respectively.
- + Strong management and leadership with support of local districts. The KIPP organization is well established throughout the nation, with significant experience within the charter school area and providing a network of support. KIPP King also has strong local school leadership.

- KIPP would need to receive at least 74% (\$8.5 million) of expected contributions in 2015-16 and 2016-17 to maintain debt service coverage ratios of greater than 100.0%.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board adopt Resolution 13-29 and determine that KIPP Bay Area Schools is financially sound for the purposes of the CSFP Advance and/or Final Apportionment for Rehabilitation. This determination of financial soundness also is contingent upon KIPP Bay Area Schools agreeing to have its CSFP payments intercepted at the state level, pursuant to sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. This determination is in place for six months from the date of this approval. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.