

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D 2009 FUNDING ROUND
STAFF SUMMARY REPORT – MARCH 2010**

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| Applicant/Obligor: | Leadership Public Schools, Inc. |
| Project School: | LPS – College Park |
| CDS (County – District – School) Code: | 01-61259-0101469 |
| [Proposed] Project Location: | 3251 Fontaine St., Oakland, CA 94605 |
| Project Type: | New Construction |
| County: | Alameda |
| District in which Project is Located: | Oakland Unified School District |
| Charter Authorizer: | Oakland Unified School District |
| Total OPSC Project Cost: | \$2,556,172 |
| State Apportionment (50% Project Cost): | \$1,278,086 |
| Lump Sum Contribution: | \$0 |
| Total CSFP Financed Amount: | \$1,278,086 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 3.00% |
| Estimated Annual CSFP Payment: | \$65,207 |
| First Year of Occupancy of New Project: | 2012-13 |

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| Applicant/Obligor: | Leadership Public Schools, Inc. |
| Project School: | LPS – College Park |
| CDS (County – District – School) Code: | 01-61259-0101469 |
| [Proposed] Project Location: | 3251 Fontaine St., Oakland, CA 94605 |
| Project Type: | Rehabilitation of Existing Facility |
| County: | Alameda |
| District in which Project is Located: | Oakland Unified School District |
| Charter Authorizer: | Oakland Unified School District |
| Total OPSC Project Cost: | \$766,800 |
| State Apportionment (50% Project Cost): | \$383,400 |
| Lump Sum Contribution: | \$0 |
| Total CSFP Financed Amount: | \$383,400 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 3.00% |
| Estimated Annual CSFP Payment: | \$19,561 |
| First Year of Occupancy of New Project: | 2012-13 |

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that LPS – College Park (LPSCP) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Preliminary Apportionment. LPSCP will need to document improvements in student performance prior to receiving an Advance or Final Apportionment under the Program. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.

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

| Criteria | Comments |
|--------------------------------|---|
| Eligibility Criteria | LPSCP has met all Program eligibility criteria: 1) a charter is in place; 2) LPSCP has at least two years of instructional operations; and 3) LPSCP is in compliance with the terms of its charter and in good standing with its chartering entity. |
| Demographic Information | LPSCP currently serves 304 students in grades 9-12, and projects an enrollment to increase to 331 and 374 for 2010-11 and 2011-12, respectively, to 427 students during its first year of project occupancy in 2012-13, and to 461 during 2013-14 and 2014-15 (first two years of CSFP payments). This represents increases in enrollment of 9%, 13%, 14%, and 8%, respectively, for the four projected years beginning with 2010-11. |
| Debt Service Coverage | LPSCP's projected debt service coverage ratios have met the minimum Program requirement of 100% at 574.4% and 593.1% for the first two years of CSFP payments in 2013-14 and 2014-15. Debt service coverage calculated excluding contributions is projected to be 302.4% and 321.2% for these years. Hence, LPSCP does not rely on contributions to meet the minimum debt service coverage requirement. |
| Other Financial Factors | <ol style="list-style-type: none"> 1. Projected ratios of CSFP payments to total revenues are 2.1% in 2013-14 and 2014-15, which is within the preferred maximum range of 10-15%. 2. Net working capital for 2008-09 of \$321,498 represented 10.2% of total expenses, which exceeds the preferred minimum of 5.0%. |
| Student Performance | LPSCP has failed to meet all AYP criteria for the past three years, and is currently in its second year on Program Improvement (PI) status pursuant to the No Child Left Behind Act of 2001. In addition, LPSCP has failed to meet its API growth targets in two of the past three years, and, for 2008-09, was ranked "1" and "6" (10=best) statewide and against similar schools, respectively. |

Program Eligibility: On October 25, 2009, staff received verification from Oakland Unified School District (District), LPSCP's charter authorizer, confirming that LPSCP is: 1) in compliance with the terms of its charter agreement, and 2) is in good standing with its chartering authority. The District approved LPSCP's original charter in 2005 and approved a renewed charter in 2008, which is set to expire in 2013.

Legal Status Questionnaire: Staff reviewed LPSCP’s responses to the questions contained in the Legal Status Questionnaire (LSQ). LPSCP responded that it does not have any civil or criminal matters to report and answered “No” to the questions.

Project Description: LPSCP is seeking to develop a portion of the Kings Estate School site, which is currently occupied by the Sojourner Truth Independent Study School and which, upon completion, will be shared by both schools. The project consists of the renovation of two classrooms and the addition of two new classrooms, a combination of both rehabilitation and new construction. LPSCP anticipates a capacity of 500 students and an occupancy date of Fall 2012.

Organization Information: LPSCP is operated by the Educational Management Organization, Leadership Public Schools (see further description below), a 501(c)(3) non-profit organization, and commenced instructional operations in 2005 as a high school with 103 students in grade 9. LPSCP added one grade each consecutive year, achieving an enrollment of 289 students in grades 9-12 during 2008-09 and currently serving 304 students in grades 9-12. Although LPSCP is operated by an EMO, it also pays a supervisory oversight fee to the District.

Educational Management Organization: Leadership Public Schools (LPS) is a non-profit charter school development organization founded in 2002 to serve diverse students throughout California with a network of charter high schools. LPS schools serve ethnically and economically diverse student bodies and are located in or near low-income neighborhoods. LPS currently has high schools opened in Richmond, San Jose, Oakland, and Hayward.

Based on materials provided by the applicant, all LPS schools are committed to moving significantly under-prepared urban students of poverty and color to college readiness. To do so, they are implementing a College Readiness Frame:

College Ready Curriculum

- A-G curriculum: all students graduate course-eligible for UC and CSU
- LPS exit proficiency: CSU criteria for placement without remediation
- Assessments: aligned to freshman-level college course work
- Personalization: Personalized pathways taking students from whatever their starting point to readiness for success in college

College Ready Supports

- Freshman Academy: Academic Leadership and Academic Numeracy courses that provide freshman support in literacy, numeracy, and study skills
- Supports for literacy and critical thinking: embedded in all courses
- Personalization: detailed tracking of individual student progress targeted after-school tutoring and catch-up opportunities during the year

College Ready Culture

- School culture: clubs, activities, weekly family meetings
- Personalization: four-year personal college planning process in Advisory groups

- LPS Signature Experiences: Freshman Stanford Retreat, College Tours, Week Without Walls

LPS recruits students who are representative of the communities, with levels of ethnic and socioeconomic diversity. LPS advertises by distributing enrollment information in multiple languages through community centers, faith-based organizations, youth programs, non-profit organizations, neighborhood associations and other venues. The organization also focuses on local feeder school districts, private schools and charter schools to distribute information and make presentations directly to incoming high school students.

Each school is responsible for custodial, utilities, minor facilities maintained, and in building capital expenditures, while the LPS home office is responsible for all other facilities functions. The LPS Home Office provides student assessment and testing, financial, accounting, and legal, facilities, professional development, enrollment and administrative support to LPS campuses. The cost of this support is evenly divided among the four LPS network schools; for 2009-10 this is approximately 8% of LPSCP's revenues.

Management Experience: The résumés of the school's personnel and the management team demonstrate professional, experienced and qualified individuals serving in key capacities within the organization.

Lisa Haynes has been the Principal of LPSCP since January 2009. Prior to this position, she served as Academic Intervention Counselor at LPSCP (June 2008 to January 2009), Principal of Emery Secondary School/Emery Unified School District (Summer 2007), and an English Teacher at Emery Secondary School (2004-06) and Delta High School/River Delta Unified School District (2002-04). Ms. Haynes holds a B.A. in Behavioral Sciences and an M.A. in Educational Administration from San Diego National University.

EMO Management: Louise Bay Waters, D.Ed., has served as the CEO of LPS since 2008. Prior to this position, Ms. Waters served as: Director of Knowledge, Learning, and Results (2006-08) and Senior Academic Practitioner and Consultant (2005-2006) at the Stupski Foundation; Associate Superintendent for Student Achievement (2002-04) and Assistant Superintendent for Accountability (2000-02) at Oakland Unified School District; Principal, Cobello Elementary School/New Haven Unified School District (1993-2000); and Professor of Teacher Education at California State University, Hayward (1985-93). Ms. Waters holds an M.A. in Cultural Pluralism in Education from Stanford University and a D.Ed. in Higher Educational Administration from Pennsylvania State University.

Soo Zee Park has served as the Director of Operations of LPS since 2005. Ms. Park holds a Master of Business Administration from John E. Anderson Graduate School of Management at UCLA, as well as a Bachelors Degree in architecture from North Carolina State University. She has served on the LPS Board of Directors and the Facilities Committee for Lighthouse Community Public Schools in Oakland.

Joyce Montgomery has served as the Director and Vice President of Finance of LPS since 2005. Ms. Montgomery has finance and operations management experience in education, advertising, high tech and banking. As a school executive, Ms. Montgomery has served as the Chief Financial Officer at Crystal Springs Uplands School (Hillsborough, CA) where she

was responsible for managing all operations units, including business and finance, physical plant and deferred maintenance plans, food service operations, legal affairs, human resources, and construction. She also was the Chief Financial Officer at the Howard School in Atlanta, Georgia. Ms. Montgomery holds a B.A. from California State University, Long Beach, and an M.A. in Business Administration from Notre Dame de Namurs University.

Board Experience: Under the auspices of LPS, LPSCP is governed by the LPS Board of Directors, which is composed of LPS's Chief Executive Officer, business leaders, educational leaders volunteer community representatives, as well as a student, teacher, and parent representative. Each LPS School is also represented by Site Council comprised of parents and community members. The Board membership is described in the following table.

| Name | Occupation | Term Expiration Date |
|---|---|-----------------------------|
| J.R. Matthews, Board Chair | Managing Director, Tregaron Capital Co. | 6/30/10 |
| Josefina Alvarado-Mena | CEO, Safe Passages | 6/30/12 |
| Sandy Dean, Treasurer | Partner, Sansome Partners | 6/30/12 |
| Marsha Dugan | Active Community Member | 6/30/12 |
| Muti Fagbayi | CEO, Performance Fact, Inc. | 6/30/11 |
| Jeffrey Faucette | Director, Howard, Rice, Nemerovski. Canady, Falk and Rabkin | 6/30/10 |
| Michael Fauteaux | Teacher, LPS Hayward | 6/30/10 |
| Laura Fisher | Active Community Member | 6/30/11 |
| Heather Hiles | COO, rripple | 6/30/12 |
| Henrik Jones | Active Community Member | 6/30/10 |
| Mark Kushner | Senior Vice President, K12, Inc. | 6/30/11 |
| Deborah McGriff | Partner, NewSchools Venture Fund | 6/30/12 |
| Stu McLaughlin | Partner, Sansome Partners | 6/30/12 |
| Angelina Sanchez | Student Member, LPS Richmond | n/a |
| Jack R. Selby | Managing Director, Clarium Capital Management, LLC | 6/30/10 |
| Deborah Stipek | Dean and Professor, Stanford University School of Education | 6/30/10 |
| Alex Terman | Active Community Member | 12/1/11 |
| Louise Bay Walters, Ex officio member of all committees | CEO, Leadership Public Schools, Inc. | n/a |
| Linda Weathers | Parent, LPS Richmond | n/a |

Management Experience for Schools Open Less than Two Years: Not applicable. LPSCP has been in instructional operations since 2005, which exceeds the two years of management requirement.

Student 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 favorable, 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 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.

LPSCP has four years of reported API scores, allowing a review of progress and comparison to similar schools. The following table summarizes the school's trends in student performance.

| Leadership Public Schools - College Park | FY 2005/06 | FY 2006/07 | FY 2007/08 | FY 2008/09 |
|---|------------|------------|------------|------------|
| ADEQUATE YEARLY PROGRESS (AYP) | | | | |
| Met All AYP Criteria? | Yes | No | No | No |
| Criteria Met / Required Criteria | 6 / 6 | 4 / 6 | 5 / 6 | 2 / 6 |
| Met API Indicator for AYP? | Yes | No | Yes | No |
| Met Graduation Rate? | Yes | Yes | Yes | Yes |
| ACADEMIC PERFORMANCE INDEX (API) | | | | |
| Met Schoolwide Growth Target? | n/a | No | Yes | No |
| Met Comparable Improvement Growth Target? | n/a | No | Yes | No |
| Met Both Schoolwide & CI Growth Targets? | n/a | No | Yes | No |
| API Base Statewide Rank (10 = best) | n/a | 2 | 1 | 1 |
| API Base Similar Schools Rank (10 = best) | n/a | n/a | 3 | 6 |
| School's Actual Growth | n/a | -85 | 61 | -42 |
| Similar Schools Median of Actual Growth | n/a | n/a | 17 | 12 |
| Did School's Growth Exceed Median? | n/a | n/a | Yes | No |

LPSCP failed to meet all AYP criteria during the past three years (last year that LPSCP made AYP was 2005-06), and is currently in its second year of Program Improvement (PI) status, as required by the No Child Left Behind Act of 2001. In order for LPSCP to be removed from PI status, it must make AYP for two consecutive years and meet specific corrective action requirements. For 2008-09, LPSCP only met 2 of 6 AYP criteria, failing in percent proficient in English-Language Arts and mathematics, as well as percent participation in mathematics and API as an additional indicator. During each of the past three years, LPSCP failed in meeting the percent proficient requirement for English-Language Arts. LPSCP has also failed to meet its API growth target in two of the past three years, including the past 2008-09 academic year, with API growth scores of 535, 596, and 554 for 2006-07, 2007-08, and 2008-09, respectively. LPSCP's statewide ranking, where "10" is best, was "2", "1", and "1" for 2006-07, 2007-08, and 2008-09, respectively, while the similar school ranking was "3" and "6" for 2007-08 and 2008-09, respectively. Due to the lack of numerically significant sub-groups for 2006-07, a similar schools ranking for that year is not available.

Because of LPSCP's ongoing low academic performance, staff reviewed the performance of other LPS schools to evaluate potential for improvement under the LPS umbrella and to compare performance among schools. The following tables provide comparisons in academic performance among the LPS schools.

| Leadership Public Schools - API Growth Scores / Met API Growth Target | | | | |
|--|----------------|----------------|----------------|----------------|
| School (All Schools Serve Grades 9-12) | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| LPS-College Park (Oakland) | 620 / Yes | 535 / No | 596 / No | 554 / No |
| LPS-Hayward | n/a | n/a | n/a | 777 / Yes |
| LPS-Richmond | 586 / No | 624 / Yes | 636 / Yes | n/a |

| Leadership Public Schools - API Growth Scores / Met API Growth Target | | | | |
|---|----------|----------|----------|-----------|
| LPS-San Jose | 575/ Yes | 506 / No | 543/ Yes | 595 / Yes |

| Leadership Public Schools, Inc. – Base API Score Statewide Ranking / Similar School Ranking (10 = best) | | | | |
|--|---------|---------|---------|---------|
| School (All Schools Serve Grades 9-12) | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| LPS-College Park (Oakland) | n/a | 2 / - | 1 / 3 | 1 / 6 |
| LPS-Hayward | n/a | n/a | 7 / 10 | 4 / 7 |
| LPS-Richmond | n/a | 1 / 2 | 2 / 6 | 1 / 3 |
| LPS-San Jose | 1 / - | 1 / 2 | 1 / 1 | 1 / 2 |

| Leadership Public Schools, Inc. – Met All AYP Targets | | | | |
|---|---------|---------|---------|---------|
| School (All Schools Serve Grades 9-12) | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| LPS-College Park (Oakland) | Yes | No | No | No |
| LPS-Hayward | n/a | n/a | n/a | Yes |
| LPS-Richmond | No | Yes | Yes | No |
| LPS-San Jose | Yes | No | Yes | No |

Staff’s review of LPS’s academic performance across schools is not able to conclude that LPSCP’s failure to show improvement is anomalous relative to other LPS schools. All three of the schools that have been operating for at least three years have shown inconsistent performance on AYP and API. Staff notes that in LPSCP’s charter petition with the District, LPSCP set forth specific “Pupil Outcome Goals,” which included: (1) “The school will meet or exceed the required annual school-wide proficiency rates in English Language Arts and Mathematics pursuant to federal NCLB laws, as well as meet or exceed the school’s annual API growth targets required by the state and federal government”; and (2) “Significant yearly improvement in student achievement as measured by growth of at least one proficiency level between the initial and end-of-year LPS benchmark assessment in English and math for students initially testing below proficient. Based on the LPSCP’s failure to show improvement in AYP or API over the past three years, along with LPSCP’s continuation under PI status, staff finds concern with LPSCP’s sustainability as a financially sound entity.

Staff requested LPSCP to provide evidence of remedial actions taken to address the issue with its academic performance. In response, LPSCP submitted its “Academic Performance Initiatives 2009-10,” which includes, but is not limited to, the following interventions:

1. Mid-year replacement of principal in January 2009 and replacement of remainder of administrative team for 2009-10;
2. Extensive support for intensive use of data to accelerate academic performance and progress toward graduation;
3. Additional staffing to allow daily teacher collaboration and to support literacy curriculum;
4. Extra funding to support intensive reading intervention;

5. Diagnostic testing of all students in English, Math, and English Language Development;
6. Ongoing monitoring for placement in CAHSEE preparation sessions, core subject tutoring, or other academic after-school supports;
7. Continued use of double math courses – Algebra 1 and Academic Numeracy for all Algebra 1 students;
8. Quarterly benchmark assessments to guide instructional improvement;
9. Individual student conferences where students look at their own progress toward graduation and develop personal strategies to improve their grades and credits;
10. Attendance incentives and policy to catch and address attendance problems early; and;
11. Development of tiered curriculum and textbooks, making core content available at grade level, with a second scaffolding layer for below-grade level students, and a third layer of assistive technology support for Special Education and English Learner Newcomers.

As a part of these initiatives, LPSCP identified early indicators of progress, which included recent improvement in attendance, student engagement (based on comprehensive classroom observations), reduction in morning tardiness, and significant reduction in credit deficiencies. In comparison to 2008-09, LPSCP has seen a 6% and 24% increase in the number of students in the proficient and advanced categories for Algebra 1 and 2. In addition, the number students who are categorized as far below basic in both Algebra 1 and 2 has been reduced. Staff notes these improvements as notable and will continue to look for positive trends in student performance data.

Staff recommends that, prior to any determination of financial soundness for advance or final apportionment, LPSCP be required to submit evidence of substantial measurable improvement in academic performance either via statewide standards or other valid metrics that LPSCP has developed for this purpose. Staff notes that the next set of AYP and API growth results (2009-10) are due to be released in August 2010.

Enrollment Information: In 2005-06, LPSCP began instructional operations with 103 students in grade 9. From 2005-06 to 2008-09, LPSCP consistently increased its enrollment through the addition of a new grade each year, achieving enrollment in 2008-09 of 289 students in grades 9-12. For the current academic year, 2009-10, LPSCP has continued to show growth with a student enrollment of 304 students in grades 9-12. LPSCP projects enrollment to consistently increase to 331, 374, and 427 during 2010-11, 2011-12, and 2012-13 (year of project occupancy), respectively. LPSCP anticipates that in 2013-14, the enrollment will level off at 461 students. This represents an approximate 8-14% enrollment growth each year. Given that LPSCP has only one year of demonstrated enrollment growth while all grades 9-12 were occupied (2007-08 to 2008-09), and this growth was 5.2%, staff consider LPSCP's enrollment projections for the two years prior to project occupancy, 8.9% for 2010-11 and 11.3% for 2011-12, to be aggressive.

Enrollment patterns for all four LPS schools that have been in operations are reflected in the following table.

| Leadership Public Schools, Inc. – Enrollment by Year | | | | |
|---|----------------|----------------|----------------|----------------|
| School | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| LPS-College Park (Oakland) | 103 | 195 | 261 | 289 |
| LPS-Hayward | n/a | n/a | n/a | 388 |
| LPS-Richmond | 360 | 444 | 304 | 325 |
| LPS-San Jose | 171 | 238 | 252 | 269 |

With the exception of LPS-Richmond, all the LPS schools have shown a consistent increase in enrollment. LPS-Richmond's significant drop in enrollment from 2006-07 to 2007-08 was due to facility changes based on the need for upgrading one of its buildings for seismic safety and West Contra Costa Unified School District's decision to re-locate students that would have otherwise been housed in this building to another school (refer to 2008 Staff Report on LPS-Richmond).

Based on LPSCP's CBEDS-reported enrollment for 2006-07, 2007-08, and 2008-09, LPSCP's average daily attendance (ADA) rates for these years were 86%, 87%, and 94%, respectively. LPSCP's financial projections incorporate the assumption of an ADA of 93%, based on an ADA of 94% for 2008-09 as well as current trends (for 2009-10), which LPSCP states reflect an aggregate ADA of 93% and an ADA of 94% for two of its classes. Although LPSCP's ADA for the three years prior to 08-09 was between 86% and 87%, Director of Operations, Soo Zee Park, indicated that, because of recent significant managerial changes at LPSCP to specifically address student attendance, current ADA trends at 93% are more accurate than the trend prior to 2008-09. To further support the assumption, she also indicated that a 93% ADA has been regularly achieved at the other LPS charter schools. Although staff is concerned with the limited historical information to support this assumption, staff has decided to keep the 93% ADA assumption within its financial analysis.

LPSCP's year-to-year retention rates for the past three years, 2007-08, 2008-09, and 2009-10 have been 81.4%, 90.6%, and 88.9%, respectively. Although in 2007-08 retention rates were below staff's preferred 85% retention threshold, the retention history does indicate a sufficient positive trend. LPSCP does not currently have a waitlist.

Financial Analysis: Below we have highlighted selected financial data and credit indicators to evaluate LPSCP's ability to meet its CSFP obligation.

Staff's evaluation of LPSCP's financial performance is based on review of the following documents: (1) LPSCP's audited financial statements for 2005-06 through 2008-09; (2) LPSCP's approved budget for 2009-10; (3) LPSCP's budget projections for 2010-11 through 2014-15; and (4) LPSCP's current enrollment for 2009-10 as well as projected average annual enrollment for 2010-11 through 2014-15.

LPSCP's financial projections and projected debt service coverage are based upon the following assumptions: (1) an interest rate of 3.0% on the CSFP local matching share amortized over 30 years; (2) total project cost of \$3,322,972 (based on combination of

rehabilitation and new construction costs, as provided by the Office of Public School Construction); (3) project occupancy in 2012-13; (4) increases in enrollment from 304 students for current 2009-10 academic year to 427 for 2012-13 (first year of project occupancy), and to 461 during the first two years of CSFP payments, 2013-14 and 2014-15 (refer to Enrollment Information above); (5) projected ADA rates of 93% for 2009-10 through 2014-15; (6) general purpose block grant rate of \$5,815 beginning 2009-10 (a conservative assumption) ; (7) revenue growth (cost of living adjustments) to the general purpose block grant funding rate of 0.9% for 2010-11, 2.4% for 2011-12, 2.5% for 2012-13, and 3.0% for 2013-14 and 2014-15; (8) salary expenses are projected to grow at the same rates as the general purpose block grant (while other expense categories assume between 2% and 3% annual rate increases, employee benefits are expected to increase by 12%); and (8) projected contributions in the amounts of \$486,400 for 2009-10, \$248,250 for 2010-11, \$215,050 for 2011-12; \$213,500 for 2012-13; \$230,500 for 2013-14; and \$230,500 for 2014-15.

Projected Contributions: Staff notes that LPSCP's assumption regarding contributions is supported by documentation of historical contributions to LPSCP in audited financial statements between \$102,000 to \$233,000 per year, as well as overall contributions to LPS of over \$1.6 million during 2008-09. The LPS's Director of Operations, Soo Zee Park, has indicated that LPS has allocated \$486,400 of the \$1.6 million in contributions that it received during 2008-09 to LPSCP's 2009-10 budget and that LPS's overall contributions from foundations and private donors are largely unrestricted and allocated among LPS's four schools based on programmatic needs. In addition, LPS has provided documentation of donor commitments in the amounts of \$75,000 for 2010-11, \$40,000 for 2011-12, and \$25,000 for 2012-13. Staff believes that based on LPS's ability to raise \$1.6 million during 2008-09 in conjunction with prior contributions to LPSCP, LPSCP's assumption regarding projected contributions is reasonable.

Long Term Debt: Based on the review of the 2008-09 audited financial statements, LPS has three unsecured revolving loans payable with California Department of Education of which one is for the LPSCP campus. According to the Statement of Financial Position, LPSCP owes \$50,000 against this loan as a current liability (to be paid during 2009-10) and \$50,000 as a long term liability (to be paid during 2010-11). The financial projections have been adjusted to reflect these two payments.

Financial Performance/Change in Net Assets: LPSCP recorded losses in net revenues of \$32,478, \$146,149, and \$181,100 for 2005-06, 2006-07, and 2007-08, respectively, with the inclusion of contributions, resulting in net assets of \$183,189 as of June 30, 2008. For 2008-09, LPSCP recorded a gain in net revenues of \$70,741 on \$3.16 million in revenues and \$3.23 million in expenses, along with contributions of \$102,800 and an inter-fund transfer from the LPS home office in the amount of \$348,000. This resulted in net assets of \$298,424 as of June 30, 2009. Without the transfer from the home office, LPSCP would have incurred a net loss of \$232,765 for 2008-09. Notwithstanding what is effectively four consecutive years of net losses, LPSCP is projecting gains in net revenues for each of 2009-10 through 2011-12, due to increases in enrollment and contributions, as follows: \$149,232 for 2009-10 on \$486,400 in contributions; \$88,520 for 2010-11 on \$248,250 in contributions; \$278,893 for 2011-12 on \$215,050 in contributions. Hence, for 2009-10 through 2011-12, LPSCP will be relying on contributions to meet its operating budget. LPSCP is projecting gains in net revenues for 2012-13 through 2014-15 due primarily to

increases in enrollment, but to a lesser extent on contributions, as follows: \$426,393 for 2012-13 (year of project occupancy) on \$213,500 in contributions; \$486,866 for 2013-14 (first year of CSFP payments) on \$230,500 in contributions, and \$502,789 for 2014-15 (second year of CSFP payments) on \$230,500 in contributions. Under LPSCP's assumptions for its projections, LPSCP does not rely on contributions to meet Program debt service coverage requirements. It should be noted that with the exception of 2009-10 in which contributions represent about 15% of revenues, for the projected years, contributions represent between 5.8% and 5.6% of revenues.

Projected Debt Service Coverage of CSFP Payments – LPSCP's financial projections indicate the school will be able to afford the projected annual CSFP payments (for the combined rehabilitation and new construction projects) under its assumptions of contributions and student enrollment growth. It should be noted that, because the Office of Public School Construction has determined that the rehabilitation and new construction project components can only be achieved in combination, staff is only evaluating financial soundness for the combined projects. Given a projected CSFP payment of \$84,768, during the first year of CSFP payments, 2013-14, LPSCP's net revenues of \$486,866 would provide debt service coverage of 574.4%. In addition, during the second year of CSFP payments, 2014-15, LPSCP's net revenues of \$502,789 would provide debt service coverage of 593.1%. Without contributions, LPSCP's debt service coverage for the first two years of CSFP payments, 2013-14 and 2014-15, is 302.4% and 321.2%, respectively, which is still well above the minimum 100% required by Program regulations. The CSFP payment would represent 2.1% of projected revenues in 2013-14 and 2014-15. Such indicator is well within the preferred maximum range of 10-15% by a comfortable margin.

| Leadership Public Schools - College Park | Actual FY 2006/07 | Actual FY 2007/08 | Actual FY 2008/09 | Budget FY 2009/10 | Projected FY 2010/11 | Projected FY 2011/12 | Projected FY 2012/13 | Projected FY 2013/14 | Projected FY 2014/15 |
|---|----------------------|----------------------|----------------------|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| ENROLLMENT PROJECTIONS | | | | | | | | | |
| Enrollment | 195 | 261 | 289 | 304 | 331 | 374 | 427 | 461 | 461 |
| Average Daily Attendance | 167 | 227 | 273 | 283 | 308 | 348 | 397 | 429 | 429 |
| Average Daily Attendance (%) | 86% | 87% | 94% | 93% | 93% | 93% | 93% | 93% | 93% |
| FINANCIAL PROJECTIONS | | | | | | | | | |
| Total Revenues Available for CSFP Payment | \$ 1,511,880 | \$ 2,267,829 | \$ 3,226,938 | \$ 3,199,149 | \$ 3,045,626 | \$ 3,380,231 | \$ 3,744,493 | \$ 3,997,895 | \$ 4,118,708 |
| Total Expenses Paid Before CSFP Payment | \$ 1,660,680 | \$ 2,453,073 | \$ 3,161,703 | \$ 3,053,322 | \$ 2,960,511 | \$ 3,104,743 | \$ 3,321,505 | \$ 3,514,434 | \$ 3,619,324 |
| Accounting Adjustments | 2,651 | 4,144 | 5,506 | 3,405 | 3,405 | 3,405 | 3,405 | 3,405 | 3,405 |
| Net Revenues Available for CSFP Payment | \$ (146,149) | \$ (181,100) | \$ 70,741 | \$ 149,232 | \$ 88,520 | \$ 278,893 | \$ 426,393 | \$ 486,866 | \$ 502,789 |
| CSFP Payment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 84,768 | \$ 84,768 |
| Net Revenues After CSFP Payment | \$ (146,149) | \$ (181,100) | \$ 70,741 | \$ 149,232 | \$ 88,520 | \$ 278,893 | \$ 426,393 | \$ 402,098 | \$ 418,021 |
| FINANCIAL INDICATORS | | | | | | | | | |
| Net Revenues Available for CSFP Payment | \$ (146,149) | \$ (181,100) | \$ 70,741 | \$ 149,232 | \$ 88,520 | \$ 278,893 | \$ 426,393 | \$ 486,866 | \$ 502,789 |
| Debt Service Coverage by Net Revenues | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 574.4% | 593.1% |
| Contributions | \$ 107,119 | \$ 178,045 | \$ 102,800 | \$ 486,400 | \$ 248,250 | \$ 215,050 | \$ 213,500 | \$ 230,500 | \$ 230,500 |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 302.4% | 321.2% |
| CSFP Lease Payment / Revenues | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 2.1% | 2.1% |
| Contributions / Revenues | 7.1% | 7.9% | 3.2% | 15.2% | 8.2% | 6.4% | 5.7% | 5.8% | 5.6% |
| Net Revenues After CSFP Payment / Revenues | -9.7% | -8.0% | 2.2% | 4.7% | 2.9% | 8.3% | 11.4% | 10.1% | 10.1% |
| Revenues / ADA | \$ 9,045 | \$ 9,998 | \$ 11,821 | \$ 11,316 | \$ 9,894 | \$ 9,718 | \$ 9,429 | \$ 9,325 | \$ 9,607 |
| Expenses / ADA | \$ 9,935 | \$ 10,815 | \$ 11,582 | \$ 10,800 | \$ 9,617 | \$ 8,926 | \$ 8,364 | \$ 8,395 | \$ 8,640 |
| Surplus (Deficit) / ADA | \$ (890) | \$ (817) | \$ 239 | \$ 516 | \$ 277 | \$ 792 | \$ 1,065 | \$ 930 | \$ 967 |
| Net Working Capital | \$ 459,104 | \$ 250,757 | \$ 321,498 | | | | | | |
| Net Working Capital / Expenses | 27.6% | 10.2% | 10.2% | | | | | | |

Liquidity: Liquidity is measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. LPSCP's NWC for 2007-08 was \$250,757, or 10.4% of total expenses, and increased to \$321,498 for 2008-09, or 10.3% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. As of June 30, 2009, LPSCP reported holding \$114,788 in cash.

Strengths, Weaknesses and Mitigants:

- + LPSCP is projected to have debt service coverage ratios of 574.4% and 593.1% with contributions, and 302.4% and 321.2% without contributions, for the first two years after project occupancy.
- + LPSCP does not rely on contributions to meet minimum debt service coverage requirements, and contributions represent between 5.8% and 5.6% of revenues.
- + LPSCP is managed under the umbrella of Leadership Public Schools, Inc., an Educational Management Organization that is managed by personnel with extensive charter school and educational experience and that has been in operations since 2002.
- LPSCP has failed to make AYP for the past three years, and is currently in its second year on PI status pursuant to the No Child Left Behind Act of 2001. LPSCP and LPS' poor student performance could reduce their ability to remain competitive against other schools and therefore impact their financial soundness. LPS has provided information regarding measures in place to improvement student performance. Staff notes this as an area of concern that will be closely monitored.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that LPS – College Park is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary Apportionment. LPSCP will need to document improvements in student performance prior to receiving an Advance or Final Apportionment under the Program. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.