

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

<b>Applicant/Obligor:</b>	Oakland Military Institute
<b>Project School:</b>	Oakland Military Institute
<b>CDS (County – District – School) Code:</b>	01-61259-0130617
<b>[Proposed] Project Location:</b>	3877 Lusk Street, Oakland, CA 94612
<b>Type of Project:</b>	Rehabilitation
<b>County:</b>	Alameda
<b>District in which Project is Located:</b>	Oakland Unified School District
<b>Charter Authorizer:</b>	Oakland Unified School District
<b>Total OPSC Project Cost:</b>	\$3,166,026
<b>State Apportionment (50% Project Cost):</b>	\$1,583,013
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$1,583,013
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$80,764
<b>First Year of Occupancy of New Project:</b>	2011-12

**Staff Recommendation:** Staff recommends that the California School Finance Authority (Authority) Board determine that Oakland Military Institute (OMI) is financially sound for the purposes of Charter School Facilities Program (Program or CSFP) Advance Apportionment subject to meeting a reserve requirement explained at the end of the report. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction 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 OMI. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	OMI meets all eligibility criteria including having instructional operations for at least two years, a charter in place through 2013-14, good standing with its chartering authority, and is in compliance with the terms of its charter.
<b>Demographic Information</b>	OMI currently serves grades 6-12. OMI began instructional operations in 2001 with 157 students in grade 7. In 2004-05, OMI had 420 students in grades 6-10 and has since grown to 607 students in grades 6-12 for 2009-10. This resulted in average annual growth of 9% over this period. OMI projects enrollment to increase to 627 students for 2010-11; and 671 students for 2011-12 (10.5% increase from 2009-10).

<b>Debt Service Coverage</b>	Assuming OMI's projected level of contributions, OMI's projected debt service coverage ratios meet the minimum requirement of 100.0% at 524.4% in 2012-13 and 584.9% in 2013-14. Without OMI's \$250,000 offset from Oakland Unified School District (OUSD), which is scheduled to end in 2013-14, OMI's debt service coverage ratios also meet the minimum requirement at 214.8% and 275.4% for these years, respectively. OMI is very reliant on contributions to meet debt service coverage as well as day-to-day operations.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. OMI relies significantly on contributions from private sources both to operate on a break-even basis and to meet the Program's debt service coverage requirement. Without the \$250,000 offset from OUSD, which is scheduled to end in 2013-14, OMI would only be able to sustain a 10% reduction in contributions and still meet the Program's debt service coverage requirement.</li> <li>2. The CSFP payment would represent 1.4% of projected revenues during the first two years of CSFP payments, which is well within the preferred maximum range of 10-15%.</li> <li>3. Net working capital for 2008-09 of \$869,716 represented 15.3% of total expenses, which exceeds the preferred minimum of 5.0%.</li> </ol>
<b>Student Performance</b>	Although OMI met its API growth targets during the past two years, OMI did not meet all AYP criteria during 2006-07 and 2008-09. For the most recent reported year, 2008-09, based on its API base score, OMI ranked "4" statewide and "3" against similar schools ("10" = best).

**Program Eligibility:** On December 9, 2009, the Authority received verification from the Superintendent's Office of Oakland Unified School District (OUSD) confirming that OMI is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

OMI received its first charter from the State Board of Education in 2001, and subsequently received a charter with OUSD in 2004. Its current charter with OUSD was renewed in 2009 and is effective through June 30, 2014.

**Legal Status Questionnaire:** Staff reviewed OMI's responses to the questions contained in the Legal Status Questionnaire (LSQ). OMI answered "None" to all LSQ questions, indicating no disclosures to provide regarding material information relating to legal or regulatory proceedings or legal action in which it or any of its affiliates is a named party.

**Project Description:** OMI has requested funding for rehabilitation of existing facilities, including 12 classrooms, currently leased from Oakland Unified School District at 3877 Lusk Avenue. OMI expects to complete the facility in time for occupancy by the start of the 2011-12 school year. The rehabilitated classrooms are anticipated to have a capacity of 388 students, and upon completion of the projection, the school (both rehabilitated classrooms and non-rehabilitated classrooms) is anticipated to have a capacity of about 700 students.

**Organizational Information:** OMI commenced its operations in 2001 with 157 students in grades 7, and currently serves approximately 607 students in grades 6-12. OMI operates as an independent charter school and California non-profit 501(c)(3) corporation.

OMI's charter sets forth the following mission: "The mission of the Oakland Military Institute (OMI) is to provide a structured and rigorous academic program where cadets develop as leaders, scholars, critical thinkers and citizens. Through a military framework, the school inspires honor and pride within its cadets, cultivating life-long respect, confidence, physical fitness and wellness and appreciation for others. Upon graduation, cadets will have

completed the A-G requirements for admission to the Cal State and University of California systems as well as top private and public universities nationwide.”

Based on OMI’s charter, OMI’s educational philosophy stresses academic excellence, personal character, and habits that promote lifelong physical fitness. All students participate as members of the California Cadet Corps, assuming increased responsibility through assigned leadership roles. The highly structured military model that the school espouses is intended to promote students’ sense of responsibility and respect towards themselves and others, including the importance of strong moral character.

OMI targets the recruitment of new students through direct community contact, including parent referrals and organized enrollment meetings at schools, churches, or other community organizations.

**Management Experience:** The description of experience of OMI’s personnel and management team demonstrate that professional, experienced and qualified individuals are serving in key capacities within the organization, as described below.

Mark Ryan, Ph.D., has served as Superintendent of OMI since 2008. Prior to this position, Dr. Ryan served as Director of the California Cadet Corps programs with San Bernardino City Unified School District (2005-08) and Los Angeles Unified School District (2002-05). Dr. Ryan holds a Ph.D. in Education from the University of Southern California.

Dara Northcroft has served as Director of Instruction of OMI since 2004. Prior to this position, Ms. Northcroft served as principal of St. Paul of the Shipwreck, a Catholic School in San Francisco. Ms. Northcroft holds an M.S. in Educational Leadership from California State University, East Bay.

**Board Experience:** OMI’s Board of Directors consists of seven members as set forth in the table below.

<b>Board Member</b>	<b>Occupation</b>	<b>Term</b>
David Clisham	Attorney	2009-11
Baxter Rice	Consultant	2010-12
Bill Bowen	Consultant	2010-12
Jim Gabriel	Director, CNG Your Programs	2009-11
Lidia Jauregui	Parent	2009-11
Steve Samuels	Bank President	2009-11
Simon Bryce	Consultant	2010-12

Among the Board’s roles and responsibilities are financial and operational oversight, adoption of the OMI financial budget, oversight of the grant solicitation and receipt process, hiring and oversight of the superintendent, and serving as the key representative of the school to the chartering authority on all matters relating to charter approval, renewal, and ongoing compliance.

**Management Experience for Schools Open Less than Two Years:** Not applicable. OMI began instructional operations in 2001-02 and exceeds the minimum instructional requirement of two years.

**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 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 I funds.

OMI 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 trends in student performance.

Oakland Military Institute	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>				
Met All AYP Criteria?	Yes	No	Yes	No
Criteria Met / Required Criteria	22 / 22	23 / 26	26 / 26	18 / 26
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	Yes	Yes
<b>ACADEMIC PERFORMANCE INDEX (API)</b>				
Met Schoolwide Growth Target?	No	No	Yes	Yes
Met Comparable Improvement Growth Target?	No	No	Yes	No
Met Both Schoolwide & CI Growth Targets?	No	No	Yes	No
API Base Statewide Rank (10 = best)	4	4	3	4
API Base Similar Schools Rank (10 = best)	5	2	1	3
School's Actual Growth	-13	-40	58	13
Similar Schools Median of Actual Growth	7	3	17	13
Did School's Growth Exceed Median?	No	No	Yes	No

OMI had API base scores of 671, 676, 636, and 695 for 2005-06, 2006-07, 2007-08, and 2008-09, respectively, and met its API school-wide growth target for 2007-08 and 2008-09 with API growth scores of 694 and 708, respectively. OMI has not been consistent in meeting all of its AYP criteria and failed to do so during both 2006-07 and 2008-09, primarily due to its not meeting the required percent proficient threshold for mathematics and English-language arts. Also, based on its API base score for 2008-09, OMI ranked “4” statewide and “3” against similar schools (“10”=best).

**Enrollment and Retention Rates:** With the exception of 2006-07 and 2008-09, OMI has shown consistent growth in enrollment since its commencement of instructional operations in 2001. OMI’s enrollment since the initiation of its charter with OUSD has been as follows: 420 students in 2004-05 (grades 6-10); 561 students in 2005-06 (grades 6-12); 526 students in 2005-06 (grades 6-12); 580 students in 2007-08 (grades 6-12); 530 students in 2008-09 (grades 6-12); and 607 students in 2009-10 (grades 6-12). In response to staff’s request to clarify the reasons for the OMI’s drop in enrollment in 2006-07 (6% decline) and 2008-09 (8% decline), OMI indicated that the drop in 2006-07 was due to the school changing sites and that, as a military school, OMI is faced with unusually large attrition rates. In spite of the 8% drop in enrollment in 2008-09, for the current 2009-10 academic year, OMI has been able to regain its entire lost enrollment and increase its enrollment to 607 students, representing an increase of 15% from the prior year. Since 2004-05, OMI

has increased its student enrollment by 44%. Based on OMI's multi-year projections, OMI is anticipating the following enrollment growth: 627 students for 2010-11 (3% increase); 671 students for 2011-12 (7% increase); 681 students for 2012-13 (1% increase); and 688 students for 2013-14 (1% increase). Overall, OMI is anticipating a 10.5% increase in enrollment from the current year to the year of project occupancy.

In response to staff's request for information regarding year-to-year retention rates, the Superintendent of OMI indicated that OMI, as with most military schools has a relatively high attrition rate, and therefore low retention rates. According to the Superintendent's response, OMI has year-to-year retention rates of 87%, 78%, 83%, and 82% for 2006-07, 2007-08, 2008-09, and 2009-10, respectively. He also indicated that OMI has established specific strategies to improve retention rates, which include a peer mentoring program to assist students to adjust to the military-like structure. Notwithstanding the low retention rates, OMI has been able to recruit sufficient new students to maintain and increase its overall student enrollment, as reflected in its overall trend of enrollment growth.

OMI currently has a wait list of approximately 100 students. In addition, OMI typically has approximately 300 applicants for 150-180 open slots for its summer leadership training program, which is a pre-requisite for admission.

In its multi-year budget projections, OMI assumes an average daily attendance (ADA) of 88%, which is consistent with OMI's average ADA over the past three years (refer to financial analysis section below). Although OMI's historical ADA and year-to-year retention rates are relatively low, based on OMI's overall positive trend in enrollment growth, staff does not consider these as major limitations in OMI's ability to meet its anticipated enrollment projections. Nonetheless, staff recommends that OMI be notified that, prior to disbursement of funds for Final Apportionment, staff will re-evaluate OMI's year-to-year retention rates relative to improvement, as well as whether OMI has implemented any further corrective measures to address student retention.

**Financial Analysis:** Highlighted in this section are financial data and credit indicators used to evaluate the OMI's ability to meet its CSFP obligations. The table below summarizes key aspects of the school's past and projected financial performance.

*Staff's analysis of financial performance includes adjustments for capital outlay and loan repayment; therefore, our results may differ from audited figures presented by school representatives.*

Oakland Military Institute	Actual FY 2007/08	Actual FY 2008/09	1st Interim FY 2009/10	Projected FY 2010/11	Projected FY 2011/12	Projected FY 2012/13	Projected FY 2013/14
<b>ENROLLMENT PROJECTIONS</b>							
Enrollment	546	530	607	627	671	681	688
Average Daily Attendance	480	482	571	554	589	599	606
Average Daily Attendance (%)	88%	91%	94%	88%	88%	88%	88%
<b>FINANCIAL PROJECTIONS</b>							
Total Revenues Available for CSFP Payment	\$ 6,355,178	\$ 5,660,377	\$ 5,472,406	\$ 5,432,646	\$ 5,646,946	\$ 5,629,724	\$ 5,890,097
Total Expenses Paid Before CSFP Payment	\$ 5,781,513	\$ 5,693,946	\$ 5,320,849	\$ 5,178,353	\$ 5,294,668	\$ 5,216,221	\$ 5,427,685
Accounting Adjustments	283,704	590,049	192,800	192,800	10,000	10,000	10,000
Net Revenues Available for CSFP Payment	\$ 857,369	\$ 556,480	\$ 344,357	\$ 447,093	\$ 362,278	\$ 423,503	\$ 472,412
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,764	\$ 80,764
Net Revenues After CSFP Payment	\$ 857,369	\$ 556,480	\$ 344,357	\$ 447,093	\$ 362,278	\$ 342,739	\$ 391,648
<b>FINANCIAL INDICATORS</b>							
Net Revenues Available for CSFP Payment	\$ 857,369	\$ 556,480	\$ 344,357	\$ 447,093	\$ 362,278	\$ 423,503	\$ 472,412
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	524.4%	584.9%
Contributions	\$ 1,367,681	\$ 1,872,790	\$ 872,000	\$ 923,000	\$ 850,000	\$ 948,000	\$ 1,046,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	Less than 0%	Less than 0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	1.4%	1.4%
Contributions / Revenues	21.5%	33.1%	15.9%	17.0%	15.1%	16.8%	17.8%
Net Revenues After CSFP Payment / Revenues	13.5%	9.8%	6.3%	8.2%	6.4%	6.1%	6.6%
Revenues / ADA	\$ 13,240	\$ 11,744	\$ 9,584	\$ 9,806	\$ 9,587	\$ 9,399	\$ 9,720
Expenses / ADA	\$ 12,045	\$ 11,813	\$ 9,318	\$ 9,347	\$ 8,989	\$ 8,843	\$ 9,090
Surplus (Deficit) / ADA	\$ 1,195	\$ (70)	\$ 265	\$ 459	\$ 598	\$ 555	\$ 630
Net Working Capital	\$ 903,285	\$ 869,716					
Net Working Capital / Expenses	15.6%	15.3%					

Staff's financial analysis of OMI is based upon review of the following documents: (1) three years of audited financial statements (2006-07 through 2008-09), (2) 2009-10 first interim report; and (3) multi-year budget projections for 2010-11 through 2013-14. As supportive documentation, OMI also provided its enrollment projections through 2013-14, documentation relating to private contributions (both historical and for current fiscal year), and its updated agreement with OUSD providing for a maximum \$250,000 annual offset to its Proposition 39 lease-rental obligation in exchange for its rehabilitation of facilities. The school expects to occupy the project in 2011-12, by which time their enrollment is expected to have increased to 671 students (grades 6-12), with enrollment reaching 688 students by 2013-14.

OMI's financial projections are based upon the following assumptions: (1) project occupancy in 2011-12; (2) increases in enrollment as described above; (3) 2009-10 funding rates for charter school general purpose block grant of \$4,864, \$5,015, and \$5,865 for grade 6, grades 7-8, and grades 9-12, respectively; (4) projected ADA rates of 88%, which is consistent with OMI's historical performance; (5) revenue growth (cost of living adjustments) on charter school block grant and categorical block grant rates of 0% for 2010-11, 2% for 2011-12, 3% for 2012-13, and 3% for 2013-14; (6) an annual \$250,000 offset to its rental lease obligation with OUSD in exchange for its facility rehabilitation efforts per its agreement with the district (through 2013-14); (7) private contributions of \$872,000 in 2009-10, \$923,000 in 2010-11, \$850,000 in 2011-12, \$948,000 in 2012-13, and \$1,046,000 in 2013-14 (based on documentation of historical donations and achieved donations for 2009-10); (8) cost of living adjustments to certified salaries of 2% per year; and (9) OMI's transfer of students from portable classrooms to rehabilitated facilities upon project occupancy, resulting in the termination of portable rentals at that time.

Staff notes that expense categories other than salaries and benefits, like books and supplies, services and miscellaneous expenses, while increased for the effects of enrollment growth, are not adjusted for inflation over the four year term from 2009-10 through 2013-14.

Contributions: In order to substantiate its projected level of private contributions (identified above), OMI provided documentation showing the following historical private contribution levels: \$1,220,000 for 2006-07; \$1,367,681 for 2007-08, and \$1,872,790 for 2008-09 (actually July 1, 2008 – April 17, 2009). These contributions are also incorporated into the audited financial statements under the category of “Other Local Revenues,” although the statements do not specifically indicate the level of private contributions within this category. In addition, for 2009-10 year-to-date (as of March 31, 2010), OMI indicated that it has received \$802,350 in contributions. This is within 10% of its projection for the entire year. In a response to staff’s inquiry regarding private contributions for the current year, the Superintendent indicated that he expects private contributions to exceed \$ 1.0 million for the year.

Financial Performance: As of June 30, 2009, OMI had no long-term debt obligations. Based on the audited financial statements, for 2006-07 and 2007-08, OMI recorded net revenues of \$1.28 million and \$857,369, respectively, on revenues of \$6.02 million and \$6.36 million, respectively, and expenses of \$5.76 million and \$5.78 million, respectively. After accounting for adjustments of \$590,049 in 2008-09, OMI recorded net revenues at a surplus of \$556,480 on \$5.66 million in revenues and \$5.69 in expenses. Based on the current year’s budget and multi-year budget projections, OMI anticipates operating surpluses of \$344,357, \$447,093, and \$362,278 for 2009-10 through 2011-12, respectively. During these years, OMI projects private contributions of \$872,000, \$923,000, and \$850,000. During the first year of CSFP payments, 2012-13, when enrollment is expected to increase to 681 students, representing a 12% increase from its current enrollment of 607, OMI projects an operating surplus of \$423,503 including private contributions of \$948,000. During 2013-14, when enrollment is expected to increase to 688, OMI projects an operating surplus of \$472,412, including \$1,046,000 in private contributions.

A significant trend that staff has identified through its review of OMI’s current year’s budget and multi-year budget projections, as described above, is that in spite of OMI’s ability to substantiate its projected private contributions, OMI relies on such contributions in order to operate on at least a break even basis and that without such contributions, OMI would be operating at a deficit during each of the projected years. As such, staff has stress-tested OMI’s ability to withstand a reduction in anticipated contributions, described below. It should be noted that, in response to staff’s inquiry, the Superintendent indicated that OMI has a disproportionately high number of non-teaching professional staff, including academic support professionals, which contributes to its high level of expenditures relative to revenues, even at the relatively high level of student enrolment that it is projecting.

Projected Debt Service Coverage of CSFP Payments: Assuming a 3.0% interest rate and 30-year repayment period, as well as an estimated project cost of \$3,166,026, OMI’s annual CSFP payment will be \$80,764 beginning 2012-13, the years following project occupancy. OMI’s projected net revenues of \$423,503 for 2012-13 and \$472,412 for 2013-14 would provide debt service coverage of 524.4% and 584.9%, respectively, which is more than five times the minimum requirement. The CSFP payments would represent 1.4% of projected revenues for each of these years, which is well within the preferred maximum range of 10-15%.

Based on a stress test of OMI’s reliance on its \$250,000 offset from OUSD, staff has determined that without the offset, which is scheduled to end in 2013-14, OMI’s debt service coverage during the first two years of CSFP payments would be 214.8% and 275.4%,

respectively, which is well above the minimum 100% Program requirement. In addition, based on a stress test of OMI's reliance on private contributions, but still assuming OMI's \$250,000 from OUSD, staff has determined that OMI could withstand a 36% reduction in contributions (more than one-third reduction) and still meet the minimum 100% debt service coverage requirement. However, without the \$250,000 offset which is scheduled to end in 2013-14, OMI would only be able to sustain a 10% reduction in contributions and still meet the minimum-100% debt service coverage requirement. Although the Superintendent indicated that it is likely that OUSD will renew its annual \$250,000 offset after 2013-14, no formal guarantee was provided to staff.

Notwithstanding OMI's ability to meet the Program's debt service coverage requirement based on its projections, staff has concern that OMI's reliance on contributions could reflect negatively on its long term financial viability. In response to staff's inquiry with OMI regarding this concern, the Superintendent indicated that, in the event of an unexpected loss of contributions, OMI would be able to sustain itself through a proportionate adjustment to expenditures relating to non-teaching professional staff (i.e., wellness professionals, academic support professionals, etc) who could be terminated if there was no other way to offset a deficit and that staff would not be compromised under those circumstances.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. OMI's NWC for 2007-08 and 2008-09 was \$903,285 and \$869,716, respectively, or 15.6% and 15.3%, of total expenses for these years. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. At June 30, 2009, OMI reported holding \$1.05 million in cash or cash equivalents.

### **Strengths, Weaknesses and Mitigants**

- + OMI has projected debt service coverage of 524.4% and 584.9% for 2012-13 and 2013-14, respectively, the first two years of CSFP payments.
- + OMI has met its API growth target for the past two years, 2007-08 and 2008-09.
- + OMI has been in operations in since 2001-02 and has been able to sustain and increase its enrollment since then.
- + OMI has been able to successfully raise private contributions in excess of \$1,000,000 per year for the past three years, including contributions of \$1,220,000 for 2006-07; \$1,367,681 for 2007-08, and \$1,872,790 for 2008-09. In addition, for the current year (2009-10 year-to-date), OMI has been able to raise approximately \$802,350 in private contributions.
- OMI can withstand a 36% reduction in projected contributions and still meet the Program's minimum-100% debt service coverage requirement. Excluding the \$250,000 offset from OUSD, OMI could only withstand a 10% reduction to projected contributions in 2012-13 and 2013-14 in order to meet 100% debt service coverage. Without contributions, OMI projects debt service coverage of less than 0%.
- OMI's has not consistently met all AYP criteria, and did not meet all AYP criteria during the most recent academic year, 2008-09.

- OMI's retention rates have been consistently low at 83% and 82% for 2008-09 and 2009-10, respectively.

**Staff Recommendation:** Staff recommends that the California School Finance Authority Board determine that OMI is financially sound for purposes of the Charter School Facilities Program Preliminary and Advance Apportionment. This recommendation is contingent upon OMI setting aside funds to meet a reserve requirement equal to one annual CSFP payment of \$80,764. The reserves would be drawn upon in order to meet any shortfall that may occur, particularly in the event projected contributions do not materialize. 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.