

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2008**

Applicant/Obligor:	Unity Schools DBA Oakland Unity High School
Project School:	Oakland Unity High School
CDS (County – District – School) Code:	16-12590-100065
[Proposed] Project Location:	10700 MacArthur Blvd., Oakland
Type of Project:	New Construction
County:	Alameda
District in which Project is Located:	Oakland Unified School District
Charter Authorizer:	Oakland Unified School District
Total OPSC Project Cost:	\$19,836,428*
State Apportionment (50% Project Cost):	\$9,918,214
Lump Sum Contribution:	\$0**
Total CSFP Financed Amount:	\$9,918,214
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	5.50%
Estimated Annual CSFP Payment:	\$682,427
First Year of Occupancy of New Project:	2012-13

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Oakland Unity High School (OUHS) is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary and Advance Apportionment, but not for purposes of Final Apportionment. 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 CSFA 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 OUHS. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	OUHS meets all eligibility criteria including two years of operations, a charter in place through 2011-12 and good standing with its chartering authority, and is in compliance with the terms of its charter.

- *OUHS' project cost originally generated by OPSC was approximately \$36 million. At OUHS' request, OPSC reduced the project cost to the current amount of \$19 million.*
- *** OUHS stated in its application that \$300,000 was being contributed to the project through a lump sum payment. At this time, OUHS may not have sufficient funds on hand to make this contribution. Staff ran our analysis without the contribution. See "Financial Analysis" section for greater detail.*

Demographic Information	OUHS serves grades nine through twelve. For 2007-08, total enrollment of 210 students is expected. By occupancy of the Project in 2012-13, total enrollment is projected at 330 students, and is projected to grow to 440 students.
Debt Service Coverage	OHUS's projected debt service coverage ratios has met the minimum requirement of 100.0% at 104.4% in 2013-14 and 129.5% in 2014-15.
Other Financial Factors	<ol style="list-style-type: none"> 1. OUHS does not rely on contributions from private sources. 2. Projected ratios of CSFP payments to total revenues are high at 18.7% in 2013-14 and 17.3% in 2014-15. 3. Net working capital of \$308,609 represented 15.9% of total expenses in 2006-07, which exceeds the preferred minimum of 5.0%.
Student Performance	OUHS met all AYP criteria in 2005-06 and 2006-07 after failing to do so in 2003-04 and 2004-05. Based on its 2005-06 base API score, OUHS ranked 3 out of 10 statewide and 5 out of 10 among similar schools.

Program Eligibility: In September 2007, and again in March 2008, verification was received from the Superintendent's Office of OUSD, confirming that OUHS is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Legal Status Questionnaire: Staff reviewed OUHS responses to the questions contained in the Legal Status Questionnaire (LSQ). OUHS answered "No" to all LSQ questions.

Project Description: OUHS has requested funding for a new school facility (grades 9-12) to accommodate 400 high school students of which 98% are expected to qualify for free and reduced lunch. The site for the 42,000 square foot facility will be located at 10700 MacArthur Blvd. within Foothill Square. The Project will replace the temporary leased facility at 6038 Brann Street which includes five portables. OUHS expects to complete the facility in time for occupancy by the start of the 2012-13 school year. Annual operating and maintenance costs of the new facility are projected at \$70,000 and \$20,000, respectively.

OUHS anticipates funding their 50% local matching share of the OPSC calculated Project cost of \$19,836,428 through a 30-year loan with the State. Staff notes that OUHS recorded a cash balance of \$257,561 at June 30, 2007, therefore the source for the full amount of upfront commitment is in question, and therefore staff did not include the \$300,000 contribution into our analysis. CSFP payments are assumed to commence in 2013-14.

Organizational Information: OUHS operates as an independent California non-profit corporation governed by a board of parents, educators, and other community members. OUHS received its first charter from OUSD on October 9, 2002 which expired on October 8, 2007. Its charter was recently renewed through June 27, 2012.

OUHS' application presents a curriculum that is challenging, coherent, developmentally appropriate, culturally relevant, and one that adheres to California's standard. The core curriculum offered at OUHS is language arts, mathematics, science and social studies. In addition, the school emphasizes technology, critical thinking skills, visual and performing arts, college and career preparation, and study skills.

The educational goals of OUHS are as follows: (a) the program is aligned with the state's A-G requirements; (b) every student must consult with an advisor and mentor to develop a career or college plan; and (c) all students must support racial and ethnic harmony and partake in leadership development or service learning projects annually.

For 2006-07, grade 9-12 enrollment totaled 198 students with 36 students on the waiting list. The 2007-08 enrollment is 210 and is expected to grow to 330 by occupancy of the Project in 2012-13. The current average class size of 20 students is expected to be maintained through occupancy of the Project. OUHS' average daily attendance (ADA) rate for 2004-05 through 2006-07 was 96%, while an ADA rate of 95% has been assumed by OUHS for their financial projections. Since 2004-05, OUHS has retained an average of 88% of its students.

Management Experience: The OUHS staff demonstrates many years of education, management, and bicultural experiences. Mr. Sau-Lim (Lance) Tsang, Executive Director of OUHS since 2004 has a Ph.D. in Mathematics Education from Stanford University, and is a member of California Governor Schwarzenegger's Advisory Committee on Education Excellence. Additionally, Mr. Tsang is the founder of ARC Associates, a non-profit group dedicated to the promotion of quality education practices for under-served children and their communities. Ms. Jane Ellen Searight has been the Principal at OUHS since May 2004, and prior to being Principal at OUHS, Ms. Searight served as Principal at Edna Brewer Middle School for seven years. Mr. David Castillo has served as the Assistant Principal at OUHS since 2006-07, prior to which he was a founding faculty member in 2003-04. Mr. Castillo has served on the school's Board of Directors.

Board Experience: The eight members of the Board have a variety of experience ranging from careers in education to investment banking to real estate. Ms. Mandy Bratt, the Board's Chair and parent of a graduate of OUHS, has spent much of her time as a volunteer treasurer with the Board of Directors of I-Pride, Inc., (Interracial/Intercultural Pride), Canyon Elementary School Free and Reduced Lunch Program, and CATTs (the PTA at Canyon School). Ms. Bratt's tenure will be from April 2004 through August 2009. The Vice Chair, Ms. Camille Moore, is an independent education consultant whose previous job experience includes being a Principal. Ms. Moore's tenure will be from September 2006 through August 2008.

The names, occupations and terms of the other six Board members are as follows: Mr. Sudhir Aggarwal (Treasurer), investment banker, Sept. 2005 – Aug. 2009; Mr. Daniel Zarazua (Secretary), teacher at OUHS, Sept. 2006 – Aug. 2008; Ms. Wendy Jan, attorney, Sept. 2006 – Aug. 2008; Mr. Lance Tsang, non-profit manager, Aug. 2003 – Aug. 2009; Mr. Ed Hanford, real estate developer, Aug. 2007 – Aug. 2009; and, Ms. Renita Ester, parent of an OUHS student, Aug. 2007 – Aug. 2009.

Management Experience for Schools Open Less than Two Years: Not applicable. OUHS began instructional operations in 2003-04 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.

OUHS 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.

Unity Schools CDS: 01-61259-0100065	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	No	Yes	Yes
Criteria Met / Required Criteria	5 / 6	5 / 6	6 / 6	6 / 6
Met API Indicator for AYP?	No	Yes	Yes	Yes
Met Graduation Rate?	Yes	No	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	N/A	Yes	Yes	No
Met Comparable Improvement Growth Target?	N/A	Yes	Yes	No
Met Both Schoolwide & CI Growth Targets?	N/A	Yes	Yes	No
API Base Statewide Rank (10 = best)	N/A	1	3	N/A
API Base Similar Schools Rank (10 = best)	N/A	1	5	N/A
School's Actual Growth	N/A	15	74	-44
Similar Schools Median of Actual Growth	N/A	N/A	5	9
Did School's Growth Exceed Median?	N/A	N/A	Yes	No

For 2004-05, OUHS recorded a base API score of 565 and a growth API score of 580, representing a 15 point increase which exceeded the 12 point growth target. OUHS met only 5 of 6 AYP criteria after failing to fulfill the graduation rate requirement. The school ranked 1 out of 10 statewide and 1 out of 10 among similar schools, based on its 2004-05 base API score.

For 2005-06, OUHS recorded a growth API score of 654, which was 74 points above its base API score of 580 and well above the 11 point growth target. The growth score of 654 is slightly below the 667 median score for similar schools. OUHS met all 6 of 6 AYP criteria for 2005-06, and ranked 3 out of 10 statewide and 5 out of 10 among similar schools based on its 2005-06 base API score.

For 2006-07, OUHS recorded a growth API score of 595, which was 44 points below its base API score of 639 and below the 8 point growth target. Even without improvement in its growth API score, OUHS met all 6 of 6 AYP criteria for 2006-07 because the API requirement for AYP is a minimum growth API score of 590 or growth of at least one point.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the applicant's ability to meet its CSFP obligations. The table on page 7 excerpted from the financial model summarizes key aspects of the school's past and projected financial performance.

Staff's financial review of OUHS is based on four years of audited financial statements (2003-04 through 2006-07), the first interim report for 2007-08, and financial projections from 2008-09 through 2014-15 as provided by OUHS. The school expects to occupy the

Project in 2012-13, by which time their enrollment will have increased to 330 students (grades 9-12) from 210 students (grades 9-12) in 2007-08, with enrollment reaching 400 students in 2014-15.

Financial Performance - At June 30, 2005, the school had an outstanding long-term liability of \$50,000 in the form of a charter school revolving loan from the CDE. This loan was repaid by June 30, 2006. No other long-term debt was outstanding through June 30, 2007 or indicated by the school's financial projections other than the anticipated CSFP obligation.

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

For 2003-04, OUHS recorded a decrease to net assets of (\$23,435) while in 2004-05, OUHS recorded an increase to net assets of \$4,149. While contributions were received in these years, the amounts were minor at roughly 2.0% of total revenues, and the school would have increased its net assets without their receipt. While OUHS received contributions from private sources of similar amounts in 2005-06 and 2006-07, the school does not include contributions in their financial projections commencing with 2007-08. In 2005-06, OUHS recorded a decrease in net assets of (\$51,484), on revenues of \$1.61 million and expenses of \$1.66 million, and as a result the fund balance was reduced to \$74,977 from \$126,461. Audited figures for 2006-07 resulted in an operating surplus of \$51,081 on revenues and expenses of \$2.00 million and \$1.95 million, respectively.

The school's financial projections below assume an ADA rate of 95%, which is slightly below the historical rate of 96%. OUHS utilizes a general purpose block grant per ADA of \$5,291 for 2007-08, which represents a 4.53% increase from 2006-07. The school has assumed annual increases of 3.0% thereafter through 2014-15, which is a fair assumption. For the categorical block grant, the school utilizes \$500 per ADA in 2007-08 with 3.0% annual increases assumed thereafter. For expenses, the salaries and benefits of teachers as well as support staff are increased using a COLA of 3.0% per year. However, other expense categories like books and supplies and services and miscellaneous expenses, while increased for the effects of enrollment growth, are not adjusted for inflation over the seven year term from 2007-08 through 2014-15. Additionally, staff notes that teachers on staff are projected to increase from 12 in 2007-08 to 22 by 2014-15, which represents an 83% increase relative to the 90% increase in enrollment (210 to 400) for the same time period, but only a slight increase in class size from 17.5 students to 18.2 students.

For 2007-08 through 2011-12, when enrollment is projected to increase by only 10 students, net revenues on a cash basis (excluding depreciation) remain relatively flat averaging \$150,000 per year or \$560 per ADA. Once the Project is occupied in 2012-13, enrollment is expected to increase by 50% to 330 students to utilize the additional space. For 2013-14, enrollment is projected to increase by 15% to 380 students, while revenues and expenses prior to CSFP payment increase 19% to \$3.64 million and 16% to \$2.97 million, respectively. As a result, the net revenues available for the CSFP payment of \$682,427 are approximately \$713,000. Net revenues of roughly \$884,000 are presented for 2014-15 when enrollment is projected to grow by 9% to 400 students, based on revenues and expenses prior CSFP payment increasing by 9% to \$3.96 million and 5% to \$3.12 million, respectively. Factoring in the estimated CSFP payment of \$682,427, the shortfall in net

revenues after payment is expected to be approximately (\$528,183) in 2013-14 and (\$356,988) in 2014-15.

Projected Debt Service Coverage of CSFP Payments – OUHS' financial projections indicate the school will be able to afford the projected annual CSFP payments. Debt service coverage ratios for CSFP are calculated using net revenues available after payment of debt service on any existing and projected indebtedness, with any expenses for capital outlay and depreciation added back as net revenues. In its application, OUHS stated that it would fund its upfront local matching amount with \$300,000 from their holdings. However, at June 30, 2007 such holdings were not sufficient to make this payment therefore staff did not include the \$300,000 contribution in its analysis. Should the school have these funds set-aside and designated prior to the release of any CSFP funds, staff will include the contribution into the amortization schedule for the Program Funding Agreement.

Assuming a 5.5% interest rate and 30-year repayment period, OUHS' annual CSFP payment will be \$682,427 beginning 2013-14, which is approximately one year following expected occupancy of the Project in 2012-13. OUHS' projected net revenues of \$713,000 would provide debt service coverage of 104.4% in 2013-14. For the following year, projected debt service coverage is 129.5% based on net revenues of \$884,000. Staff notes that higher than projected expenses, such as inflationary increases in the categories of books and supplies and services and miscellaneous expenses over the seven year term through 2014-15, could pressure debt service coverage levels further below the required minimum of 100.0%.

The CSFP payment would represent 18.7% of projected revenues in 2013-14 and 17.3% in 2014-15. Such indicator is above the preferred maximum range of 10-15%.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. OUHS' NWC for 2005-06 was \$191,860, or 12.4% of total expenses, and increased to \$308,609 for 2006-07, or 15.9% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. At June 30, 2007, OUHS reported holding \$257,561 in cash.

Strengths, Weaknesses and Mitigants

- + AYP criteria met in each of the last two years
- + Strong ADA rate of 96% and an acceptable retention rate of 88%
- + Projected debt service coverage ratio of 104.4% and 129.5% for the first two years after occupancy
- + No reliance on private donations
- Projected enrollment growth to 400 students in new Project will mean almost doubling current enrollment.
- Failed to fulfill API growth targets in 2006-07

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Oakland Unity High School is financially sound for the purposes of the Charter School Facilities Program Preliminary and Advance Apportionment, but not for purposes of Final Apportionment. 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 Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Oakland Unity High School	Actual FY 2005-06	Actual FY 2006-07	Projected FY 2007-08	Projected FY 2008-09	Projected 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	202	198	216	210	210	220	220	330	380	400
Average Daily Attendance	194	192	192	200	200	209	209	314	361	380
Average Daily Attendance (%)	96%	97%	89%	95%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS										
Total Revenues Available for CSFP Payment	\$ 1,606,294	\$ 2,008,246	\$ 2,191,621	\$ 1,787,478	\$ 1,873,560	\$ 2,017,438	\$ 2,080,250	\$ 3,064,254	\$ 3,639,946	\$ 3,955,463
Total Expenses Paid Before CSFP Payment	1,657,778	1,957,165	2,132,598	1,719,610	1,759,412	1,904,611	1,926,847	2,566,425	2,972,393	3,116,715
Accounting Adjustments	142,090	77,973	46,667	25,000	25,000	45,000	45,000	45,000	45,000	45,000
Net Revenues Available for CSFP Payment	\$ 90,606	\$ 129,054	\$ 105,690	\$ 92,868	\$ 139,148	\$ 157,827	\$ 198,403	\$ 542,829	\$ 712,553	\$ 883,748
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 682,427	\$ 682,427
Net Revenues After CSFP Payment	\$ 90,606	\$ 129,054	\$ 105,690	\$ 92,868	\$ 139,148	\$ 157,827	\$ 198,403	\$ 542,829	\$ 30,126	\$ 201,321
FINANCIAL INDICATORS										
Net Revenues Available for CSFP Payment	\$ 90,606	\$ 129,054	\$ 105,690	\$ 92,868	\$ 139,148	\$ 157,827	\$ 198,403	\$ 542,829	\$ 712,553	\$ 883,748
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	104.4%	129.5%
Contributions	\$ 16,727	\$ 35,663	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	104.4%	129.5%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	18.7%	17.3%
Contributions / Revenues	1.0%	1.8%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Payment / Revenues	5.6%	6.4%	4.8%	5.2%	7.4%	7.8%	9.5%	17.7%	0.8%	5.1%
Revenues / ADA	\$ 8,283	\$ 10,456	\$ 11,415	\$ 8,960	\$ 9,391	\$ 9,653	\$ 9,953	\$ 9,774	\$ 10,083	\$ 10,409
Expenses / ADA	\$ 8,549	\$ 10,190	\$ 11,107	\$ 8,620	\$ 8,819	\$ 9,113	\$ 9,219	\$ 8,186	\$ 10,124	\$ 9,998
Surplus (Deficit) / ADA	\$ (265)	\$ 266	\$ 307	\$ 340	\$ 572	\$ 540	\$ 734	\$ 1,588	\$ (41)	\$ 411
Net Working Capital	\$ 191,860	\$ 308,609								
Net Working Capital / Expenses	11.6%	15.8%								