

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

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:	2955 Peralta Oaks Court, Oakland 94605
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:	3.00%
Estimated Annual CSFP Payment:	\$506,020
First Year of Occupancy of New Project:	2011-12

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Oakland Unity High School (OUHS) is financially sound for the purposes of Charter School Facilities Program (Program) Advance 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 Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Background: On April 18, 2008, the Authority determined that OUHS was financially sound for purposes of a preliminary apportionment. The State Allocation Board subsequently awarded the preliminary apportionment in the amount of \$19,836,428. OUHS is now requesting an Advance Apportionment for design in the amount of \$1,323,642.80. To assess OUHS’s financial soundness status for purposes of Advance Apportionment, Authority staff reviewed updated information, including, but not limited to: updated financial and project information; updated academic performance and student enrollment information, an updated Legal Status Questionnaire; copies of contracts with the chartering authority; updated management and Board of Directors information; and disclosure of additional material changes that may have an impact on OUHS’s financial condition.

* OUHS stated in its application that \$300,000 was being contributed to the project through a lump sum payment. However, due to the lack of adequate cash holdings, staff’s analysis does not incorporate the lump sum payment. See “Financial Analysis” section for greater detail.

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.
Demographic Information	OUHS serves grades nine through twelve. For 2008-09, OUHS had 197 students in grades 9-12, and for both 2009-10 and 2010-11, total enrollment of 220 students is expected. By occupancy of the project in 2011-12, total student enrollment is projected at 290 students (an initial increase of 70 students due to the additional space), with increases to 370 students in 2012-13 and 420 students (capacity) in 2013-14.
Debt Service Coverage	OUHS's projected debt service coverage ratios have exceeded the minimum requirement of 100.0% at 144.0% in 2012-13 and 162.8% in 2013-14.
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 16.2% in 2012-13 and 13.9% in 2013-14, which are slightly higher than the preferred maximum range of 10-15%. 3. Net working capital for 2007-08 of \$414,530 represented 18.6% of total expenses, which exceeds the preferred minimum of 5.0%.
Student Performance	OUHS met all AYP criteria from 2005-06 through 2007-08. Although OUHS did not meet its API school-wide growth target for 2006-07, it did meet its API school-wide growth target for 2005-06 and 2007-08. Based on its 2007-08 base API score, OUHS ranked 2 out of 10 statewide and 1 out of 10 among similar schools.

Program Eligibility: On June 24, 2009, the Authority received verification from the Superintendent's Office of Oakland Unified School District 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 "None" to all LSQ questions.

Project Description: OUHS has requested funding for new construction of a school facility to accommodate 420 high school students (grades 9-12) 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 2955 Peralta Oaks Court, Oakland, CA 94605. 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 2011-12 school year.

Organizational Information: OUHS commenced its operations in 2003-04 serving 85 students in grades 9 and 10, and currently serves approximately 200 students in grades 9-12. 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 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.

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 has been 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. Mr. David Castillo has served as Principal of OUHS since 2007-08. Prior to this position, also at OUHS, Mr. Castillo served as Assistant Principal during 2006-07 and as a teacher from 2003-04 to 2005-06. Mr. Castillo was a founding faculty member in 2003-04 and has served on the school's Board of Directors.

Board Experience: The ten members of the Board have a variety of experience ranging from careers in education, investment banking, and law. 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 names, occupations and terms of the other nine Board members are as follows: Mr. Sudhir Aggarwal (Treasurer), investment banker, Sept. 2005 – Aug. 2009; Ms. Wendy Jan, attorney, Sept. 2006 – Aug. 2010; Damon Grant, teacher at OUHS, September 2008 – August 2010; Andrew Noble, attorney, March 2008 – February 2010; Mr. Lance Tsang, non-profit manager, Aug. 2003 – Aug. 2009; Gilberto Arriaza, Professor, March 2009 – February 2011; Jesse Hahnel, attorney, March 2009 – February 2011; Ignacio Barragan, parent of OUHS student, March 2009 – February 2011; 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 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.

Unity Schools CDS: 01-61259-0100065	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	Yes	Yes	Yes
Criteria Met / Required Criteria	5 / 6	6 / 6	6 / 6	6 / 6
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	No	Yes	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	Yes	No	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	No	No
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	No	No
API Base Statewide Rank (10 = best)	1	3	2	2
API Base Similar Schools Rank (10 = best)	1	5	2	1
School's Actual Growth	15	74	-44	29
Similar Schools Median of Actual Growth	N/A	5	9	12
Did School's Growth Exceed Median?	N/A	Yes	No	Yes

OUHS had API base scores of 565, 580, 639, and 595 from 2004-05 through 2007-08, respectively. Although OUHS did not meet its API school-wide growth target for 2006-07, it did meet its API school-wide growth target for 2005-06 and 2007-08 with API growth scores of 654 and 624, respectively. For the last two reported academic years, 2006-07 and 2007-08, OUHS ranked 2 out of 10 statewide. In spite of its inconsistency with API growth, OUHS met all 6 of 6 AYP criteria from 2005-06 through 2007-08.

OUHS provided other performance statistics when staff inquired regarding OUHS' low API scores and statewide/similar school rankings. In 2008, the California Department of Education reported OUHS's 1-year dropout rate at 2.3% and 4-year rate at 9.4%, significantly better than California's statewide rate of 4.4% and 16.9% and Oakland Unified School District's rates of 7.0% and 26.2%. OUHS also maintains a high graduation rate and college acceptance rate. The graduation rate for the last four graduating classes is over 90% with 55-75% being accepted into four-year universities or colleges. Further, OUHS informed staff of changes that should improve its teaching methods, and ultimately API results, after participating in the ZOOM Project sponsored by the California Charter School Association.

Enrollment and Retention Rates:

For the current 2008-09 academic year, grade 9-12 enrollment totaled 197 students (per CDE), with 49 students currently on the waiting list. Although the enrollment for the current year represents a drop from the previous year of 216 students, since inception of the school in 2003-04, student enrollment showed a steady increase during the first two years and remained relatively stable through 2007-08.

According to OUHS's projections, the student enrollment is expected to remain stable at 220 during 2009-10 and 2010-11, grow to 290 by occupancy of the Project in 2011-12, and

continue to grow to 370 and 420 during the first two years after project occupancy, 2012-13 and 2013-14, respectively. The current average class size of about 20 students is expected to be maintained through occupancy of the Project. The Executive Director has indicated that he has received a commitment from 230 parents/students regarding their intention to attend OUHS during 2009-10, and that the projection of 220 students operates on the conservative assumption that approximately ten students (less than 5%) will decide not to attend OUHS.

OUHS's average daily attendance (ADA) rate for the past three years has ranged from 95% to 97%, which supports OUHS's assumed ADA rate of 95% for its financial projections.

OUHS's year-to-year retention rate for the current 2008-09 academic year was relatively low with about 80% of students in grades 9-11 during the prior year returning during the current year in their respective promoted grades.

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 following table 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 five years of audited financial statements (2003-04 through 2007-08), the second interim report for 2008-09, and financial projections from 2009-10 through 2013-14, as provided by OUHS.

Financial Performance: No long-term debt was outstanding through June 30, 2008 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.

Oakland Unity High School	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	2nd Interim FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14
ENROLLMENT PROJECTIONS									
Enrollment	202	198	216	197	220	220	290	370	420
Average Daily Attendance	194	192	205	189	209	209	276	352	399
Average Daily Attendance (%)	96%	97%	95%	96%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Payment	\$ 1,606,294	\$ 2,008,246	\$ 2,307,358	\$ 1,764,505	\$ 1,866,660	\$ 1,905,736	\$ 2,501,406	\$ 3,119,016	\$ 3,637,336
Total Expenses Paid Before CSFP Payment	1,657,778	1,957,165	2,232,977	1,737,618	1,709,067	1,779,789	2,089,157	2,390,485	2,813,706
Accounting Adjustments	142,090	77,973	63,050	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 90,606	\$ 129,054	\$ 137,431	\$ 26,887	\$ 157,593	\$ 125,947	\$ 412,249	\$ 728,531	\$ 823,630
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 506,020	\$ 506,020
Net Revenues After CSFP Payment	\$ 90,606	\$ 129,054	\$ 137,431	\$ 26,887	\$ 157,593	\$ 125,947	\$ 412,249	\$ 222,511	\$ 317,610
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Payment	\$ 90,606	\$ 129,054	\$ 137,431	\$ 26,887	\$ 157,593	\$ 125,947	\$ 412,249	\$ 728,531	\$ 823,630
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	144.0%	162.8%
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	144.0%	162.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	16.2%	13.9%
Contributions / Revenues	1.0%	1.8%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Payment / Revenues	5.6%	6.4%	6.0%	1.5%	8.4%	6.6%	16.5%	7.1%	8.7%
Revenues / ADA	\$ 8,283	\$ 10,456	\$ 11,255	\$ 9,351	\$ 8,931	\$ 9,118	\$ 9,080	\$ 8,873	\$ 9,116
Expenses / ADA	\$ 8,549	\$ 10,190	\$ 10,893	\$ 9,209	\$ 8,177	\$ 8,516	\$ 7,583	\$ 8,240	\$ 8,320
Surplus (Deficit) / ADA	\$ (265)	\$ 266	\$ 363	\$ 142	\$ 754	\$ 603	\$ 1,496	\$ 633	\$ 796
Net Working Capital	\$ 191,860	\$ 308,609	\$ 414,530						
Net Working Capital / Expenses	11.6%	15.8%	18.6%						

For 2003-04 and 2004-05, OUHS recorded increases in net assets of \$96,004 and \$30,533, respectively. While contributions were received in these years, the amounts were minor at roughly 2.0% of total revenues. 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 in 2009-10. 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. Audited figures for 2006-07 resulted in an operating surplus of \$51,081 on revenues and expenses of \$2.01 million (including contributions) and \$1.96 million, respectively. Audited figures for 2007-08 resulted in an operating surplus of \$74,381 on revenues and expenses of \$2.31 million and \$2.23 million, respectively. For the current year of 2008-09, based on its Second Interim Budget Report, OUHS anticipates an ending operating surplus of \$26,887.

OUHS's financial projections are based upon the following assumptions: (1) project occupancy in 2011-12; (2) increases in enrollment as described above; (3) per ADA funding rates for general purpose block grants and categorical block grants of \$6,601 and \$400, respectively, beginning in 2009-10; (4) projected ADA rates of 95%; (5) revenue growth (cost of living adjustments on State Aid) of 0% from 2008-09 to 2009-10, 2.0% from 2010-11 to 2011-12, and 3.0% subsequent years; and (6) growth in salaries and benefits of 2.0% annually, beginning in 2009-10. Other expense categories, like books and supplies, services and miscellaneous expenses are also projected to increase due to the effects of enrollment growth and 2.0% inflation over the five year term from 2009-10 through 2013-14. Additionally, staff notes that the number of teachers is projected to increase from 11.5 in 2009-10 to 20 by 2013-14, all while maintaining the current student-teacher ratio of 20.

Projected Debt Service Coverage of CSFP Payments – OUHS's 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 its holdings. While the 2007-08 audited financial statement shows an ending fund balance of \$446,840 and cash on hand of \$348,867 (as of June 30, 2009), the Executive Director of OUHS indicated that OUHS currently has only about \$270,000 in cash on hand (as of June 25, 2009) due to the current fiscal crisis. Therefore, staff has not incorporated the \$300,000 lump-sum payment into 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 3.0% interest rate and 30-year repayment period, OUHS's annual CSFP payment will be \$506,020 beginning 2012-13, which is one year following expected occupancy of the Project in 2011-12. OUHS's projected net revenues of \$728,531 would provide debt service coverage of 144.0% in 2012-13. For the following year, projected debt service coverage is 162.8% based on net revenues of \$823,630. The CSFP payment would represent 16.2% of projected revenues in 2012-13 and 13.9% in 2013-14. These levels exceed the preferred maximum range of 10-15%.

Due to large enrollment increases in OUHS' projections, a stress test was applied to determine break-even enrollment figures to meet the minimum 100% debt service coverage. The stress test performed on OUHS' enrollment stipulates OUHS would meet 100% coverage for the projected CSFP lease payment, if at least 79% of projected enrollment actualizes in 2012-13 (292 students out of 370). Given past growth patterns, it is the Authority's finding that OUHS can be expected to enroll the students necessary in order to be deemed financially sound.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. OUHS' NWC for 2006-07 was \$308,609, or 15.8% of total expenses, and increased to \$414,530 for 2007-08, or 18.6% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

- + OUHS has projected debt service coverage of 144.0% and 162.8% for 2012-13 and 2013-14, respectively, the first two years of CSFP payments.
- + OUHS met all AYP criteria for the past three years. Although OUHS did not meet its API school-wide growth target for 2006-07, it did meet its API school-wide growth target for each of 2005-06 and 2007-08.
- + OUHS does not rely on private contributions to meet its CSFP obligation.
- + Although OUHS experienced a drop in student enrollment for the current 2008-09 academic year, OUHS has historically shown stability in its enrollment. In addition, OUHS currently has a waiting list of 49 students.
- OUHS has projected its enrollment to grow to 420 students during the third year of project occupancy in 2013-14. This equates approximately to a doubling of current enrollment.
- CSFP payment would represent 16.2% of projected revenues in 2012-13 and 13.9% in 2013-14. These levels exceed our preferred maximum of 15%.
- OUHS failed to meet its API school-wide growth target in 2006-07. In addition, based on its API base score of 595 for 2007-08, out of a possible "10", OUHS has a statewide rank of "2", and rank against similar schools of "1".
- /+ In the 2008-09 academic year, OUHS adopted new strategies to improve standards based teaching after participating in the ZOOM Project.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that OUHS is financially sound for purposes of the Charter School Facilities Program Advance 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 Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.