

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

Applicant/Obligor:	Birmingham Community Charter High School
Project School:	Birmingham Community Charter High School
CDS (County – District – School) Code:	19-64733-1931047
Proposed Project Location:	17000 Haynes Street, Van Nuys, CA
Type of Project:	New Construction
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$8,211,038
State Apportionment (50% Project Cost):	\$4,105,519
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$4,105,519
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$209,461
First Year of Occupancy of New Project:	2011-12

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Birmingham Community Charter High School (BCCHS) 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.

As BCCHS is a new converted charter school, no audited financial statements were available for review. Staff recommends that prior to Final Apportionment, a thorough review of BCCHS' audited financial statements be conducted to ensure that such statements are consistent with BCCHS' budget projections, as set forth in the application materials.

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

Criteria	Comments
Eligibility Criteria	<ol style="list-style-type: none"> 1. BCCHS' charter was approved July 1, 2009 and is effective through June 30, 2014. 2. BCCHS is in compliance with the terms of its charter and is in good standing with its chartering authority, Los Angeles Unified School District (LAUSD). 3. As BCCHS does not have at least two years of instructional operations, BCCHS satisfied the two-year Program requirement by having key personnel who have at least two years of direct charter school experience at other charter schools.
Demographic Information	BCCHS commenced instructional operations as an independent charter school in the current 2009-10 academic year with 2,613 students in grades 9-12. BCCHS anticipates a one-time 5% increase to 2,750 students in grades 9-12 for 2010-11, and for enrollment to remain stable at that level in all projected years.
Debt Service Coverage	BCCHS' projected debt service coverage is 564.2% and 519.0% for 2012-13 and 2013-14, respectively, the first two years of CSFP payments. Without contributions, BCCHS' projected debt service coverage is 516.4% and 471.2% for these same two years, respectively.
Other Financial Factors	<ol style="list-style-type: none"> 1. BCCHS does rely on contributions from private sources. 2. Projected ratios of CSFP payments to total revenues are 1.0% in each of 2012-13 and 2013-14, which is well within the preferred maximum of 10-15%. 3. BCCHS' anticipated net working capital as of June 30, 2010 is \$3,227,521 or 18.4% of total expenses, which exceeds the preferred minimum of 5.0%.
Student Performance	As BCCHS is a newly operating charter school, academic performance information is not yet available. However, BHS, under the leadership of BCCHS' current Principal, failed to meet all AYP criteria during the past two years, 2007-08 and 2008-09, and is on Program Improvement status per the No Child Left Behind Act of 2001.

Program Eligibility: On December 9, 2009, the Authority received verification from the Innovation and Charter Schools Division of the Los Angeles Unified School District confirming that BCCHS is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. BCCHS received its current and initial charter on July 1, 2009, and the charter is effective through June 30, 2014.

Legal Status Questionnaire: Staff reviewed BCCHS responses to the questions contained in the Legal Status Questionnaire (LSQ). BCCHS answered "Yes" to LSQ question #2. BCCHS is under pending litigation with a case in civil court. Former teachers of BCCHS are alleging misappropriation of funds, failure to meet medical accommodations, and wrongful termination. The teachers were also opposed to the conversion to a charter school. Based on communications with BCCHS' attorney, the Authority's legal counsel determined that the pending litigation will not have a material effect on BCCHS' financial soundness.

Project Description: BCCHS has requested funding \$8,211,038 to replace an existing building (new construction) with a new two-story library media center with six classrooms. The new building will have a capacity for 162 students and is anticipated for occupancy in 2011-12.

Organizational Information: Through a conversion of Birmingham High School (BHS) to a California charter school, BCCHS commenced its operations in August 2009 with 2,613 students in grades 9-12 and operates as an independent California non-profit public-benefit corporation governed by an 11-member Board of Directors.

As described in BCCHS' charter, BCCHS is committed to a learning environment that encompasses the following guiding principles: (1) high expectations for academic achievement and civic responsibility; (2) a system of accountability wherein students and teachers are personally invested in their work to further achievement; (3) personalized educational experiences tailored to the needs of all students; (4) providing students with learning opportunities that will translate into accessible skills and knowledge for post-secondary life; and (5) designing programs around student needs and high academic standards, including providing opportunities for growth in areas of weakness. BCCHS offers a rigorous, college-preparatory education that fosters student mastery of California State Content Standards in English, mathematics, science, history, foreign language and fine and technical arts. A basic component of BCCHS' curriculum is to provide an educational program that addresses students' unique needs based on a thorough diagnostic evaluation of each student's skills in reading comprehension and mathematics.

Management Experience: BCCHS' personnel and management team demonstrates professional, experienced and qualified individuals serving in key capacities within the organization, as described below.

Marsh Coates has served as Principal of BCCHS since commencement of instructional operations in August 2009. Prior to this position, Ms. Coates served at Birmingham High School as Principal (2005-09, Summer 2001 and Summer 2002)), Assistant Principal (2004-05), and Informational Support Coordinator (2002-04). Prior to her positions at Birmingham High School, Ms. Coates served as Assistant Principal of Reseda High School (2000-02); Coordinator; Dean of Students, and Resource Specialist at El Camino Real High School (1997-2000); Special Day Class Teacher at Lockhurst Drive Elementary School; Multiple Subjects Classroom Teacher at Valerio Street Elementary School (1986-87); and Speech Pathologist at Wilson High School and Taft High School (1985-86). Ms. Coates holds an M.A. in Educational Administration and a Preliminary Administrative Services Credential from California Lutheran University, a Clinical Rehabilitative Services Clear Credential from California State University, Northridge, and a Bachelor of Arts in Speech Pathology and Elementary Education from Abilene Christian University.

Marshall Mayotte has served as Vice President of School Finance at Excellent Education Development, Inc. since 2006 wherein he has been responsible for supervising the accounting and operations of BCCHS as well as two other charter schools, New Village Charter High School (under LAUSD) and New West Charter Middle School (under the State Board of Education). Through Mr. Mayotte's oversight of New Village Charter High School and New West Charter Middle School since 2006 as well as his oversight of BCCHS since 2009, BCCHS satisfies the Program requirement (for schools in operations less than two years) of having key personnel with at least two years of prior direct experience with charter school administration. Prior to this position, Mr. Mayotte served as General Manager/Controller for Bio-Energy, Inc. (2000-04), Senior Tax Consultant at BDO Seidman, LLP (1998-2000), and Tax Specialist at KPMG Peat Marwick, LLP (1997-98). Mr. Mayotte holds a M.B.A. from the UCLA Anderson School of Management.

Board Experience: BCCHS’ Board of Directors consists of eleven members, including certificated staff, non-certificated staff, community representatives, and a parent, as set forth in the table below. One community representative position is currently vacant and up for reelection beginning July 1, 2010.

Board Member	Occupation	County of Residence	Term
Laura Epstein	Teacher	Los Angeles	2009-11
Fred Granich	Teacher	Los Angeles	2009-11
Rochelle Kronstadt	Teacher	Los Angeles	2009-12
Richard Surendranath	Teacher	Los Angeles	2009-12
Colleen Milar	Non-certificated Staff	Los Angeles	2009-11
Lance Johnson	Parent representative	Los Angeles	2009-10
Lou Ramirez	Retired educator (community representative)	Los Angeles	2009-11
Doris Lasiter	Retired educator (community representative)	Los Angeles	2009-11
Bob Alexander	Certified Public Accountant (community representative)	Los Angeles	2009-11
Lawrence Shapiro	Attorney (community representative)	Los Angeles	2009-11
Vacant Position			

The Board’s responsibilities include, but are not limited to: annual budget development and approval; review and approval of amendments to the charter petition; review and approval of school policies; ongoing fiscal oversight; selection and evaluation of administrators, including the Principal; and oversight in the evaluation and hiring of teachers and staff.

Management Experience for Schools Open Less than Two Years: Refer to the experience of Marshall Mayotte under “Management Experience”.

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.

As BCCHS only commenced instructional operations during the current 2009-10 year, staff reviewed the academic performance of Birmingham High School for which BCCHS’ Principal, Marsha Coates, also served as Principal from 2004-05 to 2008-09. In addition, as BCCHS was converted from BHS to a charter school, BHS’s performance with AYP also impacts BCCHS’ current status (i.e. AYP and the No Child Left Behind Act of 2001). BHS has more than four years of reported API scores and AYP data, allowing a review of progress and comparison to similar schools. The following table summarizes the Birmingham High School’s trends in student performance.

Birmingham High School	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	Yes	No	No
Criteria Met / Required Criteria	24 / 24	22 / 22	20 / 23	16 / 18
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	No	No	Yes	No
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	3	3	3
API Base Similar Schools Rank (10 = best)	6	7	4	8
School's Actual Growth	7	-13	31	-3
Similar Schools Median of Actual Growth	8	9	2	4
Did School's Growth Exceed Median?	No	No	Yes	No

Although BHS met all AYP criteria during 2005-06 and 2006-07, BHS failed to meet all AYP criteria during 2007-08 and 2008-09. As such, BCCHS is currently on Program Improvement status per the No Child Left Behind Act of 2001 and needs to meet all AYP criteria for two consecutive years in order to be removed from this status. BHS achieved API growth scores of 657, 638, 669, and 666 for 2005-06, 2006-07, 2007-08, and 2008-09, respectively, and met its API growth target during only one of these years, 2007-08. Based on BHS's API base score for 2008-09, BHS was ranked "3" statewide and "8" against similar schools ("10"=best). Based on BHS's inconsistency in meeting AYP and API performance standards, staff has concern regarding BCCHS' ability to demonstrate consistent academic achievement in these areas. As such, staff recommends that, as data becomes available and prior to Final Apportionment, staff review BCCHS' academic performance relative to its meeting AYP criteria and its API growth target.

Enrollment and Retention Rates: For the current 2009-10 academic year, BCCHS has 2,613 students in grades 9-12. BCCHS anticipates a one-time 5% increase in student enrollment in 2010-11 to 2,750, and for the enrollment to remain stable at that level during all projected years. Given that BCCHS' student capacity is 2,980 students, staff considers BCCHS' enrollment projections to be a conservative estimate.

BHS' prior enrollment included a magnet school which is not part of BCCHS and is not used to establish BCCHS' enrollment stability. In addition, BCCHS did not provide year-to-year student retention data for BHS.

Based on the 2009-10 P2 Report, BCCHS has achieved an average daily attendance (ADA) of 94.0% for the current year, which is consistent with the assumption of 93.8% used in its multi-year budget projections. BCCHS has no students on its current waiting list.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the BCCHS' ability to meet its CSFP obligations. The table below summarizes key aspects of the school's current and projected financial performance. As BCCHS is a newly established charter school, no audit reports of the school's financial performance are available.

Staff's financial analysis of BCCHS is based upon review of the following documents: multi-year budget projections for 2009-10 through 2013-14. Although the 2009-10 Second Interim Budget Report was provided, staff used the most recent multi-year budget projections (as of March 31, 2010), which were more current than the Second Interim Budget Report.

BCCHS' financial projections are based upon the following assumptions: (1) project occupancy in 2011-12; (2) enrollment projections as described under "Enrollment and Retention"; (3) 2009-10 general purpose block grant funding rate of \$5,825 (grades 9-12) (after adjustment for State deficit); (4) general purpose block grant rates (after adjustments) of \$5,631, \$5,732, \$5,870, and \$6,034 for 2010-11, 2011-12, 2012-13, and 2013-14, respectively, representing cost of living adjustment (COLA) rates of -0.38%, 1.8%, 2.4%, and 2.8%, respectively, for each of these years; (5) ADA for 2009-10 of 94.0% and projected ADA for 2010-11 through 2013-14 of 93.8%, which is consistent with BCCHS' 2009-10 P2 Report; (6) growth in teacher salaries and benefits of 3.0% annually, beginning in 2009-10 through 2013-14; (7) student-to-teacher ratios of 22.5 to 1 for 2009-10 and 27.5 to 1 for all projected years; and (8) private contributions of \$13,194 for 2009-10 and \$100,000 per year (\$50,000 per year from fundraising and \$50,000 per year from private grants) for all projected years.

Birmingham Community Charter High School	Budgeted FY 2009/10	Projected FY 2010/11	Projected FY 2011/12	Projected FY 2012/13	Projected FY 2013/14
ENROLLMENT PROJECTIONS					
Enrollment	2,613	2,750	2,750	2,750	2,750
Average Daily Attendance	2,456	2,582	2,582	2,582	2,582
Average Daily Attendance (%)	94%	94%	94%	94%	94%
FINANCIAL PROJECTIONS					
Total Revenues Available for CSFP Payment	\$ 19,367,187	\$ 20,636,161	\$ 20,735,952	\$ 21,110,067	\$ 21,559,899
Total Expenses Paid Before CSFP Payment	17,518,615	19,122,436	19,525,479	20,005,681	20,583,983
Accounting Adjustments	7,242	17,348	47,348	77,348	111,148
Net Revenues Available for CSFP Payment	\$ 1,855,814	\$ 1,531,073	\$ 1,257,821	\$ 1,181,734	\$ 1,087,064
CSFP Payment	\$ -	\$ -	\$ -	\$ 209,461	\$ 209,461
Net Revenues After CSFP Payment	\$ 1,855,814	\$ 1,531,073	\$ 1,257,821	\$ 972,273	\$ 877,603
FINANCIAL INDICATORS					
Net Revenues Available for CSFP Payment	\$ 1,855,814	\$ 1,531,073	\$ 1,257,821	\$ 1,181,734	\$ 1,087,064
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	564.2%	519.0%
Contributions	\$ 13,194	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	516.4%	471.2%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	1.0%	1.0%
Contributions / Revenues	0.1%	0.5%	0.5%	0.5%	0.5%
Net Revenues After CSFP Payment / Revenues	9.6%	7.4%	6.1%	4.6%	4.1%
Revenues / ADA	\$ 7,886	\$ 7,992	\$ 8,031	\$ 8,176	\$ 8,350
Expenses / ADA	\$ 7,133	\$ 7,406	\$ 7,562	\$ 7,829	\$ 8,053
Surplus (Deficit) / ADA	\$ 753	\$ 586	\$ 469	\$ 347	\$ 297
Net Working Capital	\$ 3,227,551				
Net Working Capital / Expenses	18.4%				

Financial Performance: Based on BCCHS' anticipated balance sheet for June 30, 2010, BCCHS has drawn down \$1,500,000 on an existing credit line with a commercial lender. The State's payment deferrals to public schools have necessitated this borrowing, and BCCHS anticipates the line of credit being paid down in October 2010.

Based on the current year's budget and multi-year budget projections, BCCHS anticipates operating surpluses of \$1.85 million, \$1.51 million and \$1.21 million for 2009-10, 2010-11,

and 2011-12 (first year of project occupancy), respectively, on revenues of \$19.37 million, \$20.64 million, and \$20.74 million, respectively. During the first two years of CSFP payments, 2012-13 and 2013-14, BCCHS projects operating surpluses of \$1.10 million and \$975,917, respectively, on revenues of \$21.11 million and \$21.56 million, respectively.

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 \$8,211,038, BCCHS' annual CSFP payment will be \$209,461 beginning 2012-13. BCCHS' projected available net revenues of \$1.18 million for 2012-13 and \$1.09 million for 2013-14 (after adjusting for capital outlay) would provide debt service coverage of 564.2% and 519.0%, respectively, which is more than five times the minimum requirement. These CSFP payments would represent 1.0% of projected revenues for each of these years, which is well within the preferred maximum range of 10-15%. Without contributions, BCCHS' debt service coverage for 2012-13 and 2013-14 would be 516.4% and 471.2%, respectively, which is also substantially above the minimum 100% Program requirement. Hence, at the projected level of student enrollment, BCCHS does not rely on contributions to meet the debt service coverage requirement.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. BCCHS' anticipated NWC for 2009-10 year-end is \$3,227,521 or 18.4% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. Due to an anticipated deferral on State Aid revenues, BCCHS anticipates that at 2009-10 year-end (June 30, 2010), cash on hand will be in a deficit of \$742,882. Staff does not consider this temporary delay of cash on hand to be a factor in its determination of financial soundness.

Strengths, Weaknesses and Mitigants

- + BCCHS has projected debt service coverage of 564.2% and 519.0% for 2012-13 and 2013-14, respectively, the first two years of CSFP payments. Without contributions, BCCHS' projected debt service coverage is 516.4% and 471.2%.
- + BCCHS does not rely on contributions to meet the debt service coverage requirement.
- + BCCHS' anticipated net working capital as of June 30, 2010 is \$3,227,521 or 18.4% of total expenses.
- +/- BCCHS is projecting a one-time 5% increase from its current enrollment of 2,613 to 2,750 in 2010-11 and for the enrollment to remain stable at that level in all projected years, which is considered a conservative estimate. However, BCCHS does not have any students on its current wait list.
- As BCCHS is a newly operating charter school, academic performance information is not yet available. However, BHS, under the leadership of BCCHS' current Principal, failed to meet all AYP criteria during the past two years, 2007-08 and 2008-09, and is on Program Improvement status per the No Child Left Behind Act of 2001.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Birmingham Community Charter High School (BCCHS) 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.