

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

<b>Applicant/Obligor:</b>	Voices College-Bound Language Academy
<b>Project School:</b>	Voices College-Bound Language Academy
<b>CDS (County – District – School) Code:</b>	43-694500-113662
<b>Proposed Location:</b>	725 Hellyer Ave., San Jose, CA 95111
<b>Type of Project:</b>	New Construction at Existing Site
<b>County:</b>	Santa Clara
<b>District in which Project is Located:</b>	Franklin McKinley School District
<b>Charter Authorizer:</b>	Franklin McKinley School District
<b>Total OPSC Project Cost:</b>	\$6,377,870
<b>State Apportionment (50% Project Cost):</b>	\$3,188,935
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$3,188,935
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$162,697
<b>First Year of Occupancy of New Project:</b>	2011-2012

**Staff Recommendation:** Staff recommends that the California School Finance Authority (Authority) Board determine that Voices College-Bound Language Academy (VCBLA) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the 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 VCBLA. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	VCBLA meets all eligibility criteria, including two years of operations, a charter in place through 2012, and good standing with its chartering authority, and is in compliance with the terms of its charter.
<b>Demographic Information</b>	VCBLA commenced operations in 2007-08 with 107 students in grades K-1 and currently has 203 students in grades K-3. VCBLA plans to grow a grade per year until reaching full capacity in the 2014-2015 year, including growth to 270 students in grades K-4 in 2010-11; 296 students in grades K-5 in 2011-12 (first year of project occupancy); 322 students in grades K-6 in 2012-13; and 353 students in grades K-7 in 2013-14.

<b>Debt Service Coverage</b>	<ol style="list-style-type: none"> <li>1. VCBLA projects debt service coverage of 207.9% and 336.3% for 2012-13 and 2013-14, respectively, the first two years of CSFP payments.</li> <li>2. Without contributions, VCBLA projects debt service coverage of 186.4% and 311.7% for these same years, respectively.</li> </ol>
<b>Other Financial Factors</b>	VCBLA does not rely on contributions to meet the Program's debt service coverage requirement (see above).
<b>Student Performance</b>	VCBLA met all AYP criteria in each of 2007-08 and 2008-09. Due to a low number of test scores, VCBLA does not yet have valid API base or growth information.

**Program Eligibility:** On December 11, 2009, the Authority received verification from the Franklin-McKinley School District confirming that VCBLA is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. VCBLA received its first charter from Franklin McKinley School District on March 14, 2006 which has been renewed through June 30, 2012.

**Legal Status Questionnaire:** Staff reviewed VCBLA responses to the questions contained in the Legal Status Questionnaire (LSQ). VCBLA 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:** VCBLA has requested funding for new construction of a school facility on an existing site to eventually accommodate 380 students (grades K-8) of which 78% are expected to qualify for free and reduced lunch. The site for the 19,520 square foot facility will be located at the existing G. W. Hellyer Elementary, 725 Hellyer Ave., San Jose, CA 95111. VCBLA will construct this project in cooperation with the Franklin McKinley Elementary School District and consists of two kindergarten and 15 multi-grade classrooms, an administration building, and a multi-use building. VCBLA expects to complete the facility in time for occupancy by the start of the 2011-12 school year.

**Organizational Information:** VCBLA began operations in 2007-08 serving 102 students in grades K-1, and currently serves approximately 145 students in grades K-3. VCBLA operates as an independent California non-profit corporation governed by a board comprised of parents, educators, a District representative, and other community members.

VCBLA's mission is to prepare all students, specifically educationally underserved children, for the challenges of higher education through the context of an academically rigorous dual-immersion program. VCBLA meets the academic and social/emotional needs of students by using a dual language, standards and research based, high academic achievement, and data driven program.

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

Ms. Frances Teso is the Founding Principal/CEO of VCBLA and has served in this position since 2007-08. Prior to this position, Ms. Teso served in the following administrative

positions: School Partnership Director of Oak Grove School District (2006-07); Principal Resident of East Bay Conservation Corps Charter School (2005-06); and Instructional Facilitator at Sherman Oaks Dual-Language School (2004-05). Prior to her administrative roles, Ms. Teso served as a California public school teacher (2000-04), as well as a pre-kindergarten teacher (1993-94) and Head Start teacher (1989-92). Ms. Teso holds an M.A. in Elementary Education from San Jose State University, along with a Multiple Subjects Credential and a Preliminary Administrative Service Credential.

Ms. Lizzette Ramirez has served as the Operations Manager since 2007 and holds a B.S. in Business Administration from San Jose State University.

**Board Experience:** The eight members of the Governing Board have a variety of experience in fields such as education, law enforcement, and healthcare project management. In addition, based on VCBLA’s charter, the Board is to include a parent and teacher representative, and when available, an 8<sup>th</sup>-grade student representative (non-voting/advisory). The following table depicts the current Board’s membership.

**Voices College-Bound Language Academy**

<b>Name</b>	<b>Occupation</b>	<b>County of Residence</b>	<b>Term</b>
Alice Miller	CFO and CCSA Director	Santa Clara	2007-10
Yvonne McGuire	Administrative Assistant	Santa Clara	2009-10
Leticia Ulloa	Software Engineer	Santa Clara	2009-10
Frances Teso	Principal, Voices College-Bound Language Academy	Santa Clara	2007-Indefinite
Rebecca Hernandez	Project Manager	Santa Clara	2008-11
Cathy Holley	Resource Specialist (Special Education)	Santa Clara	2007-10
Alicia Henderson	Director of Curriculum, Instruction, and Assessment, Franklin-McKinley School District	Santa Clara	2007-Indefinite
Cecilia Ortega	Teacher	Santa Clara	2007-10

The primary roles and responsibilities of the Board include the following: overseeing implementation of the charter components; adopting, implementing, and interpreting school-wide policy; overseeing the Principal’s performance; adopting the charter school budget; approval of charter amendments; approval of contractual agreements; and advocating on behalf of the school for purposes of fundraising.

**Management Experience for Schools Open Less than Two Years:** Not applicable. VCBLA began instructional operations in 2007-08 and exceeds the minimum instructional requirements 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 1 funds.

Voices College-Bound Language Academy	FY 2007/08	FY 2008/09
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>		
Met All AYP Criteria?	Yes	Yes
Criteria Met / Required Criteria	3 / 3	5 / 5
Met API Indicator for AYP?	Yes	Yes
Met Graduation Rate?	NA	NA
<b>ACADEMIC PERFORMANCE INDEX (API)</b>		
Met Schoolwide Growth Target?	N/A	NA
Met Comparable Improvement Growth Target?	N/A	NA
Met Both Schoolwide & CI Growth Targets?	N/A	N/A
API Base Statewide Rank (10 = best)	N/A	N/A
API Base Similar Schools Rank (10 = best)	N/A	N/A
School's Actual Growth	N/A	N/A
Similar Schools Median of Actual Growth	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A

VCBLA met all AYP criteria for each of 2007-08 and 2008-09. Due to low participation and the low number of standardized test scores (11 test scores in 2007-08 and 34 test scores in 2008-09), reliable API growth information (growth score or whether or not the growth target was met) is not available. Staff recommends that, prior to the Authority's determination of financial soundness for Advance or Final Apportionment, academic performance with both AYP and API be evaluated.

**Enrollment and Retention Rates:** VCBLA commenced in the 2007-08 school year with 107 students in grade K-1. VCBLA added a second grade in 2008-09, resulting in 145 students in grades K-2, and a third grade in 2009-10, resulting in 203 students in grades K-3. VCBLA plans to grow a grade a year until reaching full capacity in 2014-15 school year. The following are VCBLA's enrollment projections through the second year after project occupancy: 270 students in grades K-4 for 2010-11; 296 students in grades K-5 for 2011-12 (first year of project occupancy); 322 students in grades K-6 in 2012-13; and 353 students in grades K-7 in 2013-14.

VCBLA achieved year-to-year student retention rates of 87% and 93% for 2008-09 and 2009-10, respectively. Based on the audited financial reports for 2007-08 and 2008-09, and

P2 report for 2009-10, VCBLA achieved ADA rates of 96%, 97%, and 97% for 2007-08, 2008-09, and 2009-10, respectively. VCBLA has a current waiting list of 92 students.

Given VCBLA's consistent enrollment growth thus far, as well as VCBLA's most recent retention rate (93%), current wait list, and the fact that VCBLA is adding a new grade each year, staff does not consider VCBLA's enrollment projections to be unreasonable.

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

Staff's financial analysis of VCBLA is based upon review of the following documents: (1) audited financial statements for 2007-08 and 2008-09, (2) multi-year budget projections for 2009-10 through 2013-14, along with assumptions, including projected enrollment. Although VCBLA provided a 2009-10 Second Interim Budget report, due to further adjustments to the 2009-10 budget incorporated into VCBLA's most recent multi-year projections (submitted on April 22, 2010), staff relied upon the 2009-10 data in the multi-year projections. While VCBLA includes private contributions in its projected revenues, such contributions represent less than 2% of revenues during each of the two years after project occupancy, and VCBLA's audited financial statements include evidence of having received prior private contributions.

VCBLA's financial projections are based upon the following assumptions: (1) project occupancy in 2011-12; (2) increases in enrollment as described above (under "Enrollment and Retention Rates"); (3) 2009-10 funding rates for charter school general purpose block grant of \$5,042 (grades K-3), \$5,117 (grades 4-6), and \$5,268 (grades 7-8); (4) projected ADA rates of 98%, which is consistent with VCBLA's historical performance; (5) cost of living adjustment (COLA) on charter school general purpose block grant and other State charter school entitlements of 0.9% for 2010-11, 2.4% for 2011-12, 2.6% for 2012-13, and 2.6% for 2013-14; (6) adjustment to certified salaries based on specific criteria linked to performance, experience, and education; and (7) maintenance of student-to-teacher ratios of between 23:1 and 27:1 during the projected years (per multi-year budget projections). In addition, as VCBLA has no facility lease rental expenses, no such expenses needed to be removed from the expenditures beginning in 2011-12, first year of project occupancy.

Voices College-Bound Language Academy

Voices College-Bound Language Academy	Actual FY 2007/08	Actual FY 2008/09	Budget FY 2009/10	Projected FY 2010/11	Projected FY 2011/12	Projected FY 2012/13	Projected FY 2013/14
<b>ENROLLMENT PROJECTIONS</b>							
Enrollment	103	145	203	270	296	322	353
Average Daily Attendance	99	141	197	265	290	316	346
Average Daily Attendance (%)	96%	97%	97%	98%	98%	98%	98%
<b>FINANCIAL PROJECTIONS</b>							
Total Revenues Available for CSFP Payment	\$ 1,113,761	\$ 1,261,371	\$ 1,460,868	\$ 1,953,321	\$ 2,212,046	\$ 2,451,860	\$ 2,750,873
Total Expenses Paid Before CSFP Payment	957,160	1,197,749	1,418,536	1,816,225	1,887,719	2,113,646	2,203,791
Accounting Adjustments	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 156,601	\$ 63,622	\$ 42,332	\$ 137,096	\$ 324,327	\$ 338,214	\$ 547,082
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,697	\$ 162,697
Net Revenues After CSFP Payment	\$ 156,601	\$ 63,622	\$ 42,332	\$ 137,096	\$ 324,327	\$ 175,517	\$ 384,385
<b>FINANCIAL INDICATORS</b>							
Net Revenues Available for CSFP Payment	\$ 156,601	\$ 63,622	\$ 42,332	\$ 137,096	\$ 324,327	\$ 338,214	\$ 547,082
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	207.9%	336.3%
Contributions	\$ 10,323	\$ 95,336	\$ 20,000	\$ 25,000	\$ 30,000	\$ 35,000	\$ 40,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	186.4%	311.7%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	6.6%	5.9%
Contributions / Revenues	0.9%	7.6%	1.4%	1.3%	1.4%	1.4%	1.5%
Net Revenues After CSFP Payment / Revenues	14.1%	5.0%	2.9%	7.0%	14.7%	7.2%	14.0%
Revenues / ADA	\$ 11,250	\$ 8,946	\$ 7,416	\$ 7,371	\$ 7,628	\$ 7,759	\$ 7,951
Expenses / ADA	\$ 9,668	\$ 8,495	\$ 7,201	\$ 6,854	\$ 6,509	\$ 7,204	\$ 6,840
Surplus (Deficit) / ADA	\$ 1,582	\$ 451	\$ 215	\$ 517	\$ 1,118	\$ 555	\$ 1,111
Net Working Capital	\$ 341,121	\$ 363,076					
Net Working Capital / Expenses	35.6%	30.3%					

**Financial Performance:** As of June 30, 2009, VCBLA's only long term debt was a CDE revolving loan balance of \$125,000, which is scheduled to be paid off in 2013, after making four annual principal payments of \$41,667 plus annual interest at 5.26%.

Based on the audited financial statements, for 2007-08 and 2008-09, VCBLA recorded net revenues of \$156,601 and \$63,622, respectively, on revenues of \$1.11 million and \$1.26 million, and expenses of \$957,160 and \$1.20 million, resulting in total net assets of \$238,076. Based on the multi-year budget projections, for the current year, 2009-10, VCBLA anticipates net revenues of \$42,332 on \$1.44 million in revenues, \$1.42 million in expenses, and \$20,000 in contributions, resulting in total net assets of \$280,408. Also based on the multi-year budget projections, VCBLA anticipates net revenues of \$137,096 and \$324,327 for 2010-11 and 2011-12 (year of project occupancy), respectively. For the two years following project occupancy, 2012-13 and 2013-14, VCBLA anticipates net revenues of \$338,214 and \$547,082, respectively, prior to CSFP payments.

**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 \$6,377,870, VCBLA's annual CSFP payment will be \$162,697 beginning 2012-13, the first year following project occupancy. VCBLA's projected net revenues of \$338,214 for 2012-13 and \$547,082 for 2013-14 would provide debt service coverage levels of 207.9% and 336.3%, respectively, which are substantially above the minimum requirement. The CSFP payments would represent 6.6% and 5.9% of projected revenues for each of these years, which is well within the preferred maximum range of 10-15%. Without contributions, VCBLA's debt service coverage levels for 2012-13 and 2013-14 are anticipated to be 186.4% and 311.7%, respectively, which are also well above the minimum requirement. Therefore, VCBLA does not rely on private contributions to meet the 100.0% debt service coverage requirement.

Staff has conducted a stress test on VCBLA's ability to withstand a reduction in enrollment and still meet the minimum required debt service coverage. Based the multi-year budget projections, VCBLA could withstand a 10% reduction in projected enrollment and still meet

the minimum debt service coverage requirement. While VCBLA's ability to withstand a moderate reduction in enrollment is constrained, given staff's determination that VCBLA's enrollment projections are reasonable, this constraint is not considered a factor in staff's determination of financial soundness, and the ability to withstand a 10% reduction in enrollment is considered favorable.

**Liquidity:** Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. VCBLA's NWC for 2007-08 and 2008-09 was \$341,121 and \$363,076, respectively, or 35.6% and 30.3%, of total expenses for these years. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. On June 30, 2009, VCBLA reported holding \$270,221 in cash.

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

- + VCBLA projects debt service coverage of 207.9% and 336.3% for 2012-13 and 2013-14, respectively, the first two years of CSFP payments. In addition, without contributions, VCBLA projects debt service coverage of 186.4% and 311.7% for these same years, respectively. Hence, VCBLA does not rely on contributions to meet the Program's debt service coverage requirement.
- + VCBLA met all AYP criteria during its first two years of operations, 2007-08 and 2008-09.
- + VCBLA has shown consistent student enrollment growth since commencement of operations, growing from 107 students in grades K-1 in 2007-08 to 203 students in grades K-3 for the current year. VCBLA anticipates continued growth to 296 students in grades K-5 in 2011-12 (first year of project occupancy), 322 students in grades K-6 in 2012-13, and 353 students in grades K-7 in 2013-14.

**Staff Recommendation:** Staff recommends that the California School Finance Authority (Authority) Board determine that Voices College-Bound Language Academy (VCBLA) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the 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.