

**CHARTER SCHOOL FACILITIES PROGRAM  
2010 LOTTERY FUNDING ROUND  
STAFF SUMMARY REPORT – MAY 2011**

<b>Applicant/Obligor:</b>	Leadership Public Schools, Inc.
<b>Project School:</b>	Leadership Public Schools Richmond
<b>CDS (County – District – School) Code:</b>	07 61796 0101477
<b>[Proposed] Project Location:</b>	157 9 <sup>th</sup> Street, Richmond, CA 94801
<b>Project Type:</b>	Rehabilitation of Existing District Facility
<b>County:</b>	Contra Costa
<b>District in which Project is Located:</b>	West Contra Costa Unified School District
<b>Charter Authorizer:</b>	West Contra Costa Unified School District
<b>Total OPSC Project Cost:</b>	\$24,796,362
<b>State Apportionment (50% Project Cost):</b>	\$12,398,181
<b>Lump Sum Contribution:</b>	\$9,398,181
<b>Total CSFP Financed Amount:</b>	\$3,000,000
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$153,058
<b>First Year of Occupancy of New Project:</b>	2013-14

**Staff Recommendation:** Leadership Public Schools – Richmond (LPSR) is currently seeking a Proposition 1D Advance Apportionment of \$2,479,636 for design relating to its rehabilitation project. Staff recommends that the California School Finance Authority (CSFA) Board determine that Leadership Public Schools - Richmond is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) 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 (OPSC) and the State Allocation Board regarding this determination.

Staff received a letter from the West Contra Costa Unified School District (District) dated April 4, 2011, indicating that the District would be able to fund a lump sum payment of \$9,398,181 towards the local matching share through its anticipated issuance of General Obligation Bonds, which are to include \$21 million in Qualified School Construction Bonds (QSCBs). CSFA provided authorization for the District's issuance of the QSCBs at its March 23, 2011 meeting. LPSR will finance \$3,000,000 of the local matching share through its annual CSFP payments.

Given that the CSFP projects involve District-held facilities, the District will hold title to the facilities in trust to the State of California's public education system.

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

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	LPSR has met all Program eligibility criteria: 1) a charter is in place; 2) LPSR has at least two years of instructional operations; and 3) LPSR is in compliance with the terms of its charter and in good standing with its chartering entity.
<b>Demographic Information</b>	LPSR currently serves 405 students in grades 9-12, and with the addition of grade 7 in 2013-14 and grade 8 in 2014-15, LPSR projects achieving a maximum enrollment of 585 students in grades 7-12 in 2014-15, the first year after project occupancy.
<b>Debt Service Coverage</b>	LPSR's projected debt service coverage for 2014-15 and 2015-16 (first two years of CSFP payments) is 123.3% and 127.8%, respectively. Although LPSR is reliant on contributions, LPSR would need only \$11,750 per year in contributions during these years to meet the Program's 100%-minimum requirement.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. LPSR has a commitment letter from West Contra Costa Unified School District for the lump sum matching contribution of \$9,398,181.</li> <li>2. CSFP lease payments are projected to represent 3.2% and 3.1% of total revenues in 2014-15 and 2015-16, respectively, which are well below the 10-15% recommended threshold levels.</li> <li>3. As of June 30, 2010, LPSR had net working capital of \$1,036,726, representing 29.4% of total expenses.</li> <li>4. LPSR had a fund balance of \$984,904 as of June 30, 2010, and LPSR anticipates having a fund balance of \$1,469,588 as of June 30, 2014, the year-end prior to its first CSFP payment.</li> </ol>
<b>Student Performance</b>	<ol style="list-style-type: none"> <li>1. LPSR met its API growth target for each of 2006-07 through 2008-09, but did not meet its target for 2009-10.</li> <li>2. LPSR has a statewide API ranking of 3 out of 10 and a similar schools ranking of 7 out of 10.</li> <li>3. LPSR did not meet all AYP criteria during 2008-09 and 2009-10, resulting in its being placed on "Program Improvement" status per the No Child Left Behind Act of 2001.</li> </ol>

**Program Eligibility:** On March 1, 2011, staff received verification from the Superintendent's Office at West Contra Costa Unified School District, confirming that LPSR is: 1) in compliance with the terms of its charter agreement, and 2) is in good standing with its chartering authority.

LPSR's charter is in place and will expire in 2012. LPSR's charter has been renewed once since the school opened in 2003.

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

**Project Description:** The CSFP project entails a "like-in-kind replacement" for the renovation of existing District facilities at 157 9th St., Richmond, CA 94801, which LPSR plans to share with the District's Continuation High School, Gompers Continuation High School. The design for the entire project proposes three separate buildings: the LPSR classroom building, a shared gymnasium and health clinic, and the Gompers Continuation High School classroom building. The seismically challenged structures of the former Gompers campus have been demolished and the design of new facilities is underway. While awaiting project completion, LPSR is temporarily located at 251 South 12<sup>th</sup> St., Richmond, CA 94804. The project is anticipated to be completed in phases with the LPS classroom building anticipated for completion and move-in in December 2012, and the shared gymnasium and Gompers classroom building anticipated for completion in summer 2013. It is noteworthy that the CSFP project encompasses the LPSR classroom building and a portion of the gymnasium to be used by LPSR. While also funded by the District, the renovation of the Gompers building and portion of the gymnasium to be used by the continuation school is not part of the CSFP project. The CSFP project involves the replacement of 27 classrooms due to issues with its former facility not being in compliance with the Americans with Disabilities Act, hazardous materials (the exterior stucco finish has over 25% asbestos in it), and seismic and system deficiencies. The project will continue to be a shared site with the District's Continuation High School after occupancy.

**Organizational Information:** LPSR has been operating as a charter school since 2003-04 under the auspices of Leadership Public Schools (LPS), an educational management organization. LPSR's charter was originally approved by the District in February 2003, and the school began operations in August of the same year. The charter renewal was approved on March 31, 2007, and will expire in June 2012.

LPSR currently pays a 3% oversight fee to the District in lieu of facilities fees under Proposition 39. It is expected that the 3%-oversight fee will be ongoing after the new facility is occupied. In addition, as one of four school sites that LPS currently operates, LPSR is responsible for paying 25% of LPS home office expenses, which cover financial management, accounting, legal services, facilities management, professional development, and administrative support.

**Educational Management Organization:** LPS is a charter school development organization with 501(c)(3) non-profit status founded in 2002 to serve diverse students throughout California with a network of charter high schools. LPS schools serve ethnically and economically diverse student bodies and are located in or near low-income neighborhoods. LPS currently operates four high school sites located in Richmond, San Jose, Oakland, and Hayward. LPS plans to begin developing affiliated middle schools over the next three years while concurrently refining its infrastructure, educational program and instructional support to reflect state-of-the-art best practices in urban education.

Subsequently, LPS will begin purposely moving to become an R&D organization focusing on innovation in urban education and disciplined expansion.

Based on materials provided by the applicant, LPS' mission is to prepare students to succeed in college and beyond by developing effective student leaders and partnering with school districts to strengthen both the charter school and public schools.

LPS schools curricula are based on the Six Pillars of Education Excellence: 1) high expectations, 2) significant support, 3) student leadership, 4) talented staff sustained by extensive professional development, 5) parent and community involvement, and 6) focus on results. All students are enrolled in a rigorous college preparatory program and must fulfill the entrance requirements for the UC and CSU systems in order to graduate.

LPS recruits students who are representative of the communities, with levels of ethnic and socioeconomic diversity that is representative of its district boundaries. LPS advertises by distributing enrollment information in multiple languages through community centers, faith-based organizations, youth programs, non-profit organizations, neighborhood associations and other venues. The organization also focuses on local feeder school districts, private schools and charter schools to distribute information and make presentations directly to incoming high school students.

Each school is responsible for the costs associated with facilities including custodial, utilities, minor facilities maintained, and building capital expenditures, while the LPS home office is responsible for facilitating and implementing these facility functions.

**Management Experience:** The resumes of the school's personnel and the management team demonstrate professional, experienced and qualified individuals serving in key capacities within the organization.

**School Management:** Shawn Benjamin has been Principal of LPSR for four years, starting in Fall 2007. Prior to this position, Ms. Benjamin served as Assistant Principal of Leadership Public Schools – Hayward. Ms. Benjamin has also served as a Resident Principal with New Leaders for New Schools, a national Urban Principal Training Program. Prior to joining LPS, Ms. Benjamin obtained a Principal License while completing her Master's work at the Harvard Graduate School of Education. During her year at Harvard, Ms. Benjamin was a Principal Intern at both a Boston Public High School and a K-12 Charter School in Cambridge, MA.

**EMO Management:** Dr. Louise Bay Waters is the Board President and CEO of Leadership Public Schools. Prior to her position with LPS, Dr. Waters served with the Stupski Foundation where she headed research on districts that have accelerated performance for students of color and poverty. Prior to this position, Dr. Waters served as Assistance Superintendent of Student Achievement at Oakland Unified School District and Principal in the New Haven District (Union City). Dr. Waters holds a B.A. and Masters from Stanford University, and a Ph.D. from Pennsylvania State University.

Soo Zee Park is the Director of Operations of LPS. Prior to this position, Ms. Park worked with the non-profit Unity Council and Fruitvale Development Corporation as the project manager for the \$68 million mixed-use Fruitvale Transit Village adjacent to the Fruitvale

BART Station. She also worked on a \$2 million Fruitvale Streetscape Project with the City of Oakland. Ms. Park has over seven years of experience in architecture and construction administration working on a variety of residential, mixed-use, university and museum projects including the award-winning Tenderloin Elementary School in San Francisco. Ms. Park holds a Master of Business Administration from John E. Anderson Graduate School of Management at UCLA, as well as a Bachelors Degree in architecture from North Carolina State University. She is also a board member and facilities committee chair of Lighthouse Community Public Schools in Oakland.

Joyce Montgomery is the Vice President of Finance and has finance and operations management experience in education, advertising, high tech and banking. As a school executive, Ms. Montgomery has served as the Chief Financial Officer at Crystal Springs Uplands School where she was responsible for managing all operations units: business and finance, physical plant and deferred maintenance plans, food service operations, legal affairs, human resources, and construction. She also was the Chief Financial Officer at the Howard School in Atlanta, Georgia.

**Board Experience:** LPSR is governed by a Board of Directors composed of LPS' CEO, teacher, student, and parent representatives, and several volunteer community members, as shown in the table below. Each Leadership School is also represented by Site Council comprised of parents and community members.

NAME	OCCUPATION	COUNTY OF RESIDENCE	TERM EXPIRATION DATE
Josefina Alvarado-Mena	CEO of Safe Passages, a non-profit organization	Alameda	6/30/2012
Cecily Cameron	Trustee of Gateway High School and Marin County Day School, Business Community Leader	Alameda	6/30/2013
Larry Cuban (education and adhoc working group)	University Professor	San Mateo	6/30/2013
Sandy Dean, Board Treasurer	Partner Sansome Partners	San Francisco	6/30/2012
Marsha Dugan	Business Community Leader	Marin	6/30/2012
D'Lonra Ellis, Esq.,	Attorney	Alameda	6/30/2013
Karene Gray	Parent	Alameda	6/30/2011
Laura Fisher	Business Community Leader	San Francisco	6/30/2011
Heather Hiles	Business Community Leader, former Commissioner of San Francisco Board of Education	Alameda	6/30/2012
Henrik Jones	Business Community Leader	San Francisco	6/30/2013
Arminda King	Teacher at LPS-Richmond	San Francisco	6/30/2011
Mark Kushner	Founder and initial CEO of LPS	San Francisco	6/30/2011
J. R. Matthews, Board Chair	Managing Director of Tregaron Capital, a private investment firm	San Mateo	6/30/2013
Deborah McGriff	Business Community Leader, Former District administrator and Superintendent	Milwaukee, WI	6/30/2011
Mitzi Perez, Student Member	Student	Alameda	6/30/2011
John Selby, Co-chair, Development Committee	Business Community Leader	Paradise Valley, AZ	6/30/2013

Alex Terman, Board Vice-Chair	Business Community Leader, former COO of LPS	San Mateo	12/1/2011
Louise Bay Waters	Superintendent and CEO of LPS	Alameda	N/A
Mark Fagbayi,	President & CEO Performance Fact, Inc.	Alameda	6/30/2011
Stu McLaughlin	Partner Sansome Partners	San Mateo	6/30/2012

**Management Experience for Schools Open Less than Two Years:** Not applicable. LPS Richmond has been in instructional operations since 2003, which exceeds the two years of management requirement.

**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 favorable, 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 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.

LPSR has more than three years of reported API scores, allowing a review of progress and comparison to similar schools. The following table summarizes LPSR’s student performance for the past three years.

Leadership Public Schools Richmond	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>				
Met All AYP Criteria?	Yes	Yes	No	No
Criteria Met / Required Criteria	18 / 18	6 / 6	5 / 6	3 / 5
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	Yes	N/A
<b>ACADEMIC PERFORMANCE INDEX (API)</b>				
Met Schoolwide Growth Target?	Yes	Yes	Yes	No
Met Comparable Improvement Growth Target?	Yes	No	No	No
Met Both Schoolwide & CI Growth Targets?	Yes	No	No	No
API Base Statewide Rank (10 = best)	1	2	1	3
API Base Similar Schools Rank (10 = best)	2	6	3	7
School's Actual Growth	36	12	32	5
Similar Schools Median of Actual Growth	12	11	11	22
Did School's Growth Exceed Median?	Yes	Yes	Yes	No

Although LPSR met all AYP criteria during 2006-07 and 2007-08, it failed to meet all AYP criteria during 2008-09 and 2009-10, and is in its first year on Program Improvement status per No Child Left Behind Act of 2001. LPSR received API growth scores of 624, 636, 668, and 673, for 2006-07, 2007-08, 2008-09, and 2009-10, respectively, and met its API growth target in all of these years except 2009-10. Based on its API base scores, LPSR received statewide ranks of “1” and “3” and similar-schools ranks of “3” and “7” for 2008-09 and 2009-10, respectively. Upon approval for preliminary apportionment in May 2008, Staff noted academic performance indicators as an area of focus for future monitoring. Notwithstanding LPSR’s meeting its API growth target in three of the past four years, based

on LPSR's failure to meet AYP for the past two years, Staff has concerns as to the school's overall academic performance. As such, Staff recommends continued scrutiny regarding LPSR's academic performance prior to approval for any Final Apportionment.

Staff notes that LPSR submitted a detailed action plan to address its academic performance, which includes the following six major strategies: (1) Develop more culturally responsive outreach to parents and families in order to increase stakeholder involvement in the school; (2) Increase student preparedness, initiative, and academic voice in the classroom, the school, and the wider community; (3) Develop and implement a system for equipping students with college-ready skills; (4) Develop effective instruction and curriculum to improve student achievement on classroom, college-ready, and state assessments; (5) Improve English Language Learner and Special Education services; and (6) Improve and expand use and analysis of student performance data in order to modify/revise curriculum and/or instructional practices. Each strategy identifies specific action steps, persons responsible, necessary resources, method for evaluation; and time frame for implementation. The action plan indicates that LPSR began implementation during 2009-10.

**Enrollment Information:** Although LPSR experienced a significant reduction in enrollment from 444 students in 2006-07 to 304 students in 2007-08, LPSR has experienced consistent enrollment growth since that decline, with enrollment of 325, 386, and 405 students for 2008-09, 2009-10, and 2010-11, respectively. Upon Staff's inquiry as to the significant reduction in 2007-08, Staff was informed that the reduction was largely due to the need to temporarily vacate a specific building that did not meet specific structural safety requirements based on a report from the District. LPSR is projecting student enrollment of 460 (grades 9-12), 469 (grades 9-12), and 546 (grades 7 and 9-12), for 2011-12 through 2013-14, respectively, and is projecting reaching a maximum enrollment of 585 students in grades 7-12 in 2014-15. It is noteworthy that, in anticipation of serving grades 7 to 12 in 2013-14, LPSR projects serving 84 students in grade 7 in 2013-14, and 84 students in each of grades 7 and 8 in subsequent years. In 2013-14, LPSR's grade 9-12 enrollment will remain stable, and is anticipated to reduce to 417, representing a reduction of 11.1% in order to accommodate the lower grades within its capacity enrollment. For the current 2010-11 school year, LPSR achieved a year-to-year student retention rate of 92.2% and has a wait list of 49 students. Given LPSR's historical growth since 2007-08, the capacity under its new facility, and the addition of grades 7 and 8, staff considers LPSR's enrollment projections to be reasonable.

LPSR achieved an average daily attendance (ADA) of 92.4%, 96.0%, 91.2%, and 93.6% for 2007-08, 2008-09, 2009-10, and 2010-11, respectively, representing an average ADA of 93.3% for these years. As LPSR's financial projections assume an ADA of between 90% and 91% in each of the projected years, which is less than the historical ADA, staff considers the projections to be both conservative and reasonable relative to this assumption.

**Financial Analysis:** Below we have highlighted selected financial data and credit indicators to evaluate LPSR's ability to meet its CSFP obligation. Staff's review of the LPSR's financial performance is based on the review of LPSR's audited financial statements for 2007-08 through 2009-10, LPSR's 2010-11 Second Interim Budget, and LPSR's multi-year budget projections for 2011-12 through 2015-16.

Leadership Public Schools Richmond	Actual FY 2007-08	Actual FY 2008-09	Projected FY 2009-10	Budgeted FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16
<b>ENROLLMENT PROJECTIONS</b>									
Enrollment	304	325	386	405	460	469	546	585	585
Average Daily Attendance	281	312	352	379	416	424	495	532	532
Average Daily Attendance (%)	92.4%	96.0%	91.2%	93.6%	90.4%	90.4%	90.7%	90.9%	90.9%
<b>FINANCIAL PROJECTIONS</b>									
Total Revenues Available for CSFP Lease Payment	\$ 3,052,800	\$ 3,575,631	\$ 3,257,329	\$ 3,353,651	\$ 3,855,302	\$ 3,961,073	\$ 4,496,352	\$ 4,838,522	\$ 4,963,149
Total Expenses Paid Before CSFP Lease Payment	2,801,920	3,521,097	3,237,924	3,483,759	3,515,845	3,741,138	4,440,952	4,649,758	4,767,505
Accounting Adjustments	249,501	2,549	-	-	-	-	-	-	-
Net Revenues Available for CSFP Lease Payment	\$ 500,381	\$ 57,083	\$ 19,405	\$ (130,108)	\$ 339,457	\$ 219,935	\$ 55,400	\$ 188,764	\$ 195,644
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 153,058	\$ 153,058
Net Revenues After CSFP Lease Payment	\$ 500,381	\$ 57,083	\$ 19,405	\$ (130,108)	\$ 339,457	\$ 219,935	\$ 55,400	\$ 35,706	\$ 42,586
<b>FINANCIAL INDICATORS</b>									
Net Revenues Available for CSFP Lease Payment	\$ 500,381	\$ 57,083	\$ 19,405	\$ (130,108)	\$ 339,457	\$ 219,935	\$ 55,400	\$ 188,764	\$ 195,644
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	123.3%	127.8%
Contributions	\$ 29,959	\$ 52,426	\$ 59,212	\$ 47,000	\$ 47,000	\$ 47,000	\$ 47,000	\$ 47,000	\$ 47,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	92.6%	97.1%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.2%	3.1%
Contributions / Revenues	1.0%	1.5%	1.8%	1.4%	1.2%	1.2%	1.0%	1.0%	0.9%
Net Revenues After CSFP Lease Payment / Revenues	16.4%	1.6%	0.6%	-3.9%	8.8%	5.6%	1.2%	0.7%	0.9%
Revenues / ADA	\$ 10,864	\$ 11,460	\$ 9,254	\$ 8,849	\$ 9,268	\$ 9,342	\$ 9,084	\$ 9,095	\$ 9,329
Expenses / ADA	\$ 9,971	\$ 11,286	\$ 9,199	\$ 9,192	\$ 8,452	\$ 8,823	\$ 8,972	\$ 9,028	\$ 9,249
Surplus (Deficit) / ADA	\$ 893	\$ 175	\$ 55	\$ (343)	\$ 816	\$ 519	\$ 112	\$ 67	\$ 80
Net Working Capital	\$ 1,040,683	\$ 1,036,726							
Net Working Capital / Expenses	37.1%	29.4%							

The LPSR financial projections, as incorporated into this financial analysis, are based upon the following assumptions: (1) school enrollment as set forth above under "Student Enrollment and Retention Rates"; (2) projected ADA rates of 90% to 91%; (3) a general purpose block grant rate of \$6,158 per ADA; (4) cost of living adjustments (COLAs) to the general purpose block grant rate of 0.0%, 0.0%, 1.7%, 1.8%, and 2.3% for the projected years of 2011-12 through 2015-16, respectively; (5) growth in expenses, including COLAs to salaries, of 1.0%, 1.0%, 1.7%, 1.8%, and 2.3% for 2011-12 through 2015-16, respectively; and (6) contributions of \$47,000 per year for each of 2010-11 through 2015-16 based on LPSR's average level of contributions for the past three years.

It is noteworthy that LPS has three operating leases, one for each of the Leadership Public Schools sites in Hayward and San Jose, and one for LPS' administrative offices. The leases for the administrative offices and the San Jose site are for five years, while the lease for the Hayward site is for eight years. The total annual payments for 2010-11 through 2014-15 are \$511,213, \$497,199, \$508,516, \$520,171, and \$532,176, respectively. In its planned budgeting, LPS aggregates all lease costs and allocates a portion to each of LPS' four sites, including LPSR. As such, in its multi-year budget projections, LPSR projects lease costs as part of its operating expenses in the amounts of \$94,154, \$97,916, \$116,385, \$127,442, and \$130,628 for 2011-12 through 2015-16, respectively. It is also noteworthy that LPSR pays an annual 3%-oversight fee to the District in lieu of a facilities fee for the current Proposition 39 location of the school, and that LPSR anticipates continuing the 3%-oversight fee following project occupancy.

**Contributions:** As reported in LPSR's audited financial statements, LPSR received contributions in the amounts of \$29,959, \$52,426, and \$59,212 for 2007-08 through 2009-10, respectively, or an average of approximately \$47,000 during these years. As LPSR did



not include contributions in its Second Interim Budget or multi-year budget projections, staff has incorporated this historical average into the multi-year financial projections for 2010-11 through 2015-16, as reflected in the table above. To further support the likelihood of such future contributions, for the current 2010-11 fiscal year, LPS has received commitments of contributions, including grants and donations, in the amount of \$608,022, and has pending grants in the amount of \$340,000. In addition, based on discussion with LPS' Vice President of Finance, through allocation from LPS' contribution fund from the prior year, it is anticipated that LPSR will receive in excess of \$100,000 in contributions for the current 2010-11 year and in excess of \$200,000 in contributions for 2011-12.

Long Term Debt: As of June 30, 2010, LPSR's only long term debt consisted of the remaining \$51,822 of the \$181,377 that LPSR was required to repay the State of California as a result of an attendance reporting error for FY 2005. The schedule for repayment of this outstanding balance is a payment of \$25,911 during each of FY 2011 and FY 2012.

Financial Performance/Change in Net Assets: In 2007-08, LPSR recorded net revenues of \$250,880 on revenues of \$3.02 million and expenditures of \$2.80 million, and contributions of \$29,959. In 2008-09, LPSR recorded net revenues of \$54,534 on \$3.52 million in revenues and \$3.52 million in expenses, and contributions of \$52,426. In 2009-10, LPSR recorded net revenues of \$19,405 on revenues of \$3.20 million and expenses of \$3.24 million, and contributions of \$59,212, resulting in a fund balance of \$984,904. For the current 2010-11 fiscal year, the LPSR anticipates a net loss of \$130,108 on \$3.31 million in revenues and \$3.48 million in expenses, and \$47,000 in contributions, resulting in a fund balance of \$854,796. For the projected years of 2011-12 through 2015-16, LPSR anticipates net revenues of \$339,457, \$219,935, \$55,400, \$188,764, and \$195,644, respectively. Based on its anticipated net revenues, LPSR anticipates ending fund balances of \$1,469,588, \$1,658,352, and \$1,853,996 for 2013-14, 2014-15, and 2015-16, respectively. The significantly smaller operating margin for 2013-14 of \$55,400 as compared to the subsequent two years is likely due to the addition of the first seventh grade class of 84 students along with the additional operating expenses associated with operating the middle school grades, but without the full complement of eighth graders.

Projected Debt Service Coverage: Assuming a 3.0% interest rate, a 30-year repayment period, first full year of project occupancy in 2013-14, and the District making a lump-sum payment of \$9,398,181, LPSR's annual CSFP payment will be \$153,058 beginning in 2014-15. During the first two years of CSFP payments, 2014-15 and 2015-16, LPSR anticipates debt service coverage of 123.3% and 127.8%, respectively. Notwithstanding the assumption that LPSR would likely receive at least \$47,000 per year in contributions during these years based on its historical performance, LPSR would still meet the minimum 100% Program requirement if it only received as low as \$11,750 during these years (75% less than predicted). Given these factors, Staff believes that the CSFP obligation is affordable by LPSR and will not reduce the school's flexibility to fund unforeseen costs during the term of repayment.

LPSR projects debt burden (CSFP payments divided by revenues) for the first two years of CSFP payments to be 3.2% and 3.1% of revenues, respectively, which is well within the recommended threshold of 15%.

**Liquidity:** Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. As of June 30, 2009, LPSR's NWC was \$1,040,683, representing 37.1% of expenses. As of June 30, 2010 the LPSR's NWC was \$1,036,726, representing 29.4% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. As of June 30, 2010, LPSR held \$462,269 in cash.

**Strengths, Weaknesses and Mitigants:**

- + LPSR has a commitment letter from the District for the Lump Sum Contribution of \$9,398,181 that will come from the District's issuance of General Obligation Bonds.
- + LPSR projects debt service coverage of 123.3% and 127.8% for 2014-15 and 2015-16, respectively. Although LPSR is reliant on contributions, LPSR would need only \$11,750 per year in contributions during these years to meet the Program's 100%-minimum requirement.
- + LPSR had a fund balance of \$984,904 as of June 30, 2010, and LPSR anticipates having a fund balance of \$1,469,588 as of June 30, 2014, the year-end prior to its first CSFP payment. In addition as of June 30, 2010, LPSR had net working capital of \$1,036,726, representing 29.4% of total expenses, and cash reserves of \$462,269.
- +/- Although LPSR experienced a 31.5% reduction in enrollment from 2006-07 to 2007-08, LPSR has shown consistent enrollment growth since 2007-08, with an overall growth of 33.2% since 2007-08.
- +/- Although LPSR met its API growth target for three consecutive years, 2006-07 through 2008-09, LPSR did not meet the target for the most recent reported year, 2009-10. Similarly, although LPSR met all AYP criteria during 2006-07 and 2007-08, it did not meet all criteria during 2008-09 or 2009-10, resulting in its placement on "Program Improvement" status per the No Child Left Behind Act of 2001. Based on its API base score for 2009-10, LPSR received a statewide rank and similar schools rank of "3" and "7," respectively.

**Staff Recommendation:** Staff recommends that the California School Finance Authority Board determine that Leadership Public Schools - Richmond is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) 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 (OPSC) and the State Allocation Board regarding this determination.