

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

Applicant/Obligor:	Oakland Unity High School
Project School:	Oakland Unity High School
CDS (County – District – School) Code:	01-61259-0100065
Proposed Project Location:	2955 Peralta Oaks Court, Oakland
Type of Project:	New Construction
County:	Alameda
District in which Project is Located:	Oakland Unified School District
Charter Authorizer:	Oakland Unified School District
Total OPSC Project Cost:	\$19,836,428
State Apportionment (50% Project Cost):	\$9,918,214
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$9,918,214
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$506,020
First Year of Occupancy of New Project:	2013-14

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. This determination of financial soundness is contingent upon OUHS's execution of an Implementation Agreement with CSFA, the State Controller's Office and CDE, at the appropriate time, whereby CSFA will intercept the OUHS's state-aid portion of its General Purpose Block Grant at regular intervals to satisfy the payment requirements of its CSFP obligations. OUHS also will pledge to subordinate a portion of its oversight fee to ARC Associates in order to meet debt service coverage. 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. 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.

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 June 30, 2012 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 2010-11, OUHS has 233 students in grades 9-12, and for both 2011-12 and 2012-13, total enrollment of 265 and 299 students are projected, respectively. By occupancy of the project in 2013-14, total student enrollment is projected at 334 students, with increases to 383 students in 2014-15 and 420 students (capacity) in 2015-16.
Debt Service Coverage	OUHS's projected debt service coverage ratios have exceeded the minimum requirement of 100.0% at 104.8% in 2014-15 and 101.4% in 2015-16.
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 16.7% in 2014-15 and 15.1% in 2015-16, which are slightly higher than the preferred maximum range of 10-15%. 3. Net working capital for 2009-10 of \$487,775 represented 20.2% of total expenses, which exceeds the preferred minimum of 5.0%.
Student Performance	OUHS met all AYP criteria from 2007-08 through 2008-09, although OUHS did not meet its AYP for 2009-10. OUHS met its API school-wide growth target through 2007-08 and 2009-10. Based on its 2009-10 base API score, OUHS ranked 3 out of 10 statewide and 4 out of 10 among similar schools.

Program Eligibility: On March 17, 2011, 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 89% 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 2013-14 school year.

Organizational Information: OUHS commenced its operations in 2003-04 serving 85 students in grades 9 and 10, and currently serves approximately 233 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 30, 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: OUHS is governed by the Board of Directors of which they establish and approve all major educational and operational policies, approve all major contracts, and approves the school’s annual budget. The Board of Directors currently includes members with a variety of occupations and experiences, as noted below:

Name	Occupation
Andrew Noble, Chair	Attorney
Jesse Hahnel, Vice Chair	Attorney
Ignacio Barragan, Treasurer	OUHS Parent
Damon Grant, Secretary	OUHS Teacher
Lance Tsang, Executive Director	Executive Director
Gilberto Arriaza	Professor
Mandy Bratt	OUHS Parent

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 three 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.

Oakland Unity High School	FY 2007-08	FY 2008-09	FY 2009-10
ADEQUATE YEARLY PROGRESS (AYP)			
Met All AYP Criteria?	Yes	Yes	No
Criteria Met / Required Criteria	6 / 6	6 / 6	4 / 5
Met API Indicator for AYP?	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	N/A
ACADEMIC PERFORMANCE INDEX (API)			
Met Schoolwide Growth Target?	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	No	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	No	Yes	Yes
API Base Statewide Rank (10 = best)	2	2	3
API Base Similar Schools Rank (10 = best)	2	1	4
School's Actual Growth	29	53	21
Similar Schools Median of Actual Growth	12	15	16
Did School's Growth Exceed Median?	Yes	Yes	Yes

OUHS had API base scores of 595, 624, and 677 from 2007-08 through 2009-10, respectively. OUHS met its API school-wide growth target for all three years. For the last two reported academic years, 2006-07 and 2007-08, OUHS ranked 2 out of 10 statewide. OUHS met all 6 of 6 AYP criteria in 2007-08 and 2008-09, however OUHS did not meet its AYP criteria for 2009-10 due to a not meeting its percent proficient in the English-Language Arts category.

OUHS provided other performance statistics when staff inquired regarding OUHS' low API scores and statewide/similar school rankings. For the 2008-09 school year, the California Department of Education reported OUHS's 1-year dropout rate at 4.1% and 4-year rate at 16.0%, significantly better than California's statewide rate of 5.7% and 21.5% and Oakland Unified School District's rates of 10.8% and 40.0%. OUHS also maintains a high graduation rate and college acceptance rate. The graduation rate for the last three graduating classes is above 80% (District Rate is around 60%), with 75% being accepted into four-year universities or colleges.

Enrollment and Retention Rates:

For the current 2010-11 academic year, grade 9-12 enrollment totaled 233 students, with 40 students currently on the waiting list. Since inception of the school in 2003-04, student enrollment has shown a steady increase during all years and remained relatively stable with an average increase of 15% growth for each school year.

According to OUHS’s projections, the student enrollment is expected to increase to 265 during the 2011-12 school year, 299 students for the 2012-13 school year, and increase to 334 by occupancy of the Project in 2013-14, and continue to grow to 383 and 420 during the first two years after project occupancy, 2014-15 and 2015-16, respectively. The current average class size of about 20 students is expected to increase to 22 through occupancy of the Project. The Executive Director has indicated that he has received a commitment from 90 parents/students for the Freshman Class regarding their intention to attend OUHS during 2011-12 school year, and that the projection of 265 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 94% to 97%, which supports OUHS’s assumed ADA rate of 95% for its financial projections. OUHS’s retention rate for the current 2010-11 school year was 90%.

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 three years of audited financial statements (2007-08 through 2009-10), the second interim report for 2010-11, and financial projections from 2011-12 through 2015-16, as provided by OUHS.

Financial Performance: No long-term debt was outstanding through June 30, 2010 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 2007-08	Actual FY 2008-09	Actual 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
ENROLLMENT PROJECTIONS									
Enrollment	216	197	227	234	265	299	334	383	420
Average Daily Attendance	203	183	221	227	252	284	317	364	399
Average Daily Attendance (%)	94%	93%	97%	97%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Payment	\$ 2,307,358	\$ 2,395,217	\$ 2,425,052	\$ 1,958,944	\$ 2,202,533	\$ 2,480,398	\$ 2,630,155	\$ 3,025,716	\$ 3,347,046
Total Expenses Paid Before CSFP Payment	2,232,977	2,335,868	2,409,282	1,957,791	2,072,425	2,423,266	2,416,872	2,535,439	2,874,193
Accounting Adjustments	63,050	17,292	17,292	25,000	30,000	30,000	30,000	40,000	40,000
Net Revenues Available for CSFP Payment	\$ 137,431	\$ 76,641	\$ 33,062	\$ 26,153	\$ 160,108	\$ 87,132	\$ 243,283	\$ 530,277	\$ 512,853
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 506,020	\$ 506,020
Net Revenues After CSFP Payment	\$ 137,431	\$ 76,641	\$ 33,062	\$ 26,153	\$ 160,108	\$ 87,132	\$ 243,283	\$ 24,257	\$ 6,833
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Payment	\$ 137,431	\$ 76,641	\$ 33,062	\$ 26,153	\$ 160,108	\$ 87,132	\$ 243,283	\$ 530,277	\$ 512,853
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	104.8%	101.4%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	101.8%	98.4%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	16.7%	15.1%
Contributions / Revenues	N/A	N/A	N/A	N/A	0.7%	0.6%	0.6%	0.5%	0.4%
Net Revenues After CSFP Payment / Revenues	6.0%	3.2%	1.4%	1.3%	7.3%	3.5%	9.2%	0.8%	0.2%
Revenues / ADA	\$ 11,366	\$ 13,089	\$ 10,973	\$ 8,630	\$ 8,749	\$ 8,732	\$ 8,289	\$ 8,316	\$ 8,389
Expenses / ADA	\$ 11,000	\$ 12,764	\$ 10,902	\$ 8,625	\$ 8,232	\$ 8,531	\$ 7,617	\$ 8,359	\$ 8,472
Surplus (Deficit) / ADA	\$ 366	\$ 324	\$ 71	\$ 5	\$ 517	\$ 201	\$ 672	\$ (43)	\$ (83)
Net Working Capital	\$ 414,530	\$ 454,713	\$ 487,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	18.6%	19.5%	20.2%	N/A	N/A	N/A	N/A	N/A	N/A

In 2007-08, OUHS recorded an increase in net assets of \$74,381, on revenues of \$2.32 million and expenses of \$2.23 million. Audited figures for 2008-09 resulted in an operating surplus of \$59,349 on revenues and expenses of \$2.40 million and \$2.36 million, respectively. Audited figures for 2009-10 resulted in an operating surplus of \$15,770 on

revenues and expenses of \$2.43 million and \$2.41 million, respectively. For the current year of 2010-11, based on its Second Interim Budget Report, OUHS anticipates an ending operating surplus of \$1,153.

OUHS's financial projections are based upon the following assumptions: (1) project occupancy in 2013-14; (2) increases in enrollment as described above; (3) per ADA funding rates for general purpose block grant of \$6,158 , beginning in 2010-11; (4) projected ADA rates of 95%; (5) revenue growth (cost of living adjustments on State Aid) of -1% for 2011-12, and 2.0% from 2012-13 through 2015-16; and (6) growth in salaries and benefits of 2.0% annually, beginning in 2011-12. 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 2011-12 through 2015-16. Additionally, staff notes that the number of teachers is projected to increase from 12 in 2010-11 to 20 by 2015-16, with the current student-teacher ratio of 20 increasing to 22.

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.

Assuming a 3.0% interest rate and 30-year repayment period, OUHS's annual CSFP payment will be \$506,020 beginning 2014-15, which is one year following expected occupancy of the Project in 2013-14. OUHS's projected net revenues of \$530,277 would provide debt service coverage of 104.8% in 2014-15. For the following year, projected debt service coverage is 101.4% based on net revenues of \$512,853. The CSFP payment would represent 16.7% of projected revenues in 2014-15 and 15.1% in 2015-16. 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 96% of projected enrollment actualizes in 2013-14 (367 students out of 383). 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, however, student enrollment will be followed closely by staff in the future.

Given the reliance on student enrollment growth projections described above to meet debt service coverage, staff requested projections from the school that subordinate a portion of the oversight fees that are paid to ARC Associates (ARC). With this expense item included, coverage is estimated to be 95.6% in 2014-15, the first year of CSFP payments, and 92.1% in 2015-16. By reducing the school's management fees paid to ARC, debt service coverage increases to 104.8% in 2014-15, and 101.4% in 2015-16. This indicates an ability on the part of the school to maintain lease payments even if enrollment projections are not fully realized.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. OUHS' NWC for 2007-08 was \$414,530, or 18.6% of total expenses, increased to \$454,713 for 2008-09, or 19.5% of total expenses, and increased to \$487,775 for 2009-10, or 20.2% 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 104.8% and 101.4% for 2014-15 and 2015-16, respectively, the first two years of CSFP payments.
- + OUHS met its API School Growth for the past three years. Although OUHS did not meet it AYP for 2009-10, it did meet AYP for of 2007-08 and 2008-09.
- + OUHS does not rely on private contributions to meet its CSFP obligation.
- + Although OUHS experienced a drop in student enrollment for the 2008-09 academic year, OUHS has historical shown stability in its enrollment. In addition, OUHS currently has a waiting list of 40 students.
- OUHS has projected its enrollment to grow to 420 students during the second year of project occupancy in 2015-16. This equates approximately to an 80% increase of current enrollment. In 2013-14 (Year of Occupancy), OUHS will need to have 96% of projected enrollment to meet debt service coverage.
- CSFP payment would represent 16.7% of projected revenues in 2014-15 and 15.1% in 2015-16. These levels exceed our preferred maximum of 15%.

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. This determination of financial soundness is contingent upon OUHS's execution of an Implementation Agreement with CSFA, the State Controller's Office and CDE, at the appropriate time, whereby CSFA will intercept the OUHS's state-aid portion of its General Purpose Block Grant at regular intervals to satisfy the payment requirements of its CSFP obligations. OUHS also will subordinate a portion of its Consultant Services fee to ARC Associates in order to meet debt service coverage ratios. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.