

Staff Summary No. 6

Date: October 12, 2011

To: Members, California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 11-42, Oakland Military Institute, College Preparatory Academy Final Apportionment

Consideration of Resolution No. 11-42, approving that Oakland Military Institute, College Preparatory Academy (OMI) has maintained a financially sound status for purposes of the Charter School Facilities Program (CSFP) final apportionment.

Background: Title 4, California Code of Regulations, section 10158, requires the Authority to determine whether a charter school has maintained a financially sound status when the school applies for a final apportionment.

On April 22, 2010, the Authority determined that OMI was financially sound for purposes of a Preliminary Apportionment. The State Allocation Board subsequently awarded a Preliminary Apportionment in the amount of \$3,131,842. OMI requested an Advance Apportionment for design in the amount of \$313,184 during the February 2011 Lottery Funding Round, in which OPSC released the funding to OMI on August 25, 2011. OMI is now requesting their final apportionment for the remaining balance of \$3,186,276. The final apportionment amount has been increased to \$3,499,460; therefore staff re-evaluated the financial soundness of OMI, and confirmed that the debt service coverage would still be met with the increased amount.

Issue: Given the short time frame between the Authority's recent findings regarding the financial soundness of OMI for purposes of an advance apportionment for design costs and the recent request for final apportionment, Authority staff has contacted OMI seeking information about any material, financial and/or operational changes at the school since the board approved the advance apportionment in June 2011. Dr. Mark Ryan, Superintendent of OMI, stated the following in a letter (dated August 29, 2011) to CSFA staff, "This certifies that the information needed for Final Apportionment for the Oakland Military Institute under the Charter School Facilities Program (CSFP) as identified in Section 10158 of the CSFP Regulations has not substantially changed since the approval of the Advance Apportionment on June 8, 2011."

Updates to the findings and issues that were highlighted to Authority members in June 2011 are noted below.

Criteria	Comments
Eligibility Criteria	OMI meets all eligibility criteria including: having instructional operations for at least two years, having a charter in place through 2013-14, being in good standing with its chartering authority, and being in compliance with the terms of its charter.
Demographic Information	OMI currently serves grades 6-12. OMI began instructional operations in 2001 with 157 students in grade 7. In 2007-08, OMI had 546 students in grades 6-10, decreased to 534 students in grades 6-12 for the 2010-11 school year, and increased to 626 students for the 2011-12 school year; OMI projects enrollment of 665 students for 2012-13 (12% increase from 2010-11).
Debt Service Coverage	Assuming OMI's projected level of contributions, OMI's projected debt service coverage ratios are 307.4% in 2012-13 and 312.8% in 2013-14. Based on a stress test of OMI's ability to make debt service coverage, OMI needs to receive at least 72% of expected contributions in 2012-13 and 73% of contributions in 2013-14 to maintain debt service coverage ratios of 100.0%. Historically, fundraising annual receipts averaged 22.6% of revenues in 2007-08 through 2009-10, but this average is expected to decrease to 12.9% from 2011-12 through 2013-14. This projected percentage of contributions to revenues is below the 15.0% threshold level employed by staff.
Other Financial Factors	<ol style="list-style-type: none"> 1. OMI relies heavily on contributions from private sources both to operate on a break-even basis and to meet the Program's debt service coverage requirement. 2. The CSFP payment would represent 1.4% of projected revenues during the first two years of CSFP payments, which is well below the preferred maximum range of 10-15%. 3. Net working capital for 2009-10 of \$1.13 million represented 21.3% of total expenses, which exceeds the preferred minimum of 5.0%.
Student Performance	Although OMI met its API growth targets during the past four years, OMI did not meet all AYP criteria from 2008-09 to 2010-11. Due to not meeting AYP in repeated years, OMI was placed in Program Improvement (PI) for the 2010-11 school year, and is currently in its second year in PI status. For the most recent reported year, 2010-11, based on its API base score, OMI ranked "5" statewide and "6" against similar schools ("10" = best).

- OMI has projected debt service coverage of 307.4% and 312.8% for 2012-13 and 2013-14, respectively, the first two years of CSFP payments. OMI would need to receive at least 72% of expected contributions in 2012-13 and 73% of contributions in 2013-14 to maintain debt service coverage ratios of 100.0% or greater.
- OMI has met its API growth target for the past four years, 2007-08 through 2010-11. OMI has not been consistent in meeting all of its AYP criteria and failed to do so from 2008-09 through 2010-11.
- OMI has been in operations in since 2001-02 and has been able to sustain and increase its enrollment since it began operations.
- OMI has raised private contributions of \$1,367,681 for 2007-08; \$1,214,597 for 2008-09, and \$883,312 for 2009-10. In addition, for the 2010-11 school year, OMI was able to raise approximately \$1,974,905 in private contributions.
- OMI's retention rates have been consistently low at 82%, 81% for the 2009-10 and 2010-11 schools years, respectively. However, OMI increased the retention rate to 88% for the 2011-12 school year. OMI has been able to recruit sufficient new students to maintain and increase its overall student enrollment, as reflected in its overall trend of enrollment growth.

Recommendation: Staff recommends that the California School Finance Authority Board determine that OMI is financially sound for purposes of the Charter School Facilities Program Final Apportionment. This recommendation is contingent upon OMI electing to have its CSFP payments intercepted as the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.