

**CHARTER SCHOOL FACILITIES PROGRAM
PROP 1D 2009 FUNDING ROUND
STAFF SUMMARY REPORT – NOVEMBER 2011**

| | |
|--|-------------------------------------|
| Applicant/Obligor: | KIPP Bay Area Schools |
| Project School: | KIPP King Collegiate High School |
| CDS (County – District – School) Code: | 01-61309-0114421 |
| School Address/Proposed Site: | San Lorenzo, CA, 94580 |
| Type of Project: | New Construction/Rehabilitation |
| County: | Alameda |
| District in which Project is Located: | San Lorenzo Unified School District |
| Charter Authorizer: | San Lorenzo Unified School District |
| | NC: \$8,332,746 |
| | <u>Rehab: \$3,607,942</u> |
| Total OPSC Project Cost: | Total: \$11,940,688 |
| | NC: \$4,166,373 |
| | <u>Rehab: \$1,803,971</u> |
| State Apportionment (50% Project Cost): | Total: \$5,970,344 |
| Lump Sum Contribution: | N/A |
| | NC: \$4,166,373 |
| | <u>Rehab: \$1,803,971</u> |
| Total CSFP Financed Amount: | Total: \$5,970,344 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 3.00% |
| | NC: \$212,565 |
| | <u>Rehab: \$92,037</u> |
| Estimated Annual CSFP Payment: | Total: \$304,603 |
| First Year of Occupancy of New Project: | 2012-13 |

Staff Recommendation: KIPP Bay Area Schools (KIPP), on behalf of KIPP King Collegiate (King), is seeking a Proposition 1D Final Apportionment of \$8,332,746 for the New Construction portion of its total Charter School Facilities Program (CSFP) award. *The school will be applying for Final Apportionment for its rehabilitation award at a later date.* KIPP is making the CSFP payments on behalf of the School. Staff recommends that the California School Finance Authority (Authority) Board determine that KIPP Bay Area Schools is financially sound for the purposes of the CSFP Final Apportionment for its New Construction Apportionment only. This recommendation is contingent upon KIPP electing to have its CSFP payments intercepted at 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 notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Background: On May 6, 2008, the Authority determined that KIPP King Collegiate High School was financially sound for purposes of a preliminary apportionment. The State Allocation Board subsequently awarded the preliminary apportionment in the amount of \$14,649,816, which included \$3,607,942 for rehabilitation and \$11,041,874 for new

construction. Effective July 1, 2008, KIPP King was subsumed under KIPP BAS through a merger with that organization, which is now the financial obligor and the umbrella organization for the following seven schools: KIPP Bayview Academy; KIPP Bridge Charter School; KIPP Heartwood Academy; KIPP San Francisco Bay Academy; KIPP Summit Academy; KIPP King; and KIPP San Jose Collegiate High School.

During its May 2008 financial soundness review of KIPP King, the construction cost amount was set at \$11,041,874. Since that time, the amount has been reduced to \$8,332,746. Per OPSC, this decrease is due to a built-in inflator that factors all of the Preliminary Apportionments to try to estimate what their grant would be in four years. Pupil grant amounts are less than the inflator factor predicted. Therefore, the projected increase in the pupil grants (OPSC’s attempt to capture through the inflator factor) has not been realized.

KIPP King had previously documented the receipt of \$1,000,000 in local matching funds from San Lorenzo Unified School District to finance the construction of the new campus however the lump sum contribution has been rescinded due to cash flow issues. KIPP states that they are significantly under budget with the drop in state funding, and truly needs the full amount of the loan to support the building of the campus. OPSC evaluated the request from KIPP to eliminate the lump sum contribution and forwarded a response letter to KIPP on September 12, 2011 approving the request. At this time, staff has re-evaluated the financial soundness of KIPP to determine if they are able to meet debt service coverage at the increased loan amount. The project has an anticipated occupancy date of August 2012.

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

| Criteria | Comments |
|-------------------------|--|
| EMO Information | |
| Demographic Information | <ol style="list-style-type: none"> 1. In 2010-11, KIPP operated 7 charter schools chartered by 5 districts; enrollment totaled 2,293 students (up 9%); the system-wide ADA rate was 96%. 2. By 2012-13 (1st year of project occupancy), KIPP plans to operate 7 schools with total projected enrollment of 2,550 students. |
| Debt Service Coverage | Based on KIPP’s financial projections, the projected debt service coverage levels for the anticipated combined CSFP lease payment in 2013-14 and 2014-15 are 380.2% and 444.1%, respectively. KIPP will need to receive at least 86% (\$5.30 million) of expected contributions in 2013-14 in order to meet the 100% projected debt service coverage ratio threshold. In 2014-15, KIPP will need to receive at least 83% (\$5.24 million) of contributions to maintain 100% projected debt service coverage. |
| Other Financial Factors | <ol style="list-style-type: none"> 1. Measured as a percentage of total revenues, contributions from 2011-12 through 2014-15 are projected to average 24.6% annually, which is significantly higher than the 15.0% threshold level employed by staff. |

Item 4 –KIPP Bay Area Schools –KIPP King Collegiate High School

| | |
|---------------------------|---|
| | 2. KIPP's net working capital (NWC) as of June 30, 2009 was \$10.19 million, or 56.1% of total expenses, and decreased to \$9.46 million, or 49.0% of total expenses as of June 30, 2010. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. |
| School Information | |
| Eligibility Criteria | King has met all eligibility criteria: (1) King commenced operations in 2007-08; (2) King's charter was approved in July 2007 and is in place through June 2012; (3) King is in good standing with its chartering authority, and in compliance with the terms of its charter. |
| Student Performance | All AYP criteria for King were met in 2007-08, 2008-09, and 2011-12. King's API growth scores were 804, 862, Testing Irregularity, and 819 for the years 2007-08 through 2010-11, respectively (The testing irregularity is addressed in the Academic's Section on Page 9). King was ranked 10 out of 10 statewide and 10 out of 10 among similar schools in 2009-10, and did not have a ranking for 2011-12 due to the testing irregularity that was reported for the 2009-10 test scores. |
| Demographic Information | King currently serves 448 students in grades 9-12. Enrollment in 2012-13 is expected to be 469 students with plans to increase enrollment to 494 students to accommodate the capacity of the proposed facility. Based on the 2010-11 P2 report, King's ADA rate was 97%. ADA rates of 92%, 96%, and 95% were achieved in 2007-08, 2008-09, and 2009-10 respectively. KIPP's financial projections assume an ADA rate of 95.0% for King. |

Program Eligibility: On October 11, 2011, at CSFA staff's request, verification was received from San Lorenzo Unified School District (SLUSD) confirming that KIPP King Collegiate (1) is in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Legal Status Questionnaire: Staff reviewed the applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead the staff to question the financial or legal integrity of this applicant.

Project Description: KIPP is requesting mainly new construction funding for a facility addition. The project is expected to include 15 new classrooms and related core area including a gymnasium, dining hall, administration and music/theater facilities, as funding allows. The classrooms will be constructed as standard 9th-12th grade classrooms. The School will also be constructing a new gym. The School anticipates providing capacity up to 494 students at any one time. The school site will be shared with the KIPP Summit Academy currently housing 397 students in grades 5th through 8th. The project is expected to cost \$8.33 million for the new construction portion, and \$3.61 million for the rehabilitation. The rehabilitation is of four existing classrooms and related core area totaling 4,310 square feet. KIPP projects occupancy to begin with the 2012-13 academic year.

KIPP anticipates funding its 50% local matching share of the OPSC calculated Project cost of \$11,940,688 (Both construction and rehabilitation) through a 30-year agreement with the State. CFSP payments are assumed to commence in 2013-14. KIPP will make the payments on behalf of the King.

CMO Organization and Management: KIPP is a non-profit, public benefit corporation with 501(c)(3) status, which currently operates seven public charter schools in the San Francisco Bay Area. KIPP Bay Area Schools is associated with the KIPP national network of schools, which has 109 schools across the nation all managed by local, regionalized nonprofits. The KIPP Foundation is located in San Francisco. The KIPP Foundation provides professional development, evaluation, and advocacy support for all KIPP schools nationwide.

King was established following the national KIPP model, as set forth by the KIPP Foundation. The hallmarks of the KIPP program include the following five pillars: 1) High Expectations: KIPP schools have clearly defined and measurable high expectations for academic achievement and conduct that make no excuses based on the students' backgrounds. Students, parents, teachers, and staff create and reinforce a culture of achievement and support through a range of formal and informal rewards and consequences for academic performance and behavior; 2) Choice & Commitment: Students, their parents, and the faculty of each KIPP school choose to participate in the program. No one is assigned or forced to attend a KIPP school. Everyone must make and uphold a commitment to the school and to each other to put in the time and effort required to achieve success; 3) More Time: KIPP schools know that there are no shortcuts when it comes to success in academics and life. With an extended school day, week, and year, students have more time in the classroom to acquire the academic knowledge and skills that will prepare them for competitive high schools and colleges, as well as more opportunities to engage in diverse extracurricular experiences; 4) Power to Lead: The principals of KIPP schools are effective academic and organizational leaders who understand that great schools require great school leaders. They have control over their school budget and personnel. They are free to swiftly move dollars or make staffing changes, allowing them maximum effectiveness in helping students learn; 5) Focus on Results: KIPP schools relentlessly focus on high student performance on standardized tests and other objective measures. Just as there are no shortcuts, there are no excuses. Students are expected to achieve a level of academic performance that will enable them to succeed at the nation's best high schools and colleges.

Following the national KIPP model, all KIPP students spend "more time on task" by devoting nine hours every weekday, plus alternate Saturdays throughout the extended school year, to class work and school-based activities. In addition, summer school is in session four hours a day for three weeks. KIPP King Collegiate correlates its curriculum objectives to California standards and works to ensure that all students master all areas of the content standards.

In October 2008, KIPP Bay Area Schools was created through a consolidation of seven charter schools, including five middle schools and two high schools, under its auspices. Each of these schools was established under the KIPP model, and KIPP Bay Area Schools assumed all fiscal and operational oversight responsibilities.

The co-founders of KIPP, Mike Feinberg and Dave Levin, are deeply involved with the organization, providing oversight for the school’s leadership program, assisting in recruitment, real estate, growth and other issues that individual schools might face.

CMO Management: Beth Sutkus-Thompson, Executive Director of KIPP Bay Area Schools, is the founding Executive Director of KIPP Bay Area Schools. Previously, she was the West Coast Trailblazer at the KIPP Foundation, where she was responsible for creating and implementing a west coast strategic growth plan for KIPP schools. Prior to her work at the KIPP Foundation, Ms. Sutkus-Thompson was on the founding team of NewSchools Venture Fund. Ms. Sutkus-Thompson is a graduate of The Broad Residency in Urban Education, a management development program for emerging executives working in urban school districts and charter management organizations. Ms. Sutkus-Thompson holds a B.A. in Education, and an MBA with a certificate in nonprofit management, all from Stanford University.

Ms. Sehba Ali serves as the Chief Academic Officer. She was the founder of KIPP Heartwood Academy Middle School in San Jose and co-founder of KIPP San Jose Collegiate high school. Ms. Ali earned a B.A. in English and Psychology from U.C. Berkeley, and a Masters from Stanford University’s School of Education.

Ms. Emily Rummo, Chief Operating Officer of KIPP Bay Area Schools, leads KIPP Bay Area operations, talent recruitment, marketing, and technology departments. She is also responsible for various strategy, human resources, and facilities initiatives. Prior to joining KIPP Bay Area Ms. Rummo worked as a Senior Analyst with NewSchools Venture Fund and as an Analyst at Dean & Company, a boutique strategy consulting firm in Washington D.C.. Ms. Rummo holds a MBA and an MA in Education from Stanford University, and a BA in English from Dartmouth College.

Board Experience: KIPP Bay Area is governed by a Board of Trustees and currently includes members with a variety of occupations and experiences, as noted below. The Board of Trustees is responsible for variety of functions, which include: Define and refine the organization’s mission, vision, and strategic direction; recruit, support, and evaluate the executive director (e.g., including hire and fire authority); monitor and evaluate the organizations programs and services; and ensure fiscal, legal and ethical integrity and maintain accountability.

| Name | Occupation | City of Residence | Term |
|-----------------------------------|---|-------------------|---|
| John Philip Coghlan (Board Chair) | Former president and CEO of VISA USA | San Francisco | Two year initial term (2009-2011) then eligible to serve two, three year terms (ending in 2017) |
| Lauren Dutton (Vice Chair) | Education consultant | Piedmont | Two year initial term (2009-2011) then eligible to serve two, three year terms (ending in 2017) |
| Chuck Daggs | Executive Vice President of Wells Fargo’s Wealth Management Group | Lafayette | One year initial term (2009-2010) then eligible to serve two, three year terms (ending in 2016) |
| Brewster Ely | Headmaster of Town School for Boys | San Francisco | One year initial term (2009-2010); then eligible for two, three year terms (ending in 2016) |

Item 4 –KIPP Bay Area Schools –KIPP King Collegiate High School

| | | | |
|-------------------|--|----------------|--|
| Bill Falik | CEO Live Oak Enterprises | Berkeley | One year initial term (2009-2010); then eligible for two, three year terms (ending in 2016) |
| Doris Fisher | Founder Gap, Inc. | San Francisco | Director for life |
| Laura Fisher | Community Volunteer | San Francisco | One year initial term (2009-2010); then eligible for two, three year terms (ending in 2016) |
| Ron Gonzales | CEO, Hispanic Foundation Silicon Valley | San Jose | One year initial term (2009-2010); then eligible for two, three year terms (ending in 2016) |
| Sukey Grousbeck | Community Volunteer | Portola Valley | One year initial term (2009-2010); then eligible for two, three year terms (ending in 2016) |
| Bill Gurley | Partner at Benchmark Capital | Menlo Park | One year initial term (2009-2010); then eligible for two, three year terms (ending in 2016) |
| Jacquelyn Hadley | Partner at Bridgespan Group | Tiburon | Two year initial term (2009-2011) then eligible to serve two, three year terms (ending in 2017) |
| Constance Heldman | Founder and President of Datanation Services Corporation | Tiburon | Three year initial term (2009-2012) then eligible to serve and additional three year term (ending in 2015) |
| Rick Intrater | Founder and CEO of Long Term Solutions | San Francisco | Three year initial term (2009-2012) then eligible to serve and additional three year term (ending in 2015) |
| Mimi Kingsley | Community Volunteer | Kentfield | Three year initial term (2009-2012) then eligible to serve and additional three year term (ending in 2015) |
| Satya Patel | Director at Twitter Inc. | Burlingame | Two year initial term (2009-2011) then eligible to serve two, three year terms (ending in 2017) |
| David Paulson | Partner with Jones Day LLP | Oakland | One year initial term (2009-2010); then eligible for two, three year terms (ending in 2016) |
| Paula Rantz | Rantz Family Foundation Manager | Palo Alto | Two year initial term (2009-2011) then eligible to serve two, three year terms (ending in 2017) |
| Mary Robinson | Fund development consultant | Sausalito | Three year initial term (2009-2012) then eligible to serve and additional three year term (ending in 2015) |
| Grace Voorhis | Former Partner at Morgan Stanley Venture Partners | Hillsborough | Two-year initial term (2011-2013), then eligible to serve two, three-year terms (ending in 2019) |

King Organizational Information: King’s charter was approved by the SLUSD on July 2007. The school began operations in 2007-08 with the charter set to expire on June 30, 2012. King currently serves 448 students in grades 9-12. Enrollment in 2012-13 is expected to be 469 students, and increase to a maximum of 494 students in 2014-15. Based on the 2010-11 P2 report, King’s ADA rate was 97%. ADA rates of 92%, 96%, and 95% were achieved in 2007-08, 2008-09, and 2009-10 respectively. KIPP’s financial projections assume an ADA rate of 95.0% for King.

Management Experience for Schools Open Less than Two Years: Not applicable as King began operations in 2007-08, exceeding the two years of instruction requirement.

School Management: King is led by Jason Singer, Principal. Prior to founding King, Mr. Singer founded and served as Principal of KIPP Summit Academy (middle school) from 2003-04 to 2006-07. Mr. Singer received his Bachelor of Arts degree from Pitzer College, and a Masters in secondary education from the University of Mississippi. Mr. Singer received his teaching credential from the State of Mississippi, and was awarded “Teacher of the Year” from Greenwood Public Schools. Upon his return to California, Mr. Singer founded C.H.A.L.K. (Communities in Harmony Advocating for Learning and Kids). Mr. Singer is a Fulbright Scholar.

Ms. Sharon Cravanas serves as the Assistant Principal of the Upper School and the Director of College Counseling. Ms. Cravanas has worked in college admissions guidance for over 30 years. She has served as Associate Director of Admissions at Mills College, and for 16 years, she was the Director of College Counseling at The Head Royce School. Since 2004, Ms. Cravanas has been working with new college preparatory charter schools by implementing their college counseling programs. Ms. Cravanas joined KIPP in July of 2008. In addition to providing admissions guidance to students and parents, Ms. Cravanas is a consultant for the College Board. She has trained college counselors and college admissions officers, and is a member of the Western Association of College Admissions Counselors and the National Association of College Admissions Counselors.

MS. Kate Belden, Assistant Principal, started her education career at I.S. 143 Middle School in New York, NY as a 2004 Teach For America Corps member. She served as both English teacher and literacy coach at I.S. 143, and was nominated for Teach For America’s Sue Lehmann award in 2006. Ms. Belden was the founding English teacher at KIPP King Collegiate High School in 2007, and is currently the Assistant Principal of Student Success at KIPP King. She holds a B.A. in English and Anthropology from the University of Notre Dame, a M.S. in Teaching from Fordham University, and a Certificate of Advanced Study in Education Administration and Supervision from National Louis University.

Enrollment Trends and Projections: The table on the following page presents school and enrollment information for KIPP’s schools open during 2011-12 and projections for 2012-13 through 2014-15. As of June 30, 2011, KIPP operated 7 charter schools chartered by five districts. In 2008-09 KIPP opened KIPP San Jose Collegiate, the last school to be opened under the organization of KIPP Bay Area Schools.

In 2010-11, enrollment totaled 2,293 students, with average daily attendance (ADA) at 2,204 students to produce an ADA rate of 96%. From 2007-08 through 2009-10, KIPP’s schools had total enrollments and ADA rates of 1,576 (92%), 1,810 (94%), and 2,098 (94%). The aggregate ADA rate has averaged 94% for the last four years. KIPP has noted that their re-enrollment (retention) rate is at 90% in all schools and 91% at King from the end of 2010-11 to the beginning of 2011-12.

System-wide enrollment for 2010-11 was up by 9% to 2,293 students from 2009-10, and increased by 8%, to 2,470 students, for the beginning of 2011-12 school year. The majority of the enrollment growth in 2010-11 and subsequent years is expected to come from existing schools to add new grades and for enrollment levels to reach maturation. Projected enrollment totals for 2012-13 through 2014-15 are 2,550, 2,588, and 2,620 students,

Item 4 –KIPP Bay Area Schools –KIPP King Collegiate High School

respectively. The organization’s financial projections incorporate these expected enrollment levels as well as an assumed system-wide ADA rate of 95.0%.

| School | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|--------------------|------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| KIPP Bayview | 81 | 161 | 212 | 241 | 223 | 244 | 233 | 250 | 255 | 267 | 271 | 276 |
| KIPP Bridge | | | | | 251 | 234 | 304 | 261 | 262 | 280 | 289 | 299 |
| KIPP Heartwood | | 78 | 158 | 239 | 358 | 360 | 369 | 392 | 401 | 400 | 400 | 400 |
| KIPP King | | | | | 98 | 185 | 294 | 402 | 448 | 469 | 476 | 494 |
| KIPP San Francisco | 73 | 127 | 181 | 257 | 284 | 314 | 348 | 332 | 351 | 345 | 344 | 344 |
| KIPP San Jose | | | | | | 88 | 161 | 262 | 356 | 392 | 411 | 410 |
| KIPP Summit | | | | 328 | 362 | 385 | 389 | 394 | 397 | 397 | 397 | 397 |
| Total | 154 | 366 | 551 | 1,065 | 1,576 | 1,810 | 2,098 | 2,293 | 2,470 | 2,550 | 2,588 | 2,620 |

King Academic 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.

King has three years of reported API scores, allowing a review of progress and comparison to similar schools. The following table summarizes the school’s trend in student performance.

| KIPP King Collegiate | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 |
|---|-------------------|-------------------|-------------------|-------------------|
| ADEQUATE YEARLY PROGRESS (AYP) | | | | |
| Met All AYP Criteria? | Yes | Yes | No | Yes |
| Criteria Met / Required Criteria | 6 / 6 | 6 / 6 | 4 / 5 | 13 / 13 |
| Met API Indicator for AYP? | Yes | Yes | No | Yes |
| Met Graduation Rate? | Yes | Yes | N/A | N/A |
| ACADEMIC PERFORMANCE INDEX (API) | | | | |
| Met Schoolwide Growth Target? | N/A | Yes | No | N/A |
| Met Comparable Improvement Growth Target? | N/A | Yes | No | N/A |
| Met Both Schoolwide & CI Growth Targets? | N/A | Yes | No | N/A |
| API Base Statewide Rank (10 = best) | N/A | 9 | 10 | N/A |
| API Base Similar Schools Rank (10 = best) | N/A | N/A | 10 | N/A |
| School's Actual Growth | N/A | 58 | N/A | N/A |
| Similar Schools Median of Actual Growth | N/A | N/A | N/A | N/A |
| Did School's Growth Exceed Median? | N/A | N/A | N/A | N/A |

For 2007-08, the school’s first operational year, King recorded a base API score of 804. For 2008-09 King recorded a growth API score of 862, which was 58 points above its base API score. The school ranked 9 out of 10 statewide in 2008-09. King met all 6 of the AYP criteria for 2007-08 and 2008-09; however, King did not meet AYP in 2009-10 due to not making its API growth target. For 2009-10, King did not record any API scores due to a testing irregularity, which also contributes to King not making AYP. When staff inquired about the Testing Irregularity that occurred in 2009-10, KIPP stated, “The testing area with too few tests was 10th grade Life Science. KIPP King Collegiate did not administer this test, due to the Principal at KIPP King not realizing it was required of all 10th graders. The Principal assumed wrongly that Life Science was similar to Summative Math. Since almost

all the KIPP King 10th graders take Biology or Chemistry, the Principal assumed their science testing was covered. The Principal followed up with the San Lorenzo Unified School District and the CDE. KIPP King will not repeat this mistake in the future.” For 2010-11, King recorded a API Growth score of 819, and met all 13 criteria for AYP.

KIPP Bay Area Schools Academic Performance: As mentioned previously, staff views student performance as a leading indicator of a school’s financial position. Student performance data is available for all seven KIPP schools operating during 2010-11.

API Growth scores for all KIPP schools have consistently been above 700, with most schools scoring above 800 and three schools, KIPP Heartwood, KIPP Bridge, and KIPP KIPP San Jose, scoring above 900. Due to the high API growth scores from year to year, API growth targets are not applicable.

| KIPP Bay Area Schools API Growth Scores/ Met API Growth Target | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|-------------|---------|
| School | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| KIPP Bridge | 717/Yes | 803/Yes | 747/No | 763/Yes | 761/NA | 789/Yes | 864/Yes | 911/Yes |
| KIPP Bayview | 641/NA | 711/Yes | 706/No | 741/Yes | 728/No | 757/Yes | 825/Yes | 867/Yes |
| KIPP San Francisco Bay | 691/NA | 698/Yes | 838/Yes | 866/NA | 857/NA | 832/NA | 845/NA | 859/Yes |
| KIPP Heartwood | | 900/NA | 921/NA | 914/NA | 903/NA | 894/NA | 915/NA | 900/Yes |
| KIPP San Jose | | | | | | 883/NA | 893/NA | 909/Yes |
| KIPP King | | | | | 804/NA | 862/NA | No Score/TI | 819/NA |
| KIPP Summit | 758/NA | 801/Yes | 817/Yes | 805/NA | 808/NA | 817/NA | 845/NA | 859/Yes |

As shown in the table below, the KIPP schools’ statewide and similar schools rankings (base API scores) have been consistently high in past years and have stayed consistent. Of the 7 schools that posted statewide and similar school rankings in 2010-11, only one school didn’t show improvement in either ranking categories. Based on state and similar school rankings, KIPP Bay Area Schools have been consistently some of the best in the state.

| KIPP Bay Area Schools API Base Rank: Statewide/Similar Schools | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| School | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| KIPP Bridge | | | 9/10 | 6/10 | 7/10 | 6/10 | 7/10 | 9/10 |
| KIPP Bayview | | 2/NA | 4/8 | 5/10 | 4/10 | 5/10 | 5/9 | 8/10 |
| KIPP San Francisco Bay | | 4/NA | 3/7 | 9/10 | 10/10 | 9/10 | 8/10 | 8/10 |
| KIPP Heartwood | | | 10/NA | 10/10 | 10/10 | 10/10 | 10/10 | 10/10 |
| KIPP San Jose | | | | | | | 10/NA | 10/10 |
| KIPP King | | | | | | 9/NA | 10/10 | N/A |
| KIPP Summit | | 7/NA | 7/10 | 9/10 | 8/10 | 8/10 | 8/8 | 8/10 |

In the period between 2003-04 and 2006-07, all KIPP Bay area schools met all AYP criteria. In 2007-08 and 2008-09, 4 of 5 schools (80%) and 6 of 7 schools (86%), respectively, also met all AYP criteria. In 2009-10, 6 of 7 schools (86%) met all AYP criteria, and in 2010-11, 3 of 7 schools (43%) met all AYP criteria. Despite the 2010-11 decline in KIPP schools making AYP, KIPP has been able to effectively maintain student performance while adding schools to their system. The following table presents AYP target data for each KIPP school over the seven year period. Staff notes that the percent-proficient threshold requirement for AYP, both for English-language arts and mathematics, in accordance with the Elementary and Secondary Education Act (ESEA), reflects increases each year and will continue to reflect increases until 2014. Therefore, with each successive year, charter schools are increasingly challenged in “making AYP” (meeting all AYP criteria). This requirement applies to both school wide performance and performance of each numerically significant subgroup within any school. As an example, since 2002, the percent-proficient

requirements for English-language arts (elementary schools, middles schools, and elementary school districts) are as follows: 13.6% for each of 2001-02, 2002-03, and 2003-04; 24.4% for each of 2004-05, 2005-06, and 2006-07; 35.2% for 2007-08; 46.0% for 2008-09; and 56.8% for 2009-10. This specific requirement will increase up until 2014 with the following percent-proficient thresholds: 67.6% for 2010-11; 78.4% for 2011-12; 89.2% for 2012-13; and 100.0% for 2013-14. The English-language arts percent-proficient requirement for high schools shows a similar trend, as do the percent-proficient requirements for mathematics for both elementary schools and high schools. Given that each numerically significant subgroup within a school must meet the percent-proficient requirement in English-language arts and mathematics in order for the school to make AYP, and given the high prevalence of English-language learners in California, charter schools are faced with increasing difficulty in making AYP¹. In spite of these targets becoming increasingly more difficult, with few exceptions, KIPP has demonstrated the ability to meet AYP criteria year to year.

| KIPP Bay Area Schools Met All AYP Criteria | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| School | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| KIPP Bridge | Yes | Yes | Yes | Yes | No | Yes | Yes | No |
| KIPP Bayview | | Yes | Yes | Yes | No | Yes | Yes | Yes |
| KIPP San Francisco Bay | | Yes | Yes | Yes | Yes | Yes | Yes | No |
| KIPP Heartwood | | Yes | Yes | Yes | Yes | Yes | Yes | No |
| KIPP San Jose | | | | | | Yes | Yes | Yes |
| KIPP King | | | | | Yes | Yes | No | Yes |
| KIPP Summit | | Yes | Yes | Yes | Yes | No | Yes | No |

Financial Analysis: Staff’s financial analysis of KIPP is based upon review of the following documents: (1) three years of audited financial statements (2007-08 through 2009-10), (2) 2010-11 final un-audited financials, (3) approved budget for the 2011-12 school year; and (4) multi-year budget projections from 2012-13 through 2014-15. Additionally, KIPP provided enrollment projections through 2014-15.

KIPP’s financial projections are based upon the following assumptions: (1) occupancy of the construction CSFP project in 2012-13; (2) increases in enrollment as described above under the Enrollment Trends and Projections section; (3) 2010-11 funding rates for the charter school general purpose block grant of \$5,153, \$5,305, and \$6,158 for grades 4-6, 7-8, and 9-12, respectively; (4) projected ADA rates of 95%, which is consistent with KIPP’s historical performance; (5) revenue growth (cost of living adjustments) on charter school block grant and to certified salaries of 1.9% for 2012-13, 2.3% for 2013-14, and 2.7% for 2014-15; and (6) KIPP maintaining a teacher to student ratio of 20:1. Cost of living adjustments for the expense categories are as follows: 1.7% for 2011-12, 2.2% for 2012-13, 2.6% for 2013-14, and 2.9% for 2014-15.

Highlighted in this section are financial data and credit indicators used to evaluate KIPP’s ability to meet its CSFP obligations for its projects funded by Proposition 1D. Staff’s financial analysis is based on information for KIPP as an organization and not for KIPP King Collegiate on a stand-alone basis. Please note that the revenue, expenditure and changes to net assets recorded in financial audits and provided in KIPP’s financial projections have been modified by staff, where necessary, to include capital outlays, operating leases and

¹ Information regarding AYP requirements are derived from the California Department of Education’s “2010 Adequate Yearly Progress Report Information Guide.”

Item 4 –KIPP Bay Area Schools –KIPP King Collegiate High School

repayment of debt and other significant obligations, and to exclude non-cash items such as depreciation.

| KIPP Bay Area Schools (Kipp King Collegiate High School) | Actual FY 2007-08 | Actual FY 2008-09 | Actual FY 2009-10 | Un-Audited Actuals FY 2010-11 | Budgeted FY 2011-12 | Projected FY 2012-13 | Projected FY 2013-14 | Projected FY 2014-15 |
|---|------------------------------|------------------------------|------------------------------|--|--------------------------------|---------------------------------|---------------------------------|---------------------------------|
| ENROLLMENT PROJECTIONS | | | | | | | | |
| Enrollment | 1,576 | 1,810 | 2,098 | 2,293 | 2,470 | 2,550 | 2,588 | 2,620 |
| Average Daily Attendance | 1,466 | 1,701 | 1,972 | 2,201 | 2,347 | 2,423 | 2,459 | 2,489 |
| Average Daily Attendance (%) | 93% | 94% | 94% | 96% | 95% | 95% | 95% | 95% |
| FINANCIAL PROJECTIONS | | | | | | | | |
| Total Revenues Available for CSFP Lease Payment | \$ 19,405,298 | \$ 22,552,263 | \$ 18,719,042 | \$ 22,879,486 | \$ 23,701,010 | \$ 24,390,877 | \$ 25,214,655 | \$ 26,067,760 |
| Total Expenses Paid Before CSFP Lease Payment | 17,181,594 | 18,167,417 | 19,300,137 | 21,419,248 | 23,208,125 | 23,489,353 | 24,056,591 | 24,714,892 |
| Accounting Adjustments | 62,220 | - | - | - | - | - | - | - |
| Net Revenues Available for CSFP Lease Payment | \$ 2,285,924 | \$ 4,384,846 | \$ (581,095) | \$ 1,460,238 | \$ 492,885 | \$ 901,524 | \$ 1,158,064 | \$ 1,352,868 |
| CSFP Lease Payment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 304,603 | \$ 304,603 |
| Net Revenues After CSFP Lease Payment | \$ 2,285,924 | \$ 4,384,846 | \$ (581,095) | \$ 1,460,238 | \$ 492,885 | \$ 901,524 | \$ 853,461 | \$ 1,048,265 |
| FINANCIAL INDICATORS | | | | | | | | |
| Net Revenues Available for CSFP Lease Payment | \$ 2,285,924 | \$ 4,384,846 | \$ (581,095) | \$ 1,460,238 | \$ 492,885 | \$ 901,524 | \$ 1,158,064 | \$ 1,352,868 |
| Debt Service Coverage by Net Revenues | N/A | N/A | N/A | N/A | N/A | N/A | 380.2% | 444.1% |
| Contributions | \$ 5,843,340 | \$ 7,328,160 | \$ 4,207,496 | \$ 6,203,781 | \$ 6,039,051 | \$ 5,938,954 | \$ 6,151,628 | \$ 6,291,100 |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A | N/A | N/A | N/A | N/A | N/A | Below 0% | Below 0% |
| CSFP Lease Payment / Revenues | N/A | N/A | N/A | N/A | N/A | N/A | 1.2% | 1.2% |
| Contributions / Revenues | 30.1% | 32.5% | 22.5% | 27.1% | 25.5% | 24.3% | 24.4% | 24.1% |
| Net Revenues After CSFP Lease Payment / Revenues | 11.8% | 19.4% | -3.1% | 6.4% | 2.1% | 3.7% | 3.4% | 4.0% |
| Revenues / ADA | \$ 13,240 | \$ 13,255 | \$ 9,492 | \$ 10,394 | \$ 10,101 | \$ 10,068 | \$ 10,256 | \$ 10,473 |
| Expenses / ADA | \$ 11,723 | \$ 10,678 | \$ 9,786 | \$ 9,730 | \$ 9,891 | \$ 9,696 | \$ 9,909 | \$ 10,052 |
| Surplus (Deficit) / ADA | \$ 1,517 | \$ 2,577 | \$ (295) | \$ 663 | \$ 210 | \$ 372 | \$ 347 | \$ 421 |
| Net Working Capital | \$ 6,652,437 | \$ 10,192,447 | \$ 9,464,814 | | | | | |
| Net Working Capital / Expenses | 38.7% | 56.1% | 49.0% | | | | | |

Long-Term Liabilities – No long-term debt was outstanding through June 30, 2010 or indicated by the school’s financial projections other than the anticipated CSFP obligation.

Short-Term Liabilities: As of June 30, 2010, KIPP had outstanding short-term liabilities of \$71,376. These debt obligations took the form of three short term notes payable; KIPP King Collegiate (\$54,709 – 0%) has a short term notes payable to the Local Initiative Support Corporation (LISC) for construction purposes; KIPP Bayview Academy (\$8,334 – 1.73%) has a short term notes payable to the California Department of Education (CDE) for startup purposes; and KIPP San Francisco Bay Academy (\$8,333 – 1.69%) has a short term notes payable to the CDE for startup purposes. Annual payments due under these various obligations will be paid before annual payments are made on the CSFP funding agreements for the projects funded by Proposition 1D. Staff notes that KIPP Bay Area schools, as of June 15, 2011, has only the remaining LISC notes payable still outstanding, in the amount of \$54,709, with the CDE startup notes having been paid in full during the 2010-11 school year.

School Facilities: KIPP leases a building for an administrative office in Oakland and leases land and buildings in Oakland, San Francisco, San Jose, and San Lorenzo under various operating leases. The aggregate rental payments required under the terms of their operating leases ranges from a high of \$449,694 in 2010-11 to a low of \$44,857 in 2014-15.

The facility costs (staff has added the projected CSFP payment for KIPP King for the fiscal years of 2013-14 and 2014-15) for all KIPP schools incorporated into the financial projections are as follows: \$820,992 (2011-12), \$855,245 (2012-13), \$1.18 million (2013-14), and \$1.20 (2014-15). These estimated expenses are equivalent to an average of 4% of annual total revenues including contributions. These levels are below the 10-15% affordability range and these commitments are not expected to impact the organization’s flexibility to respond to any unforeseen costs.

| KIPP Bay Area Projected Facilities Costs | | | | |
|---|-------------------|-------------------|---------------------|--------------------|
| School | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| KIPP Bayview | \$ 180,919 | \$ 184,899 | \$ 189,707 | \$ 195,208 |
| KIPP Bridge | \$ 102,386 | \$ 105,722 | \$ 107,589 | \$ 109,675 |
| KIPP Heartwood | \$ 127,782 | \$ 130,593 | \$ 133,988 | \$ 137,874 |
| KIPP SF Bay | \$ 88,062 | \$ 89,999 | \$ 92,339 | \$ 95,017 |
| KIPP Summit | \$ 120,449 | \$ 123,099 | \$ 126,300 | \$ 129,963 |
| KIPP King | \$ 41,742 | \$ 62,660 | \$ 367,619 | \$ 369,484 |
| KIPP San Jose | \$ 42,922 | \$ 38,975 | \$ 39,989 | \$ 41,149 |
| Support Office | \$ 116,730 | \$ 119,298 | \$ 122,399 | \$ 125,949 |
| Total | \$ 820,992 | \$ 855,245 | \$ 1,179,930 | \$1,204,319 |

Non-Operating Revenues from Contributions - Over the last four years, KIPP received the following total amounts of private grants and contributions averaging \$5.79 million per year: \$5.84 million (2007-08), \$7.33 million (2008-09), \$4.21 million (2009-10), and \$6.20 million (2010-11). The financial projections estimate the following donations averaging \$6.11 million per year. Historically, fundraising annual receipts averaged 28.0% of revenues the years of 2007-08 through 2010-11, but this average is expected to slightly decrease to 24.6% from 2011-12 through 2014-15. However, the slight decrease in contributions as a percentage of revenues is still significantly higher than the 15.0% threshold level employed by staff.

A significant trend that staff has identified through its review of KIPP’s historical performance, current year’s budget, and multi-year budget projections is that, in spite of KIPP’s ability to substantiate its projected private contributions, KIPP relies on such contributions in order to operate on at least a break even basis and that without such contributions, KIPP would be operating at a deficit. Based on a stress test of KIPP’s reliance on private contributions, KIPP would need to receive at least 86% (\$5.30 million) of expected contributions in 2013-14 and 83% (\$5.24 million) of contributions in 2014-15 to maintain debt service coverage ratios of greater than 100.0%. When looking at KIPP’s historical average (\$5.90 million) and future projections in regards to their contributions, staff believes that the school will be able to raise their projected contributions in the future. However, due to the large percentage of contributions that must be realized, if any unforeseen decrease in private contributions occurs, KIPP will not be able to cover the debt service payment. KIPP stated that in the event that projected contributions are not met the organization “...does have the ability to lay off individuals and reduce services. If projected donations were not realized, KIPP would reduce services. Given KIPP’s strong track record of fundraising and the broad base of contributors, KIPP is confident in the ability to raise the projected funds.” When asked about its reliance on contributions, KIPP representatives acknowledged its dependence on philanthropy and must recognize that this source of revenue is built into their business model for the foreseeable future.

Staff Adjusted Changes in Net Assets - KIPP’s historical and projected financial operations incorporate the aforementioned described enrollment trends, facility costs and non-operating revenues from contributions.

Staff notes that KIPP has been able to maintain positive ending fund balances due to receipt of sizeable donations. Factoring in their contribution revenues, KIPP experienced an increase to net assets in 2007-08 of \$2.22 million, a net increase in 2009-10 of \$4.38 million, a net loss in 2009-10 of (\$581,095), and a net increase in 2010-11 of \$1.46 million. KIPP's projections include increases to net assets in the amounts of \$492,885 and \$901,524 from 2011-12 through 2012-13. For 2013-14 and 2014-15, KIPP projects net revenues available after the CSFP lease payments to be \$853,461 and \$1.05 million, respectively.

Projected Debt Service Coverage – Debt service coverage ratios on CSFP payments are calculated using net revenues available after payment of debt service on any existing and projected indebtedness. KIPP does have debt outstanding, which has been incorporated into their financial projections. Prior to KIPP's expected CSFP payments, the annual increases in net assets are projected to be \$1.16 million in 2013-14 and \$1.35 million in 2014-15.

Assuming a 3.0% interest rate, a 30-year repayment period, and an estimated combined project cost of \$11,940,688, KIPP's annual CSFP payment is projected to be \$304,603 beginning 2013-14, the year following project occupancy. KIPP's projected net revenues of \$1.16 million for 2013-14 and \$1.35 million for 2014-15 would provide debt service coverage of 380.2% and 444.1%, respectively, which is more than three to four times the minimum requirement. The CSFP payments would represent 1.2% of projected revenues for each of these years, which is well below the preferred maximum range of 10-15%. However, if projected contributions are not realized debt service coverage for 2013-14 and 2014-15 would be well below 0%, respectively.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. KIPP's NWC for 2007-08 was \$6.65 million, or 38.7% of total expenses, increased to \$10.19 million for 2008-09, or 56.1% of total expenses, and decreased slightly to \$9.46 million for 2009-10, or 49.0% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

- + KIPP Bay Area schools have consistently met all AYP criteria, scored in the 800's in regards to their API growth scores, and rank among the highest schools in the state, both in the similar school and statewide rankings.
- + Staff projects debt service coverage ratios for 2013-14 and 2014-15 of 380.2% and 444.1%, respectively.
- + KIPP has demonstrated strong management and leadership with support of local districts. The KIPP organization is well established throughout the nation, with significant experience within the charter school area and providing a network of support. KIPP King also has strong local school leadership.

Item 4 –KIPP Bay Area Schools –KIPP King Collegiate High School

- KIPP would need to receive at least 85% (\$5.27 million) of expected contributions in 2013-14 and 2014-15 to maintain debt service coverage ratios of greater than 100.0%.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that KIPP Bay Area Schools on behalf of KIPP King Collegiate is financially sound for the Charter School Facilities Program Final Apportionment for its New Construction apportionment only. This recommendation is contingent upon KIPP 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.