

MEMORANDUM

Date: January 11, 2012

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 12-01
Financially Sound Status of Leadership Public Schools - Richmond

This Staff Summary serves to support Resolution No. 12-01, approving that Leadership Public Schools - Richmond (LPSR) has maintained a financially sound status for purposes of an Advance Apportionment of \$2,479,636 for design relating to its rehabilitation project under the Proposition 1D funding round of the Charter School Facilities Program (Program). This recommendation for approval of Resolution No. 12-01 is contingent upon LPSR's agreement to have its general purpose entitlement grant intercepted by the State Controller's Office pursuant to Education Code section 17199.4.

Background: At its May 2008 meeting, the State Allocation Board (SAB) awarded LPSR, operating under the auspices of Leadership Public Schools, Inc. (LPSI), a Preliminary Apportionment of \$15,398,181 through the Proposition 1D funding round of the Charter School Facilities Program (Program). On May 11, 2011, the Authority determined that LPSR was financially sound for an Advance Apportionment for design of \$2,479,636. Pursuant to the Authority's Resolution No. 12-01, the Authority's determination of financial soundness was valid for six months. As LPSR did not meet the Office of Public School Construction's requirements for Advance release of funds within six months of the Authority's determination of financial soundness, LPSR is requesting that the Authority determine LPSR's continued financial soundness. The Authority has conducted a reassessment of LPSR's financial soundness based on updated information that LPSR submitted on December 7, 2011. Because LPSR's submission of updated information does not reflect any material changes to its financial status, lump-sum contribution to its local matching share, projected student enrollment, or project scope and status, the Authority conducted a reassessment of LPSR's financial soundness based on updated financial information as well as newly available academic performance information. Although West Contra Costa Unified School District (District) was the original legal applicant for the Program project, based on an amended OPSC Form 50-09 that LPSI submitted in December 2011, the legal applicant is LPSI.

With total Program project costs of \$24,796,362, the District has committed to contributing \$9,398,181 towards the Program project, leaving a remaining local matching share of \$3,000,000. For additional details regarding the Program project and organizational information, the reader is referred to the Staff Report that was included in the Authority's board packet for its meeting on May 11, 2011.

Student Performance: Although LPSR met all AYP criteria in 2007-08, LPSR has not met all AYP criteria for the past three years, 2008-09 through 2010-11. LPSR has met its API growth target in three of the past four years, including 2007-08, 2008-09, and 2010-11. For

the most recent reported year, 2010-11, LPSR achieved an API growth score of 753 with a growth of 83 points. Based on its API base score for 2009-10, LPSR achieved a statewide ranking of “2” and a similar-schools ranking of “9” (“10” = best). Notwithstanding its failure to meet all AYP criteria, given its consistency in meeting its API growth target and its substantial API growth for 2010-11, staff considers LPSR’s academic performance satisfactory for purposes of being found financially sound at this time.

Financial Analysis: Staff’s reassessment of LPSR’s financial status is based on the review of the following financial information: LPSR’s audited financial statements for 2007-08 through 2010-11; LPSR’s 2011-12 First Interim Budget; and LPSR’s updated multi-year budget projections for 2012-13 through 2015-16.

Staff’s reassessment of LPSR’s financial status is based on the following assumptions: (1) projected student enrollment of 447, 454, 519, 586, and 585 for 2011-12 through 2015-16, respectively; (2) projected ADA rates of 94% for 2010-11 and 93% for all subsequent years; (3) a general purpose block grant rate of \$5,964, representing a 3.0% reduction from the rate set forth in the State’s 2011-12 fiscal year budget; 3) cost of living adjustments (COLAs) to the general purpose block grant rate of 0.0% for each of 2012-13 and 2013-14 and 1.0% for each of 2014-15 and 2015-16; and (4) contributions of \$61,000 per year for each of 2011-12 through 2015-16 based on LPSR’s average level of contributions for the past four years. It is noteworthy that LPSR’s assumption regarding the general purpose block grant rate is very conservative, given that a recent report from the Governor indicates that the rates for the current academic year would be reduced by less than one percent.

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 207.0% and 213.9%, respectively, which is substantially above the minimum 100%-threshold requirement. Notwithstanding the assumption that LPSR would likely receive at least \$61,000 per year in contributions during these years based on its historical performance, LPSR is not reliant on such contributions and would meet the minimum 100% Program requirement without them. In addition, with the inclusion of contributions, LPSR could withstand an approximate 5% reduction in projected enrollment during the first two years of CSFP payments and still meet the minimum debt service coverage threshold.

Based on the assumptions applied to LPSR’s financial projections and the additional information provided, the Authority’s reassessment found LPSR to be financially sound in terms of satisfying the Program’s debt service coverage requirement

The following table highlights the Staff’s findings stemming from the Authority’s December 2011 reassessment.

Criteria	Comments
Eligibility Criteria	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.

Demographic Information	LPSR currently serves 447 students in grades 9-12 and projects having 454 students in grades 9-12 in 2012-13. 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.
Debt Service Coverage	LPSR’s projected debt service coverage for 2014-15 and 2015-16 (first two years of CSFP payments) is 207.0% and 213.9%, respectively. Based on LPSR’s assumptions for student enrollment growth, LPSR is not reliant on contributions.
Other Financial Factors	<ol style="list-style-type: none"> 1. LPSR has a commitment letter from West Contra Costa Unified School District for the lump sum matching contribution of \$9,398,181. 2. CSFP lease payments are projected to represent 3.2% of total revenues in each of 2014-15 and 2015-16, which is well below the 10-15% recommended threshold levels. 3. As of June 30, 2011, LPSR had net working capital of \$1,067,101, representing 29.3% of total expenses. 4. LPSR had a fund balance of \$1,041,190 as of June 30, 2011, and LPSR anticipates having a fund balance of \$1,393,355 as of June 30, 2014, the year-end prior to its first CSFP payment.
Student Performance	<ol style="list-style-type: none"> 1. LPSR met its API growth target for three of the past four years, including 2007-08, 2008-09, and 2010-11. 2. Based on its reported API base score for 2009-10, LPSR has a statewide API ranking of 2 out of 10 and a similar schools ranking of 9 out of 10. 3. LPSR has not met all AYP criteria for the past three years, 2008-09 through 2010-11 and is in its second year on “Program Improvement” status per the No Child Left Behind Act of 2001.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that LPSR is financially sound for the purposes of the Charter School Facilities Program Advance Apportionment, and approve Resolution No. 12-01. This recommendation for approval of Resolution No. 12-01 is contingent upon LPSR’s agreement to have its general purpose entitlement grant intercepted by the State Controller’s Office pursuant to Education Code section 17199.4. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction regarding this determination.