

**CHARTER SCHOOL FACILITIES PROGRAM  
PROP 1D 2008 FUNDING ROUND  
STAFF SUMMARY REPORT – APRIL 2012**

<b>Applicant/Obligor:</b>	Oakland Unity High School
<b>Project School:</b>	Oakland Unity High School
<b>CDS (County – District – School) Code:</b>	01-61259-0100065
<b>Proposed Project Location:</b>	2955 Peralta Oaks Court, Oakland
<b>Type of Project:</b>	New Construction
<b>County:</b>	Alameda
<b>District in which Project is Located:</b>	Oakland Unified School District
<b>Charter Authorizer:</b>	Oakland Unified School District
<b>Total OPSC Project Cost:</b>	\$19,836,428
<b>State Apportionment (50% Project Cost):</b>	\$9,918,214
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$9,918,214
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$506,020
<b>First Year of Occupancy of New Project:</b>	2014-15

**Staff Recommendation:** Staff recommends that the California School Finance Authority (Authority) Board determine that Oakland Unity High School (OUHS) is financially sound for the purpose of Charter School Facilities Program (Program) Advance and/or Final Apportionment. This determination is in place for six months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon OUHS 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 (OPSC) 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 was approved by the Board at its June 8, 2011 meeting in regards to the schools request for an advance of \$1,323,642 for Design, and received their funds on December 11, 2011. OUHS is now requesting an Advance Apportionment for Site Acquisition in the amount of \$6,600,000. 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.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	OUHS meets all eligibility criteria including two years of operations, a charter in place through June 30, 2017 and good standing with its chartering authority, and is in compliance with the terms of its charter.
<b>Demographic Information</b>	OUHS serves grades nine through twelve. For 2011-12, OUHS has 252 students in grades 9-12, and for both 2012-13 and 2013-14, total enrollment of 285 and 320 students are projected, respectively. By occupancy of the project in 2014-15, total student enrollment is projected at 365 students, with increases to 410 students in 2015-16, 430 students in 2016-17, and 450 students (capacity) in 2017-18.
<b>Debt Service Coverage</b>	OUHS's projected debt service coverage ratios have exceeded the minimum requirement of 100.0% at 111.1% in 2015-16 and 113.4% in 2016-17.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. OUHS does not rely on contributions from private sources.</li> <li>2. Projected ratios of CSFP payments to total revenues are 15.2% in 2015-16 and 14.3% in 2016-17, which are on the higher end of the preferred maximum range of 10-15%.</li> <li>3. Net working capital for 2010-11 of \$437,931 represented 18.1% of total expenses, which exceeds the preferred minimum of 5.0%.</li> </ol>
<b>Student Performance</b>	OUHS met all AYP criteria from 2007-08 through 2008-09, did not meet its AYP for 2009-10, and made AYP in 2010-11. OUHS met its API school-wide growth target through 2007-08 and 2010-11. Based on its 2010-11 API score, OUHS ranked 3 out of 10 statewide and 7 out of 10 among similar schools.

**Program Eligibility:** On February 6, 2012, 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 approximately 430 to 450 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. Currently, the property owner has submitted an application to the City of Oakland for a Conditional Use Permit (CUP) for the school occupancy. OUHS is also in the process of selecting an architectural/engineering entity to conduct the design and seismic upgrade study, and anticipate submitting the seismic upgrade plan to the Division of State Architect (DSA) in June 2012. OUHS expects to complete the facility in time for occupancy by the start of the 2014-15 school year.

**Organizational Information:** OUHS commenced its operations in 2003-04 serving 85 students in grades 9 and 10, and currently serves approximately 252 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, and subsequently renewed for a third term through June 2017.

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 the Governor'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:

<b>Name</b>	<b>Occupation</b>	<b>Term</b>
Andrew Noble, Chair	Attorney	Sep 2011 – Aug 2013
Jesse Hahnel, Vice Chair	Attorney	Sep 2011 – Aug 2013
Timothy O'toole, Treasurer	Banker	Jan 2012 – Dec 2013
Damon Grant, Secretary	OUHS Teacher	Sep 2011 – Aug 2012
Lance Tsang, Executive Director	Executive Director	Sep 2011 – Aug 2013
Ely Ceryak	Broker	Sep 2011 – Aug 2012
Tiffany Grant	Engineer	Mar 2012 – Feb 2014
Henning Hohnhold	Design Analyst	Sep 2011 – Aug 2013
Blanca Alvarez	OUHS Parent	Feb 2012 – Jan 2014

**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 four 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	FY 2010-11
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>				
Met All AYP Criteria?	Yes	Yes	No	Yes
Criteria Met / Required Criteria	6 / 6	6 / 6	4 / 5	5 / 5
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	N/A	N/A
<b>ACADEMIC PERFORMANCE INDEX (API)</b>				
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	No	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	No	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	2	2	3	3
API Base Similar Schools Rank (10 = best)	2	1	4	7
School's Actual Growth	29	53	21	36
Similar Schools Median of Actual Growth	12	15	16	19
Did School's Growth Exceed Median?	Yes	Yes	Yes	Yes

OUHS had API growth scores of 624, 677, 698, and 735 from 2007-08 through 2010-11, respectively. OUHS met its API school-wide growth target for all four years. For the last two reported academic years, 2009-10 and 2010-11, OUHS ranked 3 out of 10 statewide, and 4 out of 10 to similar schools (2009-10) and 7 out of 10 (2010-11). OUHS met all 6 of 6 AYP criteria in 2007-08 and 2008-09, did not meet its AYP criteria for 2009-10 due to a not meeting its percent proficient in the English-Language Arts category, however OUHS was able to meet its AYP criteria in 2010-11.

OUHS provided other performance statistics when staff inquired regarding OUHS' low API scores and statewide/similar school rankings. For the 2009-10 school year, the California Department of Education reported OUHS's Cohort dropout rate at 15.0, significantly better than the 34.8 reported for Oakland Unified School District. OUHS also maintains a high graduation rate and college acceptance rate. The graduation rate for OUHS is above 90% (District Rate is around 70%), with 70% being accepted into four-year universities or colleges.

**Enrollment and Retention Rates:** For the current 2011-12 academic year, grade 9-12 enrollment totaled 252 students, with 132 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 14% growth for each school year.

According to OUHS's projections, the student enrollment is expected to increase to 285 during the 2012-13 school year, 320 students for the 2013-14 school year, and increase to 365 by occupancy of the Project in 2014-15, and continue to grow to 410 and 430 during the first two years after project occupancy, 2015-16 and 2016-17, respectively. The current average class size of about 20 students is expected to increase to 25 through occupancy of the Project.

OUHS's average daily attendance (ADA) rate for the past four years has ranged from 94% to 97%, which supports OUHS's assumed ADA rate of 96% for its financial projections. OUHS's retention rate for the current 2011-12 school year was 89.2%.

**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 evaluation of OUHS's financial performance is based on review of the following documents: (1) OUHS's audited financial statements for 2007-08 through 2010-11; (2) OUHS's second interim budget for 2011-12; (3) OUHS's budget projections for 2012-13 through 2016-17; and (4) OUHS's current enrollment for 2011-12 as well as projected annual enrollment for 2012-13 through 2016-17.

OUHS's financial projections are based upon the following assumptions: (1) occupancy of the constructed CSFP project in 2014-15; (2) increases in enrollment as described above under the Enrollment Trends and Projections section; (3) 2011-12 funding rates for the charter school general purpose block grant of \$6,158 for grades 9-12, respectively; (4) projected ADA rates of 96%, which is consistent with OUHS's historical performance; (5) revenue growth (cost of living adjustments) on charter school block grant of 0% for 2012-13 through 2014-15, and 2.5% for 2015-16 and 2016-17; (6) and cost of living adjustments for the expense categories are 2.0% for the fiscal years of 2012-13 through 2016-17.

**Financial Performance:** No long-term debt was outstanding through June 30, 2011 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.*

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Oakland Unity High School	Actual FY 2007-08	Actual FY 2008-09	Actual FY 2009-10	Actual FY 2010-11	Budgeted FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16	Projected FY 2016-17
<b>ENROLLMENT PROJECTIONS</b>										
Enrollment	216	197	227	233	252	285	320	365	410	430
Average Daily Attendance	203	183	221	226	244	274	307	350	394	413
Average Daily Attendance (%)	94%	93%	97%	97%	97%	96%	96%	96%	96%	96%
<b>FINANCIAL PROJECTIONS</b>										
Total Revenues Available for CSFP Payment	\$ 2,307,358	\$ 2,395,217	\$ 2,425,052	\$ 2,375,138	\$ 2,415,925	\$ 2,822,700	\$ 2,791,800	\$ 2,912,548	\$ 3,319,562	\$ 3,542,992
Total Expenses Paid Before CSFP Payment	2,232,977	2,335,868	2,409,282	2,416,728	2,430,658	2,713,870	2,644,122	2,561,675	2,772,441	2,984,244
Accounting Adjustments	63,050	17,292	17,292	18,066	25,000	15,000	15,000	15,000	15,000	15,000
Net Revenues Available for CSFP Payment	\$ 137,431	\$ 76,641	\$ 33,062	\$ (23,524)	\$ 10,267	\$ 123,830	\$ 162,678	\$ 365,873	\$ 562,121	\$ 573,748
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 506,020	\$ 506,020
Net Revenues After CSFP Payment	\$ 137,431	\$ 76,641	\$ 33,062	\$ (23,524)	\$ 10,267	\$ 123,830	\$ 162,678	\$ 365,873	\$ 56,101	\$ 67,728
<b>FINANCIAL INDICATORS</b>										
Net Revenues Available for CSFP Payment	\$ 137,431	\$ 76,641	\$ 33,062	\$ (23,524)	\$ 10,267	\$ 123,830	\$ 162,678	\$ 365,873	\$ 562,121	\$ 573,748
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	111.1%	113.4%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	105.2%	107.5%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15.2%	14.3%
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	1.1%	1.1%	1.0%	0.9%	0.8%
Net Revenues After CSFP Payment / Revenues	6.0%	3.2%	1.4%	-1.0%	0.4%	4.4%	5.8%	12.6%	1.7%	1.9%
Revenues / ADA	\$ 11,366	\$ 13,089	\$ 10,973	\$ 10,509	\$ 9,901	\$ 10,317	\$ 9,088	\$ 8,312	\$ 8,434	\$ 8,583
Expenses / ADA	\$ 11,000	\$ 12,764	\$ 10,902	\$ 10,693	\$ 9,962	\$ 9,919	\$ 8,607	\$ 7,311	\$ 8,329	\$ 8,455
Surplus (Deficit) / ADA	\$ 366	\$ 324	\$ 71	\$ (184)	\$ (60)	\$ 398	\$ 481	\$ 1,001	\$ 104	\$ 128
Net Working Capital	\$ 414,530	\$ 454,713	\$ 487,775	\$ 437,931	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	18.6%	19.5%	20.2%	18.1%	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. Audited figures for 2010-11 resulted in a net decrease of (\$41,590) on revenues and expenses of \$2.38 million and \$2.41 million, respectively. For the current year of 2011-12, based on its Second Interim Budget Report, OUHS anticipates an ending operating deficit of (\$14,733).

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 2015-16, which is one year following expected occupancy of the Project in 2014-15. OUHS’s projected net revenues of \$562,121 would provide debt service coverage of 111.1% in 2015-16. For the following year, projected debt service coverage is 113.4% based on net revenues of \$573,748. The CSFP payment would represent 15.2% of projected revenues in 2015-16 and 14.3% in 2016-17. These levels are at the higher end 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 98% of projected enrollment actualizes in 2015-16 (403 students out of 410). Given past growth patterns and the number of students on the current waiting list, it is the Authority’s finding that OUHS can be expected to enroll the number of students necessary to be deemed financially sound; however, student enrollment will be followed closely by staff in the future.

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, increased to \$487,775 for 2009-10, or 20.2% of total expenses, and decreased slightly to \$437,931, or 18.1% 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 111.1% and 113.4% for 2015-16 and 2016-17, respectively, the first two years of CSFP payments.
- + OUHS met its API School Growth for the past four years. Although OUHS did not meet it AYP for 2009-10, it did meet AYP for of 2007-08, 2008-09, and 2010-11.
- + 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 (14% average increase per year) in its enrollment. In addition, OUHS currently has a waiting list of 132 students.
- OUHS has projected its enrollment to grow to 430 students during the second year of project occupancy in 2016-17. This equates approximately to a 44% increase of current enrollment. In 2015-16 (First year of the CSFP payment), OUHS will need to have 98% of projected enrollment to meet debt service coverage.
- CSFP payment would represent 15.2% of projected revenues in 2015-16 and 14.3% in 2015-16. These levels are at the higher end 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 and/ or Final Apportionment. This determination as it relates to an Advance and Final Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon OUHS 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 (OPSC) and the State Allocation Board regarding this determination.