

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT –NOVEMBER 2013**

Applicant/Obligor:	Voices College-Bound Language Academy
Project School:	Voices College-Bound Language Academy
CDS (County – District – School) Code:	43-694500-113662
Proposed Location:	725 Hellyer Ave., San Jose, CA 95111
Type of Project:	New Construction at Existing Site
County:	Santa Clara
District in which Project is Located:	Franklin McKinley School District
Charter Authorizer:	Franklin McKinley School District
Total OPSC Project Cost:	\$8,849,508
State Apportionment (50% Project Cost):	\$4,424,754
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$4,424,754
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	2.00%
Estimated Annual CSFP Payment:	\$197,565
First Year of Occupancy of New Project:	2014-2015

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Voices College-Bound Language Academy (VCBLA) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Final Apportionment. This determination as it relates to a 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 VCBLA 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.

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

Criteria	Comments
Eligibility Criteria	VCBLA meets all eligibility criteria, including having been in operations for more than two years, having a charter in place through 2017, and being in good standing with its chartering authority and in compliance with the terms of its charter
Demographic Information	By addition of a new grade each successive year, VCBLA has shown consistent student enrollment growth since commencing operations in 2007-08. With 396 students in grades K-7 for the current year, VCBLA plans to grow to 435 students during the first year of project occupancy, 2014-15, with no projected enrollment growth for the foreseeable future

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Debt Service Coverage	VCBLA projects debt service coverage of 254.1% and 255.6% for 2015-16 and 2016-17, respectively, the first two years of CSFP payments.
Other Financial Factors	VCBLA does not rely on contributions to meet the Program's debt service coverage requirement (see above)
Student Performance	VCBLA met all AYP criteria and its API growth targets for 2010-11 through 2012-13. In addition, VCBLA achieved API growth scores of 839, 859, and 898 for 2010-11 through 2012-13, respectively. Based on its API base scores, VCBLA achieved statewide and similar schools rankings of "7" and "9" ("10" = best), respectively, for 2011-12, and "7" and "10", respectively, for 2012-13

Program Eligibility: On October 31, 2013, the Authority received verification from the Franklin-McKinley School District confirming that VCBLA is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. VCBLA's current charter is effective through June 2017.

Legal Status Questionnaire: Staff reviewed VCBLA responses to the questions contained in the Legal Status Questionnaire (LSQ). VCBLA responded on October 31, 2013 and answered "None" to all LSQ questions, indicating no disclosures to provide regarding material information relating to legal or regulatory proceedings or legal action in which it or any of its affiliates is a named party.

Project Description: VCBLA has requested funding for new construction of a school facility on an existing site to eventually accommodate 435 students (grades K-8) of which 78% are expected to qualify for free and reduced lunch. The site for the approximate 20,000 square foot one-story facility will be located at the existing G. W. Hellyer Elementary, 725 Hellyer Ave., San Jose, CA 95111. VCBLA will construct this project in cooperation with the Franklin McKinley Elementary School District and consists of two kindergarten and 18 multi-grade classrooms, an administration building, and a multi-use building. VCBLA expects to complete the facility in time for occupancy by the start of the 2014-15 school year.

Organizational Information: VCBLA received its first charter from Franklin McKinley School District on March 14, 2006 and began operations in 2007-08 serving 102 students in grades K-1, and currently serves approximately 395 students in grades K-7. VCBLA operates as an independent California non-profit corporation governed by a board comprised of parents, educators, a District representative, and other community members.

VCBLA's mission is to prepare all students, specifically educationally underserved children, for the challenges of higher education through the context of an academically rigorous dual-immersion program. VCBLA meets the academic and social/emotional needs of students by using a dual language, standards and research based, high academic achievement, and data driven program.

Management Experience: The description of experience of VCBLA's personnel and management team demonstrates that professional, experienced and qualified individuals are serving in key capacities within the organization, as described below.

Ms. Frances Teso is the Founding Principal/CEO of VCBLA and has served in this position since 2007-08. Prior to this position, Ms. Teso served in the following administrative

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positions: School Partnership Director of Oak Grove School District (2006-07); Principal Resident of East Bay Conservation Corps Charter School (2005-06); and Instructional Facilitator at Sherman Oaks Dual-Language School (2004-05). Prior to her administrative roles, Ms. Teso served as a California public school teacher (2000-04), as well as a pre-kindergarten teacher (1993-94) and Head Start teacher (1989-92). Ms. Teso holds an M.A. in Elementary Education from San Jose State University, along with a Multiple Subjects Credential and a Preliminary Administrative Service Credential.

Ms. Lizzette Ramirez has served as the Operations Manager since 2007 and holds a B.S. in Business Administration from San Jose State University.

Board Experience: The ten members of the Governing Board have a variety of educational experience. In addition, based on VCBLA’s charter, the Board is to include a parent and teacher representative, and when available, an 8th-grade student representative (non-voting/advisory). The following table depicts the current Board’s membership.

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Name	Occupation	Title	County of Residence	Term
Alice Miller	CFO and CCSA Director	Treasurer/Community Member	Santa Clara	Indefinite
Yvonne McGuire	Administrative Assistant	Secretary/Parent Representative	Santa Clara	2013-14
Cathy Holly	Special Education Teacher	Vice President	Santa Clara	Indefinite
Frances Teso	Principal, VCBLA	Board President	Santa Clara	Indefinite
Rebecca Hernandez	Project Manager	Community Representative	Santa Clara	2012-14
Charles Miller	Special Education Teacher	Board Vice President	Santa Clara	2013-14
Sara Reyes	Catholic Charities Director	Secretary/Community Representative	Santa Clara	2012-14
Salome Portugal	Administrator for KIPP Schools	Community Representative	Alameda	2012-14

The primary roles and responsibilities of the Board include the following: overseeing implementation of the charter components; adopting, implementing, and interpreting school-wide policy; overseeing the Principal’s performance; adopting the charter school budget; approval of charter amendments; approval of contractual agreements; and advocating on behalf of the school for purposes of fundraising.

Management Experience for Schools Open Less than Two Years: Not applicable. VCBLA began instructional operations in 2007-08 and exceeds the minimum instructional requirements 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 1 funds.

The following table summarizes VCBLA’s student performance for the past four years.

Voices College-Bound Language Academy	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	Yes	Yes	Yes
Criteria Met / Required Criteria	4 / 5	17 / 17	5 / 5	17 / 17
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	NA	NA	NA	NA
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	No	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	No	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	5	2	7	7
API Base Similar Schools Rank (10 = best)	N/A	N/A	9	10
School's Actual Growth	-31	98	20	39
Similar Schools Median of Actual Growth	N/A	N/A	1	-2
Did School's Growth Exceed Median?	N/A	N/A	Yes	Yes

VCBLA met all AYP criteria and its API growth target for each of the past three years, 2010-11 through 2012-13. Moreover, VCBLA achieved API growth scores of 839, 859, and 898 for 2010-11 through 2012-13, respectively, with actual growth of 98 points, 20 points, and 39 points of each of these years, respectively. Based on its API base scores, VCBLA achieved statewide and similar schools rankings of “7” and “9” (“10” = best), respectively, for 2011-12, and “7” and “10”, respectively, for 2012-13. Staff’s overall review of VCBLA’s academic performance finds that VCBLA has demonstrated significant improvement in academic performance over the past four years, which clearly supports a recommendation of financial soundness for Final Apportionment.

Enrollment and Retention Rates: VCBLA’s operations commenced in 2007-08 with 107 students in grade K-1. By adding an additional grade each subsequent year, VCBLA’s enrollment grew to 145 students in 2008-09, 204 students in 2009-10, 269 students in 2010-11, 316 students in 2011-12, and 353 students in 2012-13. For the current 2013-14 academic year, VCBLA is serving 396 students in grades K-7, and VCBLA is anticipating enrollment growth to 435 students in grades K-8 in 2014-15, the first year of project occupancy. VCBLA is projecting no additional enrollment growth for the foreseeable future. For 2012-13 and 2013-14, VCBLA achieved year-to-year retention rates of 92% and 95%, respectively, and has a current waiting list of 346 students.

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Based on the 2010-11 and 2011-12 audit reports, as well as the 2012-13 P-2 Report, VCBLA had average daily attendance (ADA) rates of 97.0%, 98.1%, and 97.3% for 2010-11 through 2012-13, respectively, consistent with the assumption of 97% for the ADA incorporated into the multi-year budget projections.

Given VCBLA’s consistent enrollment growth thus far, as well as VCBLA’s most recent retention rate and current wait list, staff considers VCBLA’s enrollment projections to be reasonable.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the VCBLA’s ability to meet its CSFP obligations. The table below summarizes key aspects of the school’s past and projected financial performance.

Staff’s financial analysis of VCBLA is based upon review of the following documents: (1) audited financial statements for 2009-10, 2010-11, and 2011-12; (2) draft audit actuals for 2012-13; and (3) multi-year budget projections for 2013-14 through 2016-17, along with assumptions, including projected enrollment.

VCBLA’s financial projections are based upon the following assumptions: (1) project occupancy in 2014-15; (2) projected enrollment as described above (under “Enrollment and Retention Rates”); (3) 2013-14 Local Control Funding Formula (“LCFF”) per ADA funding rate of \$6,438; (4) projected ADA rates of 97%, which is consistent with VCBLA’s historical performance; (5) cost of living adjustment (COLA) on LCFF per ADA funding rate of 1.80%, 2.20%, and 2.50% for 2014-15 through 2016-17, respectively; (6) COLA to certificated/classified compensation on average of 4% for each of the projected years; and (7) maintenance of student-to-teacher ratios of between 17 and 21 during the projected years.

Voices College-Bound Language Academy	Actual FY 2010/11	Actual FY 2011/12	Unaudited FY 2012/13	Budgeted FY 2013/14	Projected FY 2014/15	Projected FY 2015/16	Projected FY 2016/17
ENROLLMENT PROJECTIONS							
Enrollment	269	316	353	396	435	435	435
Average Daily Attendance	264	310	342	384	422	422	422
Average Daily Attendance (%)	98%	98%	97%	97%	97%	97%	97%
FINANCIAL PROJECTIONS							
Total Revenues Available for CSFP Payment	\$ 1,916,248	\$ 2,290,118	\$ 2,659,560	\$ 3,108,053	\$ 3,452,906	\$ 3,490,613	\$ 3,568,234
Total Expenses Paid Before CSFP Payment	1,656,683	1,894,931	2,241,669	2,616,534	2,906,298	2,988,523	3,063,192
Accounting Adjustments	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 259,565	\$ 395,187	\$ 417,891	\$ 491,519	\$ 546,607	\$ 502,090	\$ 505,041
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 197,565	\$ 197,565
Net Revenues After CSFP Payment	\$ 259,565	\$ 395,187	\$ 417,891	\$ 491,519	\$ 546,607	\$ 304,525	\$ 307,476
FINANCIAL INDICATORS							
Net Revenues Available for CSFP Payment	\$ 259,565	\$ 395,187	\$ 417,891	\$ 491,519	\$ 546,607	\$ 502,090	\$ 505,041
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	254.1%	255.6%
Contributions	\$ 28,738	\$ 33,156	\$ 52,651	\$ 37,500	\$ 40,000	\$ 45,000	\$ 50,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	231.4%	230.3%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	5.7%	5.5%
Contributions / Revenues	1.5%	1.4%	2.0%	1.2%	1.2%	1.3%	1.4%
Net Revenues After CSFP Payment / Revenues	13.5%	17.3%	15.7%	15.8%	15.8%	8.7%	8.6%
Revenues / ADA	\$ 7,269	\$ 7,395	\$ 7,767	\$ 8,091	\$ 8,183	\$ 8,273	\$ 8,457
Expenses / ADA	\$ 6,284	\$ 6,119	\$ 6,547	\$ 6,812	\$ 6,888	\$ 7,551	\$ 7,728
Surplus (Deficit) / ADA	\$ 985	\$ 1,276	\$ 1,220	\$ 1,280	\$ 1,295	\$ 722	\$ 729
Net Working Capital	\$ 630,414	\$ 1,056,059	\$ 1,401,825				
Net Working Capital / Expenses	38.1%	55.7%	62.5%				

Long-term Obligations: As of June 30, 2013, VCBLA’s only outstanding long term debt is in connection with the CSFP project.

Financial Performance: For 2010-11, VCBLA produced net revenues of \$259,565 on \$1.92 million in revenues and \$1.66 million in expenses. In 2011-12, VCBLA revenues and expenses grew at comparable levels as VCBLA added services for another grade class. Revenues and expenses of \$2.29 million and \$1.89 million, respectively, produced net revenues of \$395,187. The 2012-13 draft audit indicates another year of VCBLA operating at a surplus. Revenues and expenses of \$2.66 million and \$2.24 million, respectively, produced net revenues of \$417,891. With the assumptions for projections described above, VCBLA anticipates net revenues of \$491,519 \$546,607 for 2013-14 and 2014-15 (year of project occupancy). For the two years following project occupancy, 2015-16 and 2016-17, VCBLA anticipates net revenues of \$502,090 and \$505,041, respectively, prior to CSFP payments.

Projected Debt Service Coverage of CSFP Payments: Assuming a 2.0% interest rate and 30-year repayment period, as well as an estimated project cost of \$8,849,508, VCBLA's annual CSFP payment will be \$197,565 beginning 2015-16, the first year following project occupancy. VCBLA's projected net revenues of \$502,090 for 2015-16 and \$505,041 for 2016-17 would provide debt service coverage levels of 254.1% and 255.6%, respectively, which are substantially above the minimum requirement. The CSFP payments would represent 5.7% and 5.5% of projected revenues for each of these years, which is well within the preferred maximum range of 10-15%. While VCBLA includes private contributions in its projected revenues, such contributions represent less than 2% of revenues in all projected years. VCBLA does not rely on private contributions to meet the 100.0% debt service coverage requirement.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. VCBLA's NWC for 2011-12 was \$1.06 million, 55.7% of total expenses. For 2012-13, VCBLA's NWC grew to \$1.40 million, 62.5% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. On June 30, 2013, VCBLA reported holding \$1.07 million in cash. VCBLA's liquidity indicators remain supportive of financial soundness.

Strengths, Weaknesses and Mitigants

- + VCBLA projects debt service coverage of 254.1% and 255.6% for 2015-16 and 2016-17, respectively, the first two years of CSFP payments. VCBLA does not rely on contributions to meet the Program's debt service coverage requirement.
- + VCBLA's net working capital as of June 30, 2013 was \$1.40 million or 62.5% of total expenses, which is well above the 5% threshold to be considered sufficient. On June 30, 2013, VCBLA reported holding \$1.06 million in cash.
- + Beginning with 107 students in grades K-1 in 2007-08, VCBLA has shown consistent student enrollment growth as a result of adding a new grade each successive year, with 396 students in grades K-7 for 2013-14. VCBLA anticipates continued growth to 435 students in grades K-8 in 2014-15.
- + For 2012-13 and 2013-14, VCBLA achieved year-to-year retention rates of 92% and 95%, respectively, and has a current waiting list of 346 students. In addition,

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for 2010-11 through 2012-13, VCBLA achieved ADA rates of 97.0%, 98.1%, and 97.3%, respectively.

- + VCBLA met all AYP criteria and its API growth targets for 2010-11 through 2012-13. In addition, VCBLA achieved API growth scores of 839, 859, and 898 for 2010-11 through 2012-13, respectively. Based on its API base scores, VCBLA achieved statewide and similar schools rankings of “7” and “9” (“10” = best), respectively, for 2011-12, and “7” and “10”, respectively, for 2012-13.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Voices College-Bound Language Academy (VCBLA) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Final Apportionment. This determination as it relates to a 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 VCBLA 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.