

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

Applicant/Obligor:	Gateway Community Charters
Project School:	Futures High School
CDS (County – District – School) Code:	34-76505-0113878
Project Location:	Rio Linda Blvd. and Grace Avenue, Sacramento, California 95838 (Parcel # 237-0081-001)
Type of Project:	New Construction
County:	Sacramento
District in which Project is Located:	Twin Rivers Unified School District
Charter Authorizer:	Twin Rivers Unified School District
Total OPSC Project Cost:	\$10,205,824
State Apportionment (50% Project Cost):	\$5,102,912
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$5,102,912
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	2.00%
Estimated Annual CSFP Payment:	\$227,845
First Year of Occupancy of New Project:	2016-17

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Gateway Community Charters (GCC or Gateway), on behalf of Futures High School (Futures) is financially sound for the purposes of the Charter School Facilities Program (Program) Advance Apportionment. This determination as it relates to an Advance 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 GCC 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 immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Background: GCC (formerly Grant Community Charters, Inc.), an educational management organization (EMO), applied for CSFP Proposition 1D financing for nine projects at five of its six schools. In May 2008, GCC received preliminary apportionment for four projects at two schools (Futures High School and Higher Learning Academy, two projects at each). With the intention of sharing a site with Higher Learning Academy (HLA), Futures is currently planning its New Construction on the site for which Higher Learning Academy received an Advance Apportionment for site acquisition in June 2012. Although Futures originally received preliminary apportionments for both new construction and rehabilitation, the rehabilitation project was rescinded in August 2013. Overall, GCC has requested funding for three projects within Sacramento County, including; two projects for the HLA, grades K-6 project and 7-12 project, which are anticipated to cost \$18,067,134 and

\$17,103,884, respectively; and the New Construction project for Futures High School, which is anticipated to cost \$10,205,824. Gateway Community Charters, on behalf of Futures, is seeking an Advance Apportionment for design for \$1,020,582.

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

Criteria	Comments
EMO Information	
Demographic Information	<ol style="list-style-type: none"> 1. GCC serves grades K-12 at six schools; for 2013-14, total enrollment is 4,176. 2. By 2016-17, when all CSFP Projects are occupied, GCC projects total enrollment at 4,751 for all six schools.
Debt Service Coverage	Based on Gateway’s financial projections, projected debt service coverage levels for all four CSFP projects are 393.3% and 310.0% for 2017-18 and 2018-19, respectively.
Other Financial Factors	No fundraising revenues (contributions) are included in the projections.
Student Performance	<p>GCC’s overall academic performance was mixed over the past four years, as follows:</p> <ol style="list-style-type: none"> 1. Three of the six schools met API growth in one of the two past years. 2. Two of GCC’s three schools that had reported API information for 2012-13, Community Outreach Academy and HLA, met their API growth targets for that year, with HLA showing a growth of 55 points. 3. For the past three years, two of four schools for which data was available relative to API-base-score Statewide and Similar Schools rankings, Community Outreach Academy and Futures, had rankings of “5” or greater in each category. One of the schools that did not meet this threshold, California Aerospace Academy closed in 2012. The other school, Higher Learning Academy had Statewide and Similar Schools rankings of “1” for each of the past two years. 4. Among the five schools that had reportable AYP information during each of the past two years, only one school, Community Outreach Academy, met its all of AYP criteria during 2011-12, and none met all of its AYP criteria during 2012-13.

School Information	
Eligibility Criteria	Futures has met all eligibility criteria: (1) Futures commenced operations in 2004-05, and GCC has been in operation since 2003-04; (2) Futures’ charter is in place through June 2017; (3) Futures is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	Futures overall academic performance with API growth and API-base-score rankings has been high, meeting its API growth target in three of the past five years and having Statewide and Similar Schools rankings of “8” and “9” for 2012-13.
Demographic Information	<ol style="list-style-type: none"> 1. Futures currently serves 345 students in grades 9-12 and anticipates expanding to 410 students in grades 9-12 by project occupancy in 2016-17, to 421 students in grades 9-12 by 2017-18, and to 432 students in grades 9-12 by 2018-19. 2. Futures’ year-to-year retention rates were low with rates of 67.3% for 2012-13 and 77.3% for 2013-14.

Program Eligibility: On December 4, 2013, verification was received from the Superintendent’s Office of Twin Rivers Unified School District (TRUSD), confirming that Futures is (1) in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority. Futures’ charter is effective through June 30, 2017.

Legal Status Questionnaire: Staff reviewed Futures’ responses to the questions contained in the Legal Status Questionnaire that was executed on October 30, 2013. Futures answered “None” to all LSQ questions.

Project Description: GCC has purchased a 19.2 acre parcel of land located at Rio Linda Blvd. and Grace Avenue, Sacramento, California 95838 (Parcel # 237-0081-001) for purposes of constructing share facilities for both HLA and Futures in order to serve grades K-12. GCC is planning to construct a two-story classroom facility that includes 10 dedicated classrooms for Futures and 18 dedicated classrooms for HLA. In addition, GCC is planning to construct a two-story administration/library building and a two-story multi-purpose building, both to be shared by HLA and Futures. GCC anticipates occupancy of the project in 2016-17 at which time Futures will be moving from its current site at 3702 Stephens Drive, North Highlands, California 95660. The student capacity for the project is 925 students, representing a capacity of 475 students for Futures and 450 students for Higher Learning Academy.

Organizational Information: Futures received its first 5-year charter from Grant Joint Union High School District (GJUHSD) in 2003 and began instructional operations in 2004-05. Subsequently, as GJUHSD unified with several other districts to become TRUSD in 2008-09, Futures’ charter was renewed under TRUSD, and in 2012, Futures had its charter renewed through June 30, 2017 wherein Futures is chartered to serve grades 7-12. Futures currently serves 345 students in grades 9-12.

Futures offers standards-based instruction to prepare students for entrance into a career or college of their choice upon graduation. Much of the student base is of Russian-Ukrainian/Eastern European descent. Futures' overall English learner population is 42.8%, with 49.3% of English learners speaking Russian, 43.9% speaking Ukrainian, 1.7% speaking Romanian, and 1.7% speaking other non-English languages. Eighty-five percent of students at Futures are eligible for free or reduced price lunch. For students who have recently entered the country, the school has adopted the High Point reading program that takes students from the absolute basics to the 6th grade reading level in the span of two years, with the goal being that all students pass the California High School Exit Examination.

For students who have basic proficiency in English, academic instruction takes place at grade level standards to ensure that all students have the opportunity to score proficient and above the STAR tests.

Educational Management Organization: GCC is a 501(c)(3) non-profit public benefit corporation, governed by a board of directors that creates, controls and operates its schools. The board consists of five members whose backgrounds include business, education, and governmental affairs. GCC operates six charter schools with different grade combinations and two of the six schools being non-site based, as depicted in the table below. It is noteworthy that one of GCC's original schools, California Aerospace Academy, closed its operations in 2012 and that GCC opened a new school, Gateway International School, for this 2013-14 academy year.

School	Opened	Site-Based	Grades Served	2013-14 Enrollment*
Community Outreach Academy	2003-04	Yes	K – 8	1,472
Futures High School	2004-05	Yes	9 - 12	345
Higher Learning Academy	2007-08	Yes	K - 8	223
Gateway International School	2013-14	Yes	K - 8	401
Community Collaborative Charter	2005-06	No	K - 12	914
Sacramento Academic and Vocational Academy	2007-08	No	7 - 12	821
Total				4,176

* Enrollment data provided by GCC as of October 30, 2013

GCC was established with the mission and vision of providing quality schools of choice that provide access to innovative, quality standards-based educational opportunities for all students with a particular emphasis on serving vulnerable, at-risk and underserved students in the greater Sacramento region. In 2004-05, at the request of the community, GCC expanded to incorporate a charter school with a significant number of under-served English language learners, resulting in its increased enrollment from just under 200 students to over 4,100 today. The geographic areas where most of the students reside are low income, economically disadvantaged with significant challenges such as high crime rates, rampant substance abuse, high ethnic and racial diversity, and substandard housing. Approximately 83% of GCC's students qualify for free and reduced-price lunches with some schools having free and reduced-price lunch percentages as high as 90%.

GCC manages six independent charters that include the following key components in the students' education: (1) learning standards that meet and exceed California State Standards; (2) one school with a curriculum based on the nationally recognized Core Knowledge of Curriculum Sequence; and another school based on the internationally recognized International Baccalaureate program; (3) rigorous and frequent assessments; (4) instructional excellence and ongoing professional development; (5) significant level of instructional and learning time; and (6) additional support for students who need it and (7) partnership with parents. In addition, Gateway Community Charters operates schools with high concentrations of English Language Learners and are recognized for working with the community and our authorizers to ensure effective instruction and academic success.

Management Experience for Schools Open Less than Two Years: GCC and Futures began operations in 2003-04 and 2004-05, respectively, thus exceeding the two years of instruction requirement.

Management Experience: The resumes of the school's personnel and the management team demonstrate professional, experienced and qualified individuals serving in key capacities within the organization.

School Management: Nataliya Burko has served as Principal of Futures since 2009. Prior to this position, Ms. Burko served as an English teacher and Lead Teacher within the GCC schools, and Assistant Principal at Futures (2004-09). Ms. Burko holds a Bachelor's degree in secondary education, a Master's degree in English and foreign literature, and California Multiple Subjects, CTEL, and Administrative Credentials.

EMO Management: Dr. Cindy Petersen, the Superintendent/CEO for GCC, oversees and manages all of GCC's charter schools. She holds a Masters of Educational Leadership and Ed.D. in Organizational Leadership from the University of La Verne, and holds a California Administrative Credential. Dr. Petersen has held a variety of positions in the charter school industry since 1997.

Aaron Thornsberry was appointed as Chief Business Officer for GCC in March 2013. Prior to this position, Mr. Thornsberry served as Chief Business Officer for St. Hope Public Schools in Sacramento (2008-13) and Senior Associate at Gilbert Associates, Inc. (2002-06). Mr. Thornsberry holds a Bachelor's Degree in accounting from California State University, Chico, and is a Certified Public Accountant.

Board Experience: The five members of the Governing Board have a broad variety of educational experience. The following table depicts the current Board's membership.

Gateway Community Charters Governing Board

Name	Occupation	Title	County of Residence	Term
Harry Block	Retired City of Sacramento Director of Utilities Billing	Director	Sacramento	2010-14
Lillie Campbell	Retired Assistant Superintendent – Del Paso School District	Vice President	Placer	2010-16
Mark Anderson	Retired Philanthropy Finance/Operations Manager Hewlett-Packard presently Executive Director of RAFT (Resource Area for Teachers)	Treasurer	Placer	2010-16
Bruce Mangerich	Retired Deputy Superintendent– Grant Joint Union High School District	Vice President	Sacramento	2010-14
Jack Turner	Retired Dean of Instruction, Cabrillo College	Secretary	Santa Cruz	2010-14

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 CEO's/Superintendent's performance; adopting the charter school budget; approval of charter amendments; approval of contractual agreements; ensuring legal and ethical integrity of the organization; maintaining accountability; and advocating on behalf of the school for purposes of fundraising.

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.

Staff reviewed four years of reported API scores for Futures, allowing a review of progress and comparison to similar schools. The following table summarizes the school's trend in student performance.

Futures High School	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	Yes	No	No
Criteria Met / Required Criteria	5 / 5	5 / 5	4 / 5	3 / 6
Met API Indicator for AYP?	Yes	Yes	Yes	No
Met Graduation Rate?	N/A	N/A	N/A	No
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	No	Yes	No
Met Comparable Improvement Growth Target?	Yes	No	Yes	No
Met Both Schoolwide & CI Growth Targets?	Yes	No	Yes	No
API Base Statewide Rank (10 = best)	8	8	9	8
API Base Similar Schools Rank (10 = best)	10	10	10	9
School's Actual Growth	26	-7	22	-31
Similar Schools Median of Actual Growth	16	-3	7	3
Did School's Growth Exceed Median?	Yes	No	Yes	No

For 2009-10 through 2012-13, Futures achieved API growth scores of 804, 796, 819 and 788, respectively. In addition, Futures met its API growth target in three of the past five years, 2008-09 (refer to the following table), 2009-10, and 2011-12. For 2009-10 through 2012-13, respectively, Futures achieved the following Statewide and Similar Schools rankings, respectively, based on API base scores: “8” and “10” for 2009-10; “8” and “10” for 2010-11; “9” and “10” for 2011-12; and “8” and “9” for 2012-13. Notwithstanding Futures’ relatively high performance with API, Futures showed a net loss of 31 points for its 2012-13 API growth. Futures met all AYP criteria in three of the past five years, 2008-09 (refer to the following table), 2009-10, and 2010-11.

The following tables depict academic performance for GCC’s charter schools over the past five years. Please note that the 2012-13 API data within these tables primarily address Community Outreach Academy, Futures, and Higher Learning Academy. In addition, although listed below, California Aerospace Academy closed its operations in 2012. GCC’s newest school, Gateway International School opened its operations for the current year, and thus, has no academic reporting. Please also note that within this table, “N/A” means data not available.

API Base Rank (10=Best): Statewide Rank / Similar Schools Rank

School	2008-09	2009-10	2010-11	2011-12	2012-13
Community Outreach Academy	4 / 2	5 / 8	5 / 8	5 / 8	7 / 10
Futures High School	6 / 1	8 / 10	8 / 10	9 / 10	8 / 9
Higher Learning Academy	N/A	1 / N/A	1 / N/A	1 / 1	1 / 1
California Aerospace Academy*	N/A	2 / 1	2 / 1	1 / 1	
Community Collaborative Charter**	1 / 5	1 / 1	N/A	N/A	N/A
Sacramento Academic and Vocational Academy**	1 / 1	1 / 1	N/A	N/A	N/A

*School closed in 2012

**Alternative Schools Accountability Model School

Met Schoolwide API Growth Target

School	2008-09	2009-10	2010-11	2011-12	2012-13
Community Outreach Academy	Yes	Yes	Yes	Yes	Yes
Futures High School	Yes	Yes	No	Yes	No
Higher Learning Academy	N/A	Yes	No	No	Yes
California Aerospace Academy*	No	Yes	No	Yes	
Community Collaborative Charter**	No	N/A	Yes	No	N/A
Sacramento Academic and Vocational Academy**	Yes	N/A	Yes	No	N/A

*School closed in 2012

**Alternative Schools Accountability Model School

AYP Performance: Met AYP Targets

School	2008-09	2009-10	2010-11	2011-12	2012-13
Community Outreach Academy	Yes	No	No	Yes	No
Futures High School	Yes	Yes	Yes	No	No
Higher Learning Academy	No	Yes	No	No	No
California Aerospace Academy*	No	No	No	N/A	
Community Collaborative Charter**	No	No	No	No	No
Sacramento Academic and Vocational Academy**	No	No	No	No	No

*School closed in 2012

**Alternative Schools Accountability Model School

Over the past three years, GCC schools met API growth targets in eight of 15 possible occasions across six schools. Three of GCC's six schools, Futures, California Aerospace Academy, and Community Outreach Academy, met their API growth targets in 2011-12. Two of GCC's three schools that had reported API information for 2012-13, Community Outreach Academy and HLA, met their API growth targets for that year, with HLA showing a growth of 55 points. The 2012-13 API growth scores for Community Outreach Academy, Futures, and Higher Learning Academy were 838, 788, and 724, respectively. Community Outreach Academy met its API growth target in each of the past five years.

For the past three years, two of four schools for which data was available relative to Statewide and Similar Schools rankings, Community Outreach Academy and Futures, had rankings of "5" or greater in each category. Among the two other schools, California Aerospace Academy closed in 2012, and HLA had rankings of "1" in each category for each of the past two years. For 2012-13, based on API base scores, California Outreach Academy had Statewide and Similar Schools rankings of "7" and "10", respectively, Futures had Statewide and Similar Schools rankings of "8" and "9", respectively, and HLA had Statewide and Similar Schools rankings of "1" and "1", respectively.

Among the five schools that had reportable AYP information during each of the past two years, only one school, Community Outreach Academy, met its all of AYP criteria during 2011-12, and none met all of its AYP criteria during 2012-13. Notwithstanding the limitations described below regarding AYP-reported results, GCC's overall AYP

performance is low, given that, over the past three years, GCC schools have only met AYP in two of 16 possible occasions across six schools.

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, public schools are increasingly challenged in “making AYP” (meeting all AYP criteria). This requirement applies to both schoolwide 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, middle 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; 56.8% for 2009-10; 67.6% for 2010-11; 78.4% for 2011-12; and 89.2% for 2012-13. This specific requirement will increase to 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 AYP.^[1]

Overall, Staff considers GCC’s academic performance to be mixed, with more favorable performance with API growth, and less favorable performance in meeting AYP criteria, as well as more favorable performance for Community Outreach Academy and Futures, and less favorable performance for HLA and California Aerospace Academy, which has closed. Notwithstanding HLA’s historically low performance, especially with respect to its API rankings, staff acknowledges HLA’s API growth of 55 points for the most recent reported year.

Upon staff’s inquiry with GCC’s Superintendent regarding HLA’s continued low Statewide and Similar schools ranking of “1” out of “10”, the Superintendent provided the following statement and action plan:

“Over the past 5 years, Higher Learning Academy’s (HLA) Academic Performance Index (API) has risen 192 points. During the 2012-13 school year, a seasoned administrator within Gateway Community Charters was transferred there to strengthen the instructional program even further and increase community engagement. Higher Learning Academy is especially proud of the academic gains made during the 2012-2013 school year with its API gain of 55 points - one of the 5 largest gains in Sacramento County. In addition to HLA’s school-wide API increase, both Significant Subgroups (Black/African American and Socioeconomically Disadvantaged) rose 61 and 42 points respectively. HLA’s API growth looks even better when comparing it to Similar Schools Median API for 2012-2013. While Similar Schools API dropped 18 points on average, HLA gained 55. We are

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

anticipating a significant increase in the similar schools rank once the updated 2012-2013 ranking is released in May 2014.

During the 2012-2013 school year and continuing through the 2013-14, HLA has had an ongoing focus of providing students an excellent standards-based education using research-based instructional practices. HLA continues to gather multiple forms of data (STAR, CELDT, benchmarks) to determine classroom and individual student academic needs. HLA has instituted a Response to Intervention (RtI) system where each student is given different levels of intervention depending on their academic progress. Perhaps the most significant addition to HLA has been the implementation of Pearson's Successmaker, a computer-based language arts and mathematics intervention program that has proven to be tremendously effective with our academically at-risk students. In addition, each Friday afternoon is dedicated to staff collaboration, professional development, and data analysis. Areas of professional growth include Common Core State Standards, Core Knowledge, and student writing. With the focus on specific low achieving students and how to meet their needs HLA's principal, support staff and teachers believe all students can learn with adequate instruction, resources, and support."

Upon staff's inquiry with GCC's Superintendent regarding Futures' drop of 31 points for the 2012-13 API growth, the Superintendent provided the following statement and action plan:

"Futures High School has had steady growth in academic performance since its inception in 2004. Over the last six years Futures has had an overall increase of 55 points on the Academic Performance Index (API). Over the last five years the API has fluctuated from a low of 778 to a high of 819. During the 2012-13 school year the API decreased thirty one points to 788. The median API score of similar schools 2012-13 was 789 and the average API score for high schools in the State of California was 757. The primary reason for the decrease in API score was a significant drop in achievement for English Learners during 2012-13. Though there was only a one percent drop (38.6 to 37.2) in the percent of English Learners scoring proficient in English, there was a larger drop (59.1 to 51.2) in the percent of English Learners who scored proficient in math.

During the 2012-13 school year Futures experienced significant staff turnover in the area of math instruction as well as English Language Development. While this is not an excuse, it was identified as a contributing factor in the decrease in student achievement in those areas. During the 2013-14 school year Futures administration and staff will continue its ongoing focus of providing students an excellent standards-based education using research-based instructional practices. Futures continues to assess student progress using multiple assessments and forms of data (STAR, CELDT, benchmarks) to determine classroom and individual student academic needs. In addition Futures has hired an instructional coach to focus staff development in the area of English Learners and continues to train new staff in the implementation of the Common Core State Standards. Futures uses a tiered intervention system for students both during the regular school day as well as in their after school program. The school calendar includes one half day each Friday afternoon for professional development, collaboration, and data analysis. During this school year teachers will be participating in the Area 3 Writing Project, Sacramento

County Office of Education Common Core trainings, and instructional strategies aimed at improving English Learner outcomes.”

While staff has concerns regarding GCC’s mixed performance across its schools, staff acknowledges Futures’ overall consistently good performance, which supports a recommendation of financial soundness. In addition, staff acknowledges GCC’s efforts to address academic performance for HLA as well as HLA’s improvement over the past five years, and does not believe that its performance is an impediment to finding GCC financially sound for purposes of the Futures CSFP project.

Staff recommends the reevaluation of GCC’s and Futures’ academic performance at the time of Final Apportionment.

Enrollment Trends and Projections GCC has shown substantial growth since 2007-08, growing from 2,388 students in 2007-08 to 4,176 students for the current 2013-14 academic year, representing growth of 75% over six years, or an average of approximately 12.5% per year. Based on an assumed average projected enrollment growth of 5% per year, GCC anticipates further growth to 4,384 students by 2014-15, 4,588 by 2015-16, 4,751 by 2016-17, first year of project occupancy, 4,918 by 2017-18, and 5,060 by 2018-19, representing a reasonable average annual growth rate assumption of 4% over five years.

GCC’s ADA as a percent of enrollment averaged 96% from 2009-10 through 2012-13 for all schools. Hence, GCC’s assumed ADA rates within its multi-year budget projections of between 94.5% and 97.0% are reasonable in relation to GCC’s historical performance.

With the exception of 2011-12, when Futures’ student enrollment remained about the same as the previous year, Futures has shown consistent enrollment growth since 2008-09 when its 7th and 8th graders were moved to one of GCC’s K-8 schools, growing from 233 students in grades 9-12 in 2008-09 to 345 students in grades 9-12 for the current 2013-14 year, representing average annual growth of about 10% over five years. GCC projects Futures enrollment to grow to 379 students in 2014-15, 409 students in 2015-16, 410 students in 2016-17 (first year of project occupancy), 421 students in 2017-18, and 432 students in 2018-19, all in grades 9-12, representing reasonable average annual growth of 5% over five years, given the historical trend and consistent with the project capacity of 475 students.

Futures’ year-to-year retention rates for 2012-13 and 2013-14 were 67.3% and 77.3%, respectively, and Futures’ average daily attendance (ADA) for 2012-13 was 91.4%¹. Futures does not currently have a wait list.

In response to Staff’s inquiry with GCC regarding the reason and action plan for Futures’ low retention rates, GCC’s CEO/Superintendent provided the following statement:

“High Schools in general have lower retention rates than elementary schools. Futures High School has had an overall increase in enrollment of sixty-six students from the 2011-12 school year to the 2013-14 school year. However, during that time there has been a noticeable trend of students in ninth and tenth grade who chose to

¹ As the estimate for 2012-13 ADA is based on CBEDS enrollment rather than average enrollment, Futures’ ADA for 2012-13 is likely higher.

leave Futures to attend a comprehensive high school in the student's home district. The school administration and counseling staff have conducted exit interviews with some students and parents to find out the reason for their departure. Sometimes the issue is the family relocating, sometimes it is related to returning to a home district because transportation is an issue, sometimes it may be a student transferring to independent study due to a student or family situation. The primary reasons students cite is that they are choosing to attend a larger, comprehensive high school with more sports, extra-curricular activities and electives. Futures has made great strides in offering academic electives, students clubs and activities during and after the school day and has hired an athletic director to work with the students and staff to implement an interscholastic athletic program. With the steady growth in overall enrollment, Futures will be able to increase the number of extracurricular activities. In addition, the newly constructed school will offer the opportunity to increase those offerings even further."

While Staff acknowledges that both GCC as a whole, and Futures, have grown substantially over the past five years, staff has serious concerns regarding Futures' low retention rates. Nonetheless, Staff does not believe the low retention rates are an impediment to determining financial soundness for purposes of an Advance Apportionment for the Futures CSFP project. Staff recommends reassessment of Futures' retention rates for improvement at the time of Final Apportionment.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate GCC's ability to meet its CSFP obligations. The following table highlights key aspects of GCC's past and projected financial performance.

Staff's review of Gateway's financial performance is based on three years of audited financial statements (2009-10 through 2011-12), unaudited financials for 2012-13, the 2013-14 budget and financial projections from 2014-15 through 2018-19, as provided by GCC.

Staff's evaluation of GCC's financial status is based on the following assumptions: (1) average enrollment growth of 4% per year; (2) projected ADA rates of between 95% and 97% for 2014-15 through 2018-19; (3) LCFF Base Grants of \$6,845, \$6,947, \$7,154, \$8,289 for grades K-3, 4-6, 7-8, and 9-12; (4) gradual increases up to LCFF target funding rates through 2018-19 and (5) COLA to certificated salaries of 2.5% for each of the projected years.

Long-Term Debt: As of June 30, 2013, GCC's only long-term debt was a California Department of Education Revolving Loan with a balance of \$40,000 associated with Higher Learning Academy for which GCC is scheduled to make annual \$20,000 principal payments through 2014-15 with an interest rate of 0.53%.

Gateway Community Charters	Actual FY 2011-12	Unaudited FY 2012-13	Budgeted FY 2013-14	Projected FY 2014-15	Projected FY 2015-16	Projected FY 2016-17	Projected FY 2017-18	Projected FY 2018-19
ENROLLMENT PROJECTIONS								
Enrollment	3,663	3,787	4,176	4,384	4,588	4,751	4,918	5,060
Average Daily Attendance	3,488	3,680	4,088	4,254	4,399	4,515	4,650	4,784
Average Daily Attendance (%)	95%	97%	98%	97%	96%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Lease Payment	\$ 27,553,802	\$ 28,679,475	\$ 33,295,476	\$ 34,329,726	\$ 36,263,269	\$ 37,993,833	\$ 40,026,889	\$ 41,135,440
Total Expenses Paid Before CSFP Lease Payment	24,831,941	26,641,254	32,754,744	32,579,722	33,605,511	34,748,996	36,238,855	38,202,014
Accounting Adjustments	-	312,142	2,114,731	905,599	512,532	194,578	195,826	207,122
Net Revenues Available for CSFP Lease Payment	\$ 2,721,861	\$ 2,350,363	\$ 2,655,463	\$ 2,655,602	\$ 3,170,289	\$ 3,439,414	\$ 3,983,861	\$ 3,140,547
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,013,036	\$ 1,013,036
Net Revenues After CSFP Lease Payment	\$ 2,721,861	\$ 2,350,363	\$ 2,655,463	\$ 2,655,602	\$ 3,170,289	\$ 3,439,414	\$ 2,970,825	\$ 2,127,511
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Lease Payment	\$ 2,721,861	\$ 2,350,363	\$ 2,655,463	\$ 2,655,602	\$ 3,170,289	\$ 3,439,414	\$ 3,983,861	\$ 3,140,547
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	393.3%	310.0%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	393.3%	310.0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	2.5%	2.5%
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Lease Payment / Revenues	9.9%	8.2%	8.0%	7.7%	8.7%	9.1%	7.4%	5.2%
Revenues / ADA	\$ 7,900	\$ 7,793	\$ 8,144	\$ 8,070	\$ 8,243	\$ 8,414	\$ 8,608	\$ 8,599
Expenses / ADA	\$ 7,119	\$ 7,239	\$ 8,012	\$ 7,658	\$ 7,639	\$ 7,696	\$ 7,793	\$ 7,985
Surplus (Deficit) / ADA	\$ 780	\$ 554	\$ 132	\$ 411	\$ 604	\$ 719	\$ 815	\$ 613
Net Working Capital	\$ 18,717,348	\$ 22,086,301						
Net Working Capital / Expenses	75.4%	82.9%						

Financial Performance – Staff’s analysis of financial performance for CSFP applicants includes expenses for capital outlay and loan repayment; therefore, our results may differ from Gateway’s audited and internal financial figures.

GCC’s financial performance for 2009-10 reflected total enrollment of 3,176 students and GCC achieved an increase in net assets of \$2.46 million on revenues and expenditures of \$21.77 million and \$19.54 million, respectively. GCC’s performance for 2010-11 reflected total enrollment of 3,459 (8.9% growth), and for that year, GCC recorded an increase to net assets of \$4.98 million on revenues of \$25.23 million and expenses of \$20.87 million. In 2011-12, GCC produced net income of \$2.72 million based on revenues and expenditures of \$27.6 million and \$24.8 million, respectively. The unaudited financials for 2012-13 indicate net income of \$2.35 million when accounting for revenues and expenditures along capital outlay accounting adjustments. From 2013-14 through 2015-16, GCC projects annual net revenues on average of \$3.0 million. Prior to payment of the CSFP lease payment, GCC projects net revenue of \$4.0 million and \$3.1 million in 2017-18 and 2018-19, respectively.

Projected Debt Service Coverage: GCC’s financial projections, with staff’s modifications, indicate it will be able to afford the projected annual CSFP payments. Debt service coverage ratios on the CSFP payments are calculated using net revenues available to pay the CSFP payments. Assuming a 2.00% interest rate and 30-year repayment period, GCC’s annual CSFP payments would total to \$1,013,036 for all three CSFP Projects. (The following table presents detail on the CSFP payments for each of the three projects.) The CSFP payments would commence in 2017-18, which is one year following expected occupancy of the all the projects in 2016-17. GCC projects available net revenues of \$3,983,861 in 2017-18 for CSFP payments that would provide debt service coverage of 393.3%. For the following year, 2018-19, projected debt service coverage is 310.0% based on available net revenues of \$3,140,547.

School (Project)	CSFP Facility Occupancy Date	Project Cost	50% of Project Cost	Annual Payment
Futures High School (9-12)	2016-17	10,205,824	5,102,912	227,845
Higher Learning Academy (K-6)	2016-17	18,067,134	9,033,567	403,348
Higher Learning Academy (7-12)	2016-17	17,103,884	8,551,942	381,844
Total		45,376,842	22,688,421	1,013,036

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. Using current assets excluding funds designated for the CSFP facility, NWC is \$18.7 million (75.4% of expenses) and \$22.1 million (82.9% of expenses) in 2011-12 and 2012-13, respectively. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. GCC maintained cash at June 30, 2013 of \$21.1 million, with approximately \$14.1 million in investments and accounts receivable. GCC currently maintains strong liquidity, supportive of a financial soundness determination.

Strengths, Weaknesses and Mitigants

- + For 2017-18 and 2018-19, the first two years of CSFP payments, GCC projects debt service coverage of 393.3% and 310.0%, well in excess of the minimum 100% requirement.
- + Excluding liquidity from fund designated for the CSFP project, GCC's NWC for 2011-12 was \$18.7 million or 75.4% of total expenses, and in 2012-13, GCC's NWC was \$22.1 million or 82.9% of total expenses.
- + GCC does not rely on fundraising from private sources or federal funding in financial projections.
- + GCC and Futures have shown consistent student enrollment growth, with GCC growing an average of 12.5% per year over the past six years and Futures growing an average of 10.0% per year over the past five years.
- + Futures overall academic performance with API growth and API-base-score rankings has been high, meeting its API growth target in three of the past five years and having Statewide and Similar Schools rankings of "8" and "9" for 2012-13.
- +/- GCC's academic performance across its schools has been mixed. Over the past three years, GCC schools met API growth targets in eight of 15 possible occasions across six schools. However, GCC's performance with AYP has been relatively poor with schools meeting all AYP criteria in only two of 16 possible occasions over the past three years, and no school meeting AYP in the last year
- Futures' year-to-year retention rates for 2012-13 and 2013-14 were 67.3% and 77.3%, respectively, which is considered significantly low.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Gateway Community Charters (GCC or Gateway), on behalf of Futures High School (Futures) is financially sound for the purposes of the Charter School Facilities Program (Program) Advance Apportionment. This determination as it relates to an Advance 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 GCC 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 immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.