

**CHARTER SCHOOL FACILITIES PROGRAM  
PROPOSITION 1D FUNDING ROUND  
STAFF SUMMARY REPORT –NOVEMBER 2014**

<b>Applicant/Obligor:</b>	Education for Change Public Schools
<b>Project School:</b>	Lazear Charter Academy
<b>CDS (County – District – School) Code:</b>	01-10017-6002000
<b>Proposed Location:</b>	824 29 <sup>th</sup> Street, Oakland, CA 94601
<b>Type of Project:</b>	Rehabilitation
<b>County:</b>	Alameda
<b>District in which Project is Located:</b>	Alameda County Office of Education
<b>Charter Authorizer:</b>	Alameda County Office of Education
<b>Total OPSC Project Cost:</b>	\$12,221,618
<b>State Apportionment (50% Project Cost):</b>	\$6,110,809
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$6,110,809
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$311,769
<b>First Year of Occupancy of New Project:</b>	2017-2018

**Staff Recommendation:** Staff recommends that the California School Finance Authority (Authority) Board determine that Education for Change Public Schools (ECPS) on behalf of Lazear Charter Academy (Lazear) is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary and Advance Apportionment, but not Final Apportionment. This determination as it relates to Preliminary 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 ECPS and Lazear 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 Lazear. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	Lazear meets all eligibility criteria, including having been in operations for more than two years, having a charter in place through 2016-17, and being in good standing with its chartering authority, Alameda County Office of Education, and in compliance with the terms of its charter.

<b>Demographic Information</b>	Since commencing operations in 2012-13, Lazear’s student enrollment has grown from 300 students in grades K-6 to 445 students in grades K-8. Over the past five years and for the current year, ECPS has demonstrated consistent enrollment growth, growing from 1,169 in 2010-11 to 2,739 for the 2014-15. ECPS is projecting student enrollment of 2,915 for 2015-16 and 3,091 for all subsequent years, which is conservative in relation to the historical enrollment growth.
<b>Debt Service Coverage</b>	ECPS’s projected debt service coverage ratios of 373% in 2018-19 and 334% in 2019-20 exceed the minimum requirement of 100%. On a stand-alone basis, Lazear’s financial projections estimate sufficient debt service coverage of 112% and 110% in 2018-19 and 2019-20, respectively.
<b>Other Financial Factors</b>	In projected years, ECPS has small reliance on contributions from private sources. Contributions are projected to constitute only 0.5% of revenues in 2018-19 and 2019-20. The CSFP payment, in addition, to projected facility costs would represent 6% of projected revenues during the first two years of CSFP payment, which is well below the preferred maximum range of 10-15%. Net working capital for 2012-13 of \$4.85 million represented 25.1% of total expenses, which exceeds the preferred minimum of 5.0%.
<b>Student Performance</b>	For the period 2008-09 through 2012-13, ECPS showed mixed results on student performance based on API and AYP, with only one of five schools meeting its API growth target in each of 2011-12 and 2012-13, and no school meeting all AYP criteria during 2012-13. Lazear did not meet its API growth target or all of its AYP criteria in 2012-13.

**Program Eligibility:** On October 16, 2014, the Authority received verification from the Alameda County Office of Education confirming that Lazear is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. Lazear’s current charter is effective through June 2016.

**Legal Status Questionnaire:** Staff reviewed Lazear’s responses to the questions contained in the Legal Status Questionnaire (LSQ), signed by Lazear’s Chief Executive Officer and Board of Directors President on May 22, 2014. Lazear answered “None” to all LSQ questions, indicating there are 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:** On behalf of Lazear, ECPS is proposing to replace 18 existing portable classrooms and administrative offices. The project will consist of construction of either permanent facilities or modular buildings. The anticipated first full year of project occupancy is 2017-18, and the anticipated student capacity is 445 students.

**Organizational Information:** Under the auspices of ECPS, Lazear received its first charter through Alameda County Office of Education, and began operations in 2012-13 with 300 students in grades K-6. Lazear is a conversion charter school, formerly known as Lazear Elementary School. Lazear currently serves 445 students in grades K-8. According to the Application, Lazear is ECPS’ first science and technology oriented school with a focus of integrating science and technology into projects with real-world solutions. As a conversion

charter, Lazear is expected to provide the Fruitvale community of Oakland with a quality education option, building upon the demonstrated success of ECPS. Lazear’s curriculum and philosophy is largely driven by that of ECPS – refer to “Educational Management Organization” below.

**Educational Management Organization:** ECPS is a non-profit 501(c)(3) organization founded in 2005 with the mission of providing superior public education to Oakland’s most underserved children. ECPS’ mission provides that when students succeed, they will be prepared to make thoughtful and informed choices that will set them on a path of a successful life. Also, according to the mission, ECPS’ student success is intended to catalyze nationwide change to urban public schools into high performing organizations. ECPS currently services six public schools, spanning grades K-8 across greater Oakland with a target population consisting of an ethnically and economically diverse student body with a large proportion of economically disadvantaged students. ECPS is an Oakland-based organization that is committed to serving children in the community and engaging in the local community through collaboration with community partners.

ECPS currently consists of the following six charter schools: Achieve Academy; ASCEND; Cox Academy; Epic Academy; Learning Without Limits; and Lazear Charter Academy. From among these schools, Cox Academy commenced its charter operations in 2011-12, Lazear commenced its charter operations in 2011-12, and Epic Academy commenced its operations in 2014-15. In addition, an additional charter school, World Academy was in operations from 2005-06 through 2013-14. Effective 2014-15, World Academy, formerly grades K-3 school was subsumed under Achieve Academy, formerly a grades 4-5 school, now serves students in grades K-5.

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

Hae-Sin Thomas has served as Chief Executive Officer of ECPS since 2011. Prior to this position, Ms. Thomas was lead organizer and co-founder of Great Oakland Public Schools, an Oakland-based education advocacy group. In addition Ms. Thomas worked as a Oakland Unified School District teacher, principal, school developer, and executive officer. Overall, Ms. Thomas has 18 years of public education experience as a teacher, developer, and administrator. Ms. Thomas received her Master’s in Curriculum and Instruction from the University of San Francisco and Master’s in Administration, Planning, and Social Policy from Harvard University.

Richard Zapien has served as Principal of Lazear since fall 2014. Prior to this position, Mr. Zapien served as both a teacher and administrator with San Francisco Unified School District for 19 years, including eight years as both a middle and high school teacher, and more than 10 years as an administrator. Mr. Zapien holds a Master’s in Education from University of California, Berkeley, and a California Administrative Services Credential.

**Board Experience:** The following table depicts the current Board membership for ECPS.

**Education for Change Public Schools  
Board of Directors**

<b>Name</b>	<b>Occupation</b>	<b>Title</b>	<b>County of Residence</b>	<b>Term</b>
Brian Rogers	Executive Director, Rogers Family Foundation	Board Chair	Alameda	2013-16
Nick Driver	Vice President, Charter School Management Corporation	Board Vice Char	San Francisco	2014-17
Adam Smith	Chief Operating Officer, Bonfire Communications	Board Member	Alameda	2013-16
Eva Camp	Parent	Board Member/Parent Representative	Alameda	2013-16
Dirk Tillotson	Founder and Director, Great School Choices, a non-profit organization dedicated to educating children in underserved communities in New York	Board Member	Alameda	2013-16
Paul Byrd Jr.	Free-lance illustrator	Board Member/Parent Representative	Alameda	2013-16
Mike Barr	Chief Financial Officer, Reading Partners	Board Treasurer	Alameda	2014-17
Sudhir Aggarwal	Consultant	Board Member	Contra Costa	2014-17

According to Lazear’s charter, the roles and responsibilities of the Board include, but are not limited to, the following: ensuring the legal and fiscal well-being of the organization as well as compliance of all ECPS schools with State and federal requirements; hiring and evaluating the CEO and Principal; strategic planning; developing and monitoring an overall operational business plan that focuses on student achievement; approving and monitoring the organization’s annual budget and fiscal policies; acting as a fiscal agent; overseeing staff and student performance; and promoting student, parent, and community involvement in planning.

**Management Experience for Schools Open Less than Two Years:** Not applicable. Lazear began instructional operations in 2011-12, and exceeds the minimum instructional requirements of two years.

**Student Performance:** Pursuant to SB X51 (2010), a designated California State Commission was given the authority to review the Common Core State Standards (Standards), as promulgated by the U.S. Department of Education, and make recommendations to the California Board of Education (Board). This resulted in the Board’s

adoption of the Standards for purposes of statewide accountability on academic performance. Although this adoption does not directly require all local educational agencies (LEAs) to adopt the standards, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through the Local Control Funding Formula (“LCFF”), school districts must submit “Local Control and Accountability Plans (LCAPs) to their respective county offices of education that address State and local educational priorities, and pursuant to Education Code, Section 52060(d)(2), these priorities must include Common Core State Standards.

Assessments based on the Standards are derived from the “Smarter Balanced Assessment System”, a test that was field tested during 2014 and is planned for initial implementation in spring 2015 for purposes of establishing a baseline for comparing academic performance between schools, and subsequent improvement. As such, the Standards do not currently provide metrics for comparing academic performance between schools.

It is noteworthy that since 2013, CDE’s Accountability Progress Reporting has significantly changed in that Growth Academic Performance Index (API) and Base API reporting has been temporarily suspended and rankings are no longer being reported, and Adequate Yearly Progress (AYP) reporting pursuant the No Child Left Behind Act of 2001 has been limited to public high schools receiving Title 1 funding when they meet specific enrollment criteria.

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. However, due to the recent changes to Common Core State Standards, student performance information for purposes of determination financial soundness is limited to API up until 2013 and AYP up to 2013 with the exception of specific high schools receiving Title 1 funding.

As Lazear commenced operations in 2011-12, there is limited academic performance data available for evaluating its student performance. Therefore, in addition to reviewing Lazear’s academic performance, staff reviewed the academic performance of the affiliate charter schools under the auspices of ECPS, where data was available, which include the following schools: Achieve Academy; ASCEND; Cox Academy; Learning Without Limits; and World Academy<sup>1</sup>. The following tables highlight student performance for the period of 2008-09 through 2012-13 across the six schools, where data is available.

**API Growth Scores/Met API Schoolwide Growth Target**

School	2008-09	2009-10	2010-11	2011-12	2012-13
Achieve Academy	788/Yes	789/No	819/Yes	795/No	833/Yes
ASCEND	N/A	N/A	N/A	N/A	757/No
Cox Academy	N/A	N/A	783/Yes	754/No	743/No
Learning Without Limits	N/A	N/A	N/A	N/A	713/No
World Academy	759/Yes	785/Yes	821/Yes	805/Yes	740/No
Lazear Charter Academy	N/A	N/A	N/A	N/A	748/No

<sup>1</sup> World Academy ceased operations on June 30, 2014, and its operations for grades K-3 was subsequently incorporated into Achieve Charter Academy.

With respect to API growth scores, the above table shows a mixed performance, with all ECPS schools meeting their growth targets in 2010-11; however, only one school, World Academy, meeting its API growth target in 2011-12, and only one school, Achieve Academy, meeting its API growth target in 2012-13. As Lazear began operations in 2012-13, only one year of data was available, showing that Lazear did not meet its growth target in 2012-13.

**Base API Score Statewide Ranking / Similar School Ranking (10 = best)**

School	2008-09	2009-10	2010-11	2011-12	2012-13
Achieve Academy	3 / 7	5 / 9	5 / 9	6 / 9	4 / 8
ASCEND	N/A	N/A	N/A	N/A	3 / 1
Cox Academy	N/A	N/A	2 / 5	4 / 9	2 / 6
Learning Without Limits	N/A	N/A	N/A	N/A	2 / 2
World Academy	2 / 2	4 / 7	5 / 8	6 / 10	5 / 9
Lazear Charter Academy	N/A	N/A	N/A	1 / 1	3 / 2

With respect to statewide and similar schools rankings (base API scores), during the past five reported years, 2008-09 through 2012-13, similar to the API growth results, the ECPS schools showed mixed results with Achieve Academy, Cox Academy, and World Academy showing more favorable results, including similar school rankings of “5” or better in each of the past three years, and the remainder of schools showing less favorable results on both statewide and similar school rankings. It is noteworthy, however, that for 2013-14, Lazear achieved statewide and similar school rankings of “2” and “8”, respectively, and Achieve Academy achieved statewide and similar school rankings of “7” and “10”, respectively.

**Met AYP Criteria**

School	2008-09	2009-10	2010-11	2011-12	2012-13
Achieve Academy	Yes	No	Yes	No	No
ASCEND	N/A	N/A	N/A	N/A	No
Cox Academy	N/A	N/A	No	No	No
Learning Without Limits	N/A	N/A	N/A	N/A	No
World Academy	Yes	No	Yes	No	No
Lazear Charter Academy	N/A	N/A	N/A	N/A	No

As shown in the above table, none of the ECPS schools met all AYP criteria during the last two reported years, and only Achieve Academy and World Academy met all AYP criteria in 2010-11. Staff notes that ECPS’ performance with AYP may be largely due to the fact that the “Percent Proficient” threshold for testing in English Language Arts and Mathematics has increased each year, along with the fact that ECPS’ student body is represented by a large proportion of English Language Learners. Based on the 2012-13 API results, as reported by CDE, the following are the percent of English Language Learners in relation to total students taking the tests represented by each of the five schools listed above: Achieve Academy – 42%; ASCEND – 73%; Cox Academy – 60%; Learning Without Limits – 68%; and Lazear – 66%; and World Academy – 78%.

Due to ECPS’ mixed results on student performance based on API and AYP, staff requested that ECPS provide its action plan for improvement.

In response to staff’s request, ECPS submitted its “Academic Acceleration Plan 2014-15,” which includes the following key interventions to address quality of education and student performance: (1) all staffing is to be facilitated centrally through the ECPS home office in order to ensure ECPS is recruiting and retaining high quality staff who are aligned with the mission and vision; (2) all human capital systems are facilitated centrally to ensure that evaluation processes are consistent organization-wide, and site administrators are trained on the tools to ensure calibration; (3) all sites participate in a site planning process co-facilitated by a member of the home office Instructional Leadership Team; (4) The home office facilitates accountability walkthroughs designed to collect growth data on the implementation of the HPIPs (high priority instructional practices); (5) the home office facilitates school-level data talks with school Instructional Leadership Teams to coach site leaders in strategic responses and mitigations; and (6) each school site is assigned a lead from the home office Instructional Leadership Team who is accountable for monthly professional development observations, data tracking, and regular schoolwide walkthroughs with site leadership.

Staff notes that while it does not believe student performance is an impediment in its recommendation for financial soundness for Preliminary and Advance Apportionment, it recommends that for purposes of Final Apportionment, demonstration of academic improvement, along with adherence to the action plan, be verified under a separate financial soundness review.

**Enrollment and Retention Rates:** Since commencing operations in 2012-13, Lazear’s student enrollment has grown from 300 students in grades K-6 to 445 students in grades K-8. In addition, over the past four years and for the current year, as depicted in the table below, 2010-11 through 2014-15, student enrollment at ECPS schools has grown from 1,169 in 2010-11, 1,270 in 2011-12, 2,348 in 2012-13, 2,463 in 2013-14, and 2,739 in 2014-15. This growth was due to the addition of three conversion schools in 2012-13 (Lazear, Learning Without Limits, and ASCEND). In its multi-year projections, ECPS is projecting student enrollment of 2,915 for 2015-16 and 3,091 for all subsequent years, which is conservative in relation to the historical enrollment growth.

<b>Historical Enrollment</b>					
<b>School</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Achieve Academy	217	245	226	205	695
ASCEND	N/A	N/A	437	434	432
Cox Academy	513	550	566	558	575
Learning Without Limits	N/A	N/A	380	388	416
World Academy	439	475	439	475	N/A
Lazear Charter Academy	N/A	N/A	300	401	445
Epic Academy	N/A	N/A	N/A	N/A	176
Total for all Schools	1,169	1,270	2,348	2,463	2,739

Lazear has achieved year-to-year retention rates of 90% and 87% for 2013-14 and 2014-15, respectively, and ECPS as an organization has achieved year-to-year retention rates of 88% and 90% for each of these years, respectively. Based on the 2013-14 P-2 Report,  
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Lazear had an average daily attendance (ADA) rate of 96% for 2013-14. In addition, based on the P-2 Reports for all schools under ECPS, ECPS as an organization had ADA rates of 96% and 98%, respectively, which is consistent with the ADA assumption in the multi-year projections. Lazear has a current waitlist consisting of 23 students.

Given ECPS’ consistent enrollment growth thus far, as well as both ECPS’ and Lazear’s most recent retention rates, staff considers ECPS’ enrollment projections to be reasonable and supportive of a recommendation for financial soundness.

**Financial Analysis:** Highlighted in this section is financial data and credit indicators used to evaluate ECPS’s ability to meet the CSFP obligation. The table below summarizes key aspects of the obligor’s past and projected financial performance.

*Staff’s analysis of financial performance includes adjustments for capital outlay and loan repayment; therefore, our results may differ from audited figures presented by ECPS’ representatives.*

Education for Change	Actual FY 2011/12	Actual FY 2012/13	Unaudited FY 2013/14	Budget FY 2014/15	Projected FY 2015/16	Projected FY 2016/17	Projected FY 2017/18	Projected FY 2018/19	Projected FY 2019/20
<b>ENROLLMENT PROJECTIONS</b>									
Enrollment	1,270	2,348	2,463	2,739	2,915	3,091	3,091	3,091	3,091
Average Daily Attendance	1,207	2,270	2,366	2,565	2,734	2,903	2,903	2,903	2,903
Average Daily Attendance (%)	95%	97%	96%	94%	94%	94%	94%	94%	94%
<b>FINANCIAL PROJECTIONS</b>									
Total Revenues Available for CSFP Payment	\$ 9,781,670	\$ 19,952,224	\$ 23,685,464	\$ 26,240,753	\$ 28,759,416	\$ 31,307,545	\$ 31,933,695	\$ 32,572,370	\$ 33,177,399
Total Expenses Paid Before CSFP Payment	9,756,012	19,333,817	23,626,308	26,842,389	28,206,302	30,185,389	30,789,097	31,410,879	32,135,405
Accounting Adjustments	1,104	1,012	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 26,762	\$ 619,419	\$ 59,156	\$ (601,636)	\$ 553,114	\$ 1,122,156	\$ 1,144,598	\$ 1,161,491	\$ 1,041,994
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 311,769	\$ 311,769
Net Revenues After CSFP Payment	\$ 26,762	\$ 619,419	\$ 59,156	\$ (601,636)	\$ 553,114	\$ 1,122,156	\$ 1,144,598	\$ 849,722	\$ 730,225
<b>FINANCIAL INDICATORS</b>									
Net Revenues Available for CSFP Payment	\$ 26,762	\$ 619,419	\$ 59,156	\$ (601,636)	\$ 553,114	\$ 1,122,156	\$ 1,144,598	\$ 1,161,491	\$ 1,041,994
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	372.5%	334.2%
Contributions	\$ 117,319	\$ 264,167	\$ 727,399	\$ 736,674	\$ 156,473	\$ 156,473	\$ 159,602	\$ 162,795	\$ 159,869
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	320.3%	282.9%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.0%	0.9%
Contributions / Revenues	1.2%	1.3%	3.1%	2.8%	0.5%	0.5%	0.5%	0.5%	0.5%
Net Revenues After CSFP Payment / Revenues	0.3%	3.1%	0.2%	-2.3%	1.9%	3.6%	3.6%	2.6%	2.2%
Revenues / ADA	\$ 8,104	\$ 8,789	\$ 10,012	\$ 10,232	\$ 10,521	\$ 10,786	\$ 11,002	\$ 11,222	\$ 11,431
Expenses / ADA	\$ 8,083	\$ 8,516	\$ 9,987	\$ 10,466	\$ 10,319	\$ 10,400	\$ 10,608	\$ 10,929	\$ 11,179
Surplus (Deficit) / ADA	\$ 21	\$ 272	\$ 25	\$ (235)	\$ 202	\$ 387	\$ 394	\$ 293	\$ 252
Net Working Capital	\$ 4,232,439	\$ 4,851,857							
Net Working Capital / Expenses	43.4%	25.1%							

Staff’s financial analysis of ECPS is based upon review of the following documents: (1) three years of audited financial statements (2010-11 through 2012-13), (2) 2013-14 unaudited financials (3) 2014-15 budget and (3) multi-year projections from 2015-16 through 2019-20. Additionally, ECPS provided enrollment projections through 2019-20.

**Contributions:** ECPS’s contributions over the last three years were as follows: \$117,319 for 2011-12, \$264,167 for 2012-13, and \$727,399 for 2013-14. The increase in contributions for 2013-14 is due to grants from Silicon Schools, Next Generation Learning Challenges, and the State’s Public Charters Schools Grant Program. ECPS anticipates contributions of \$736,674 in 2014-15 but modest contributions in projected years, averaging approximately \$164,000 in contributions annually. Staff notes that projected contribution levels are reasonable given the historical trend.

**Key Assumptions:** ECPS’ financial projections are based upon the following assumptions: (1) occupancy of the CSFP project in 2017-18; (2) enrollment as described above; (3) 2014-15 LCFF Entitlement funding rate of \$7,519 for grades K-3, 4-6, and 7-8; (4) conservative



projected ADA rates of 94%; (5) average LCFF per ADA target rates of \$8,299, \$8,667, \$8,840, \$9,017, and \$9,197 for 2015-16 through 2019-20. Expense categories including salaries and benefits, such as books and supplies, services and miscellaneous expenses, increase at 2%.

Staff notes that it considers ECPS's assumptions to be reasonable in light of ECPS's enrollment growth, historical average daily attendance, and ECPS's LCFF rate structure as it compares to the target rates promulgated by the California Department of Education.

*Long-Term Liabilities:* As of June 30, 2013, ECPS maintained no long-term liabilities.

*School Facilities:* The facility costs (consisting of rental, lease, repair, and non-capital improvement costs) for all ECPS schools incorporated into the financial projections are as follows: \$1.43 million (2015-16), \$1.66 million (2016-17), \$1.69 million (2017-18), \$1.72 million (2018-19), and \$1.75 million (2019-20). These estimated expenses are equivalent to an average of 6% 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.

*Financial Performance:* Based on the audited financial statements for 2010-11, ECPS recorded a net loss of \$442,547 on revenues of \$9.64 million and expenses of \$10.09 million. In 2011-12, ECPS ended with a slight net surplus after contributions of \$25,658, but would have recorded a net loss of (\$91,661) if contributions of \$117,319 were excluded. In 2012-13, ECPS increased net assets by \$618,407, including contributions of \$264,167. This was the result of \$19.95 million in revenues and \$19.33 million in expenses. In 2012-13, ECPS experienced marked increases in revenue and expenses as ECPS introduced three new schools into its operations through charter conversion (Lazear, ASCEND, and Learning Without Limits). ECPS's unaudited financials for 2013-14 indicate a slight net surplus of \$59,156.

Per ECPS' 2014-15 preliminary budget, ECPS anticipates operating at a net loss of \$601,636. This based on revenues and expenses of \$26.24 million and \$26.84 million. ECPS is utilizing fund balances in 2014-15 to pay one-time expenses in connection with opening up a new charter school, Epic Academy. ECPS' enrollment is expected to only grow modestly with no more than 3,091 students starting in 2016-17. However, revenue is expected to increase markedly due to expected increases in LCFF per ADA state funding. In the first year of the CSFP project occupancy, 2017-18, ECPS projects revenues and expenses of \$31.93 million and \$30.79 million, respectively, producing available net revenues of \$1.14 million. ECPS projections indicate net revenues available pay the CSFP lease payment of \$1.16 million and \$1.04 million in 2018-19 and 2019-20, respectively.

*Projected Debt Service Coverage of CSFP Payments:* Assuming a 3.0% interest rate and 30-year repayment period, as well as estimated combined project cost of \$12,221,618, ECPS' annual CSFP payment would be \$311,769 beginning in 2018-19. ECPS's projected net revenues prior to CSFP payment of \$1.16 million for 2018-19 would provide debt service coverage of 373%, while the projected net revenues of \$1.04 million would result in debt service coverage of 334% for 2019-20. On a stand-alone basis, Lazear's financial projections estimate sufficient debt service coverage of 112% and 110% in 2018-19 and 2019-20 respectively.

**Liquidity:** At June 30, 2013, ECPS reported holding \$2.81 million in cash or cash equivalents. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. ECPS' NWC for 2011-12 and 2012-13 was \$4.23 million and \$4.85 million, respectively, or 43.4% and 25.1% of total expenses for these years. NWC decreased from 2011-12 due to the corresponding increase in expenses in connection with newly converted ECPS charter schools in 2012-13 (Lazear, ASCEND, and Learning Without Limits). Staff considers NWC equivalent of at least 5.0% of total expenses to be sufficient.

### **Strengths, Weaknesses and Mitigants**

- + Since commencing operations in 2012-13, Lazear's student enrollment has grown from 300 students in grades K-6 to 445 students in grades K-8.
- + ECPS projects debt service coverage of 373% in 2018-19, and 334% in 2019-20. On a stand-alone basis, Lazear's financial projections estimate sufficient debt service coverage of 112% and 110% in 2018-19 and 2019-20, respectively.
- + Over the past four years and for the current year, ECPS has demonstrated consistent enrollment growth, growing from 1,169 in 2010-11 to 2,739 for the 2014-15. ECPS achieved an average aggregate ADA rate of 96% between 2010-11 and 2013-14.
- +/- Over the past five years for which reports are available, 2008-09 through 2012-13, ECPS showed mixed results on student performance based on API and AYP, with only one of five schools meeting its API growth target in each of 2011-12 and 2012-13, and no school meeting all AYP criteria during 2012-13.
- Lazear did not meet its API growth target or all of its AYP criteria in 2012-13.

**Staff Recommendation:** Staff recommends that the California School Finance Authority (Authority) Board determine that Education for Change Public Schools (ECPS) on behalf of Lazear Charter Academy (Lazear) is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary and Advance Apportionment, but not Final Apportionment. This determination as it relates to Preliminary 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 ECPS and Lazear 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.