

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D-2014 FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2015**

Applicant/Obligor:	Tracy Learning Center
Project School:	Millennium Charter
CDS (County – District – School) Code:	39-75499-0102392
School Address/Proposed Site:	51 E. Beverly Place, Tracy, CA, 95376
Type of Project:	New Construction/Rehabilitation
County:	San Joaquin
District in which Project is Located:	Tracy Joint Unified School District
Charter Authorizer:	Tracy Joint Unified School District
	NC: \$3,894,434
	<u>Rehab: \$4,935,992</u>
Total OPSC Project Cost:	Total: \$8,830,426
	NC: \$1,947,217
	<u>Rehab: \$2,467,996</u>
State Apportionment (50% Project Cost):	Total: \$4,415,213
Lump Sum Contribution:	\$4,415,213
Total CSFP Financed Amount:	Not Applicable
Length of CSFP Funding Agreement:	Not Applicable
Assumed Interest Rate:	Not Applicable
Estimated Annual CSFP Payment:	Not Applicable
First Year of Occupancy of New Project:	2017-18

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Tracy Learning Center (Tracy), on behalf of Millennium Charter (Millennium), is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary and/or Advance Apportionment, but not Final Apportionment. This determination as it relates to Preliminary and/or Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. 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: Tracy is the Applicant on the Application form, Form CSFA 03-01, and financial obligor, for Millennium. Tracy is a non-profit umbrella organization that oversees three charter schools, Primary Charter (grades K-4), Discovery Charter (grades 5-8), and Millennium (grades 9-12); however, Tracy is not a charter management organization. Tracy is planning to fund the local matching share of \$4,415,213 with a lump-sum payment provided through Tracy Joint Unified School District (District). The source of the District's

funds will be voter-approved General Obligation Bond proceeds. The District provided a commitment letter, dated March 30, 2015, as supportive of its commitment to fund the local match.

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

Criteria	Comments
<i>Umbrella Organization (Tracy Learning Center) Information</i>	
Demographic Information	<ol style="list-style-type: none"> 1. For the current 2014-15 year, Tracy is serving grades K-12 at three schools, with total enrollment of 1,174. 2. By 2017-18 when both CSFP projects are completed for Millennium, Tracy projects total enrollment at 1,255 3. Tracy has achieved year-to-year retention rates of 96.9% and 95.9% for 2013-14 and 2014-15, respectively, and average daily attendance of approximately 98% for 2013-14. 4. Tracy has approximately 750 students on its current wait list.
Other Financial Factors	For 2012-13, Tracy’s net working capital (NWC) was \$3.00 million or 38.2% of total expenses, and in 2013-14, Tracy’s NWC was \$3.15 million or 36.2% of total expenses.
Student Performance	<p>Notwithstanding the limitation with current performance data due to the implementation of Common Core Standards, Tracy’s overall academic performance was mixed over the four most recent years reported, 2009-10 through 2012-13, as follows:</p> <ol style="list-style-type: none"> 1. For the four most recent years for which data has been reported, Tracy schools met API schoolwide growth targets in 12 of 12 possible occasions across the three schools. 2. Statewide rankings, based on API base scores, were generally high with rankings of “5” or better for all schools across all years, and rankings of “9” or “10” for Primary Charter across all years. 3. Tracy’s schools met all AYP criteria in six of 12 possible occasions over the past four years reported,
<i>School Information</i>	
Eligibility Criteria	<ol style="list-style-type: none"> 1. Millennium has met all eligibility criteria: (1) Millennium commenced operations in 2004-05; (2) Millennium’s charter is in place through June 2019; (3) Millennium is in good standing with its chartering authority, Tracy Joint Unified School District, and in compliance with the terms of its charter.

<p>Student Performance</p>	<p>Notwithstanding the limitation with current performance data due to the implementation of Common Core Standards, Millennium showed the following results:</p> <ol style="list-style-type: none"> 1. Millennium met its API school-wide growth target in three of the four most recent years reported, 2010-11, 2011-12, and 2012-13, with API growth scores of 734, 772, and 799, respectively, for these years. 2. Millennium met all AYP criteria in three of the most recent four years reported, 2009-10, 2010-11, and 2012-13.
<p>Demographic Information</p>	<ol style="list-style-type: none"> 1. Millennium began operations in September 2004 with 55 students in grade 9 and has grown to 477 students in grades 9-12 for the current 2014-15 year. Millennium is projecting growth to 557 in 2017-18, the first year of project occupancy. 2. Millennium has achieved year-to-year retention rates of 97.4% and 95.4% for 2013-14 and 2014-15, respectively, and average daily attendance of approximately 97% for 2013-14. 3. Millennium’s target population is ethnically diverse with approximately 47% Hispanic, 8% African-American, 9% Asian; 4% Filipino, and 28% Caucasian.

Program Eligibility: On February 19, 2015, verification was received from Tracy Joint Unified School District (District), confirming that both Millennium are (1) in compliance with the terms of their charter agreements, and (2) in good standing with their chartering authorities. Millennium’s charter is effective through June 30, 2019.

Legal Status Questionnaire: Staff reviewed Tracy’s responses, on behalf of Millennium, to the questions contained in the Legal Status Questionnaire (LSQ) signed on March 13, 2015. KIPP answered “None” to each of the two questions, indicating that it has no material information to disclose relating to legal or regulatory proceedings, or legal action in which it or any of its affiliates is a named party.

Project Description: Tracy, for the purposes of Millennium, is proposing both a new construction and rehabilitation project. The new construction project is to consist of the replacement of three rented portable classrooms with three new permanent classrooms and auxiliary facilities in an area of 2,880 square feet. The rehabilitation project consists of renovation of 13 classrooms, represented by 5 permanent classrooms, 7 portable classrooms, and auxiliary facilities, covering 21,800 square feet. Tracy anticipates completion of both projects and project occupancy beginning September 2017. The student capacity for the new construction and rehabilitation projects is 81 and 324, respectively, for a total capacity of 405 students. This capacity is in addition to the other space at Millennium, providing for a total capacity of at least 500 students.

Organizational Information: Tracy was founded in 2001 as an independent, directly funded group for the purposes of operating three charter schools, and became a 501(c)(3) non-profit organization in 2005. Tracy currently consists of three charter schools on one

school site, Primary Charter serving grades K-4, Discovery Charter serving grades 5-8, and Millennium High School serving grades 9-12. Locating the three schools on one site provides a unique continuous approach to the Kindergarten-College learning experience. All three schools are chartered through the Tracy Joint Unified School District. Tracy currently serves approximately 1,200 students across the three schools.

Millennium began operations in September 2004 with 55 students in grade 9, and has since grown to 500 students in grades 9-12 for the current 2014-15 year. The other two charter schools, Primary Charter and Discovery Charter, began operations in 2004 and 2001, respectively, and currently have approximately 330 and 360 students, respectively. Millennium's target population is ethnically diverse with approximately 47% Hispanic, 8% African-American, 9% Asian; 4% Filipino, and 28% Caucasian.

Millennium's curriculum follows a broad range of studies that encompasses English-language arts, mathematics, science, social studies, visual and performing arts, foreign languages, and physical education as well as dance, technical construction, and film studies. The curriculum is unique in that it follows the philosophy of learning that is not confined to a single person at a single time from a single source, as exclusively from a textbook; rather, the curriculum utilizes multiple sources, including the internet, textbooks, videos, student presentations, speakers, field trips, and nonfiction articles from printed publications. In addition, the curriculum emphasizes the development of effective life skills to promote sound values and decisions in high school and beyond.

Educational Management Organization: Not Applicable, as Tracy is not an EMO

Management Experience for Schools Open Less than Two Years: Not Applicable, as Tracy has been in operations since 2001, and Millennium has been in operations since 2004.

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.

Virginia Stewart has served as Executive Director of Tracy since its founding in 2001. In this role, she has also served as Principal of Millennium as well as Primary Charter and Discovery Charter. Prior to this position, Ms. Stewart served in the following positions: Principal of Post Christian Elementary School, a K-8 magnet school in Tracy, California (1995-2000); Principal of San Marin High, Navato, California (1991-95); Assistant Superintendent of Instruction at Fairfield-Suisan Unified School District (1989-91); and multiple public school administrative and teaching positions. Ms. Stewart holds an M.A. in Education from California State University, Stanislaus, a California Clear Teaching Credential, and a California Preliminary Administrative Credential.

Board Experience: The nine members of Tracy's Governing Board have a broad scope of educational and community experience. The following table depicts the current Board's membership.

Tracy Learning Center Governing Board

Name	Occupation	Title	County of Residence	Term Expiration Date
Patty Warwick	Web Design Project Manager	President	San Joaquin	6/30/2017
Mike Souza	CFO, Souza Realty and Development	Vice President	San Joaquin	6/30/2017
Kim Kerr	Category Manager, Safeway	Member	San Joaquin	6/30/2017
C.P. Riddle	Retired, U.S. Army	Member	San Joaquin	6/30/2015
Tracy Williams	Employee Relations, California Department of Corrections	Member	San Joaquin	6/30/2015
Linda Wilcox	Real Estate Broker/Owner, RE/MAX Diamond Real Estate	Member	San Joaquin	6/30/2015
Amy Fallavena	Owner, Fallavena Fitness LLC	Member	San Joaquin	6/30/2015

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 Executive Director’s performance; adopting and monitoring the annual budget; approval of charter amendments; approval of contractual agreements, including external auditor to conduct annual financial audits; and advocating on behalf of the school for purposes of fundraising.

Academic 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. This adoption does not directly require all Local Educational Agencies to adopt the Standards. However, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through their Local Control Funding Formulas (LCFFs), 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 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.

As a result of the transition to Common Core Standards, CDE’s Accountability Progress Reporting has significantly changed in that, since 2012-13, Growth Academic Performance Index (API) and Base API reporting has been temporarily suspended, API 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.

Although staff recognizes the limitation in the lack of current available academic performance reports, because of the implications for student enrollment stability and growth, staff is nevertheless considering academic performance as an indicator for financial soundness with this limitation in mind.

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), has reflected increases each year up to 2012-13 when the percent-proficient requirement in both mathematics and English-language arts reached approximately 89%.^[1] Therefore, with each successive year, charter schools have been increasingly challenged in meeting all AYP criteria. This requirement applies to both school wide performance and performance of each numerically significant subgroup within any school.

Millennium has more than four years of reported API scores and AYP results, allowing a review of progress and comparison to similar schools. The following tables summarize Millennium’s student performance for the four most recent years reported by CDE, 2009-10 through 2012-13.

Millennium Charter	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	Yes	No	Yes
Criteria Met / Required Criteria	5 / 5	6 / 6	6 / 10	10 / 10
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	Yes	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	No	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	No	Yes	No	Yes
Met Both Schoolwide & CI Growth Targets?	No	Yes	No	Yes
API Base Statewide Rank (10 = best)	6	5	6	6
API Base Similar Schools Rank (10 = best)	1	1	1	1
School's Actual Growth	-11	33	6	21
Similar Schools Median of Actual Growth	10	6	5	N/A
Did School's Growth Exceed Median?	No	Yes	Yes	N/A

Millennium met all AYP criteria in three of the most recent four years reported, 2009-10, 2010-11, and 2012-13. Millennium met its API school-wide growth target in three of the four most recent years reported, 2010-11, 2011-12, and 2012-13. For 2009-10 through 2012-13, Millennium achieved API growth scores of 734, 766, 772, and 799, respectively. Millennium’s Statewide and Similar Schools rankings (“10”=best) based on API base scores were “6” and “1”, respectively, for each of 2011-12 and 2012-13.

^[1] Information regarding AYP requirements is derived from the California Department of Education’s “2013 Adequate Yearly Progress Report Information Guide.”

The following tables depict Tracy’s academic performance over the four most recent years reported by CDE, 2009-10 through 2012-13.

Met Schoolwide API Growth Target/API Growth Score

School	2009-10	2010-11	2011-12	2012-13
Primary Charter	Yes/895	Yes/930	Yes/932	Yes/929
Discovery Charter	Yes/818	Yes/821	Yes/845	Yes/829
Millennium Charter	Yes/734	Yes/766	Yes/772	Yes/799

*

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

School	2009-10	2010-11	2011-12	2012-13
Primary Charter	10 / 5	9 / 5	10 / 9	10 / 4
Discovery Charter	7 / 1	7 / 1	7 / 1	8 / 1
Millennium Charter	6 / 1	5 / 1	6 / 1	6 / 1

AYP Performance: Met AYP Targets

School	2009-10	2010-11	2011-12	2012-13
Primary Charter	Yes	No	No	No
Discovery Charter	Yes	No	No	No
Millennium Charter	Yes	Yes	No	Yes

For the four most recent years for which data has been reported, Tracy schools met API schoolwide growth targets in 12 of 12 possible occasions (100%) across the three schools. Although Similar Schools rankings for Discovery Charter and Millennium Charter were low with rankings of “1” for all years, Statewide rankings were generally high with rankings of “5” or better for all schools across all years, and rankings of “9” or “10” for Primary Charter across all years. Performance based on AYP was mixed with Tracy’s schools meeting all AYP criteria in six of 12 possible occasions. However, Millennium met all of its AYP criteria in 2012-13. This latter result is especially significant since it required that at least 89% of students demonstrate proficiency in both mathematics and English-language arts.

Overall, Staff considers Tracy’s and Millennium’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 Primary Charter. Given the limitations with the lack of current performance data as well as the limitation with AYP results (increasingly higher threshold each successive year), staff does not consider this mixed performance to be an impediment towards a recommendation for financial soundness. At the same time, staff recommends that, at the time of the financial soundness reviews for Advance or Final Apportionment, the academic performance be re-evaluated for improvement, especially to the extent that the Common Core Standards have been incorporated into the metrics.

Enrollment Trends and Projections: The table below depicts Tracy’s growth in enrollment over the past five years. Tracy (across the three schools) has shown relatively modest yet consistent growth since 2009-10 (growth of approximately 11% over five years), growing from 1,058 students in 2009-10 to 1,174 students in 2014-15. Millennium has also

shown relative modest yet consistent growth over these years (growth of approximately 28% over five years), growing from 372 in 2009-10 to 477 students in 2014-15.

Student Enrollment by School and by Year

School	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Actual	Actual	Actual	Actual	Actual	Actual*
Primacy Charter	322	312	338	326	330	330
Discovery Charter	364	370	380	374	363	367
Millennium	372	425	442	447	488	477
Total	1,058	1,107	1,160	1,147	1,181	1,174

*As reported to the California Department of Education on October 1, 2014 through the California Longitudinal Pupil Achievement Data System

Tracy is projecting enrollment across the three schools of 1,208, 1,243, 1,255, and 1,270 for 2015-16 through 2018-19, respectively, or growth of approximately 8% over four years, which is considered conservative. Tracy is projecting enrollment for Millennium of 510, 545, 557, and 580 for 2015-16 through 2018-19, respectively, or growth of approximately 21% over four years, which is moderately conservative and consistent with Millennium’s historical growth.

Millennium has achieved year-to-year retention rates of 97.4% and 95.4% for 2013-14 and 2014-15, respectively, and Tracy has achieved year-to-year retention rates of 96.9% and 95.9% for 2013-14 and 2014-15, respectively. Based on the P-2 Reports for 2013-14, Millennium reported an average daily attendance of about 97%, and Tracy reported an average daily attendance of about 98%. Millennium has 21 students on its current wait list, and Tracy has 758 students on its current wait list.

Overall, staff considers Tracy’s and Millennium’s moderate, yet consistent enrollment growth, along with the high retention and ADA rates for both entities as supportive of a recommendation for financial soundness.

Financial Analysis: Highlighted in this section is financial data used to evaluate Tracy’s ability to operate as an on-going concern. Staff’s review of Tracy’s financial performance is based on three years of audited financial statements (2011-12 through 2013-14), and estimated financial results from 2014-15.

Long Term Debt: As of June 30, 2014, Tracy maintained no long term debt obligations. The lump-sum payment for the CSFP obligation will be paid from the District’s general obligation bond proceeds. Although proceeds are currently not on hand, the District has provided a letter of commitment dated March 2015, ensuring its financial support of the CSFP lump-sum payment.

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 Tracy’s audited and internal financial figures.

Item 5 – Tracy Learning Center on behalf of Millennium Charter

Tracy Learning Center	Actual FY 2011/12	Actual FY 2012/13	Actual FY 2013/14	Budget FY 2014/15
ENROLLMENT PROJECTIONS				
Enrollment	1,160	1,154	1,181	1,174
Average Daily Attendance	1,116	1,107	1,160	1,115
Average Daily Attendance (%)	96%	96%	98%	95%
FINANCIAL PROJECTIONS				
Total Revenues Available for CSFP Payment	\$ 7,952,314	\$ 7,873,124	\$ 8,838,281	\$ 8,896,685
Total Expenses Paid Before CSFP Payment	7,475,157	7,852,879	8,692,344	9,056,888
Accounting Adjustments	40,482	51,735	60,849	151,223
Net Revenues Available for CSFP Payment	\$ 517,639	\$ 71,980	\$ 206,786	\$ (8,980)
CSFP Payment	\$ -	\$ -	\$ -	\$ -
Net Revenues After CSFP Payment	\$ 517,639	\$ 71,980	\$ 206,786	\$ (8,980)
FINANCIAL INDICATORS				
Net Revenues Available for CSFP Payment	\$ 517,639	\$ 71,980	\$ 206,786	\$ (8,980)
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A
Contributions	\$ 217,127	\$ 153,962	\$ 165,341	\$ 194,900
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A
Contributions / Revenues	2.7%	2.0%	1.9%	2.2%
Net Revenues After CSFP Payment / Revenues	6.5%	0.9%	2.3%	-0.1%
Revenues / ADA	\$ 7,123	\$ 7,112	\$ 7,618	\$ 7,977
Expenses / ADA	\$ 6,695	\$ 7,094	\$ 7,492	\$ 8,121
Surplus (Deficit) / ADA	\$ 427	\$ 18	\$ 126	\$ (144)
Net Working Capital	\$ 3,102,414	\$ 2,997,417	\$ 3,148,699	
Net Working Capital / Expenses	41.5%	38.2%	36.2%	

For 2011-12, Tracy recorded net revenue of \$517,639 on revenues of \$7.95 million and expenses of \$7.48 million. For 2012-13, Tracy generated \$7.87 million in revenue and expenditures of \$7.85 million to produce net revenues of \$71,980. Tracy realized net revenue of 206,786 in 2013-14, based on \$8.84 million and \$8.69 million in revenue and expenditures. Tracy anticipates operating at a slight loss in 2014-15 of -\$8,980 due to an increase in classified and certified salary expenditures. From 2011-12 through 2013-14, Tracy received \$217,127, \$153,962, and \$165,341, respectively, each year in contributions. Contributions for 2014-15 are estimated at \$194,900.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. For 2012-13, Tracy’s NWC was \$3.00 million or 38.2% of total expenses, and in 2013-14, NWC was \$3.15 million or 36.2% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. Tracy maintained cash at June 30, 2014 of \$2.79 million, with approximately \$1.12 million in accounts receivable.

Strengths, Weaknesses and Mitigants

- + For 2012-13, Tracy’s NWC was \$3.00 million or 38.2% of total expenses, and in 2013-14, Tracy’s NWC was \$3.15 million or 36.2% of total expenses.
- + Tracy does not heavily rely on fundraising from private sources
- + Millennium has met its API growth target and all AYP criteria in three of the past four years for which data is available.
- + Millennium maintained strong year-to-year retention rates for 2012-13 and 2013-14 in excess of 95%.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Tracy Learning Center (Tracy), on behalf of Millennium Charter (Millennium), is financially sound for the purposes of the Charter School Facilities Program (Program) Preliminary and/or Advance Apportionment, but not Final Apportionment. This determination as it relates to Preliminary and/or Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. 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.