

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

<b>Applicant/Obligor:</b>	KIPP Bay Area Schools
<b>Project School:</b>	KIPP Prize Preparatory Academy
<b>CDS (County – District – School) Code:</b>	43-60369-0129924
<b>School Address/Proposed Site:</b>	1250 S. King Road, San Jose, CA, 95122
<b>Type of Project:</b>	Rehabilitation
<b>County:</b>	Santa Clara
<b>District in which Project is Located:</b>	Alum Rock Union Elementary School District
<b>Charter Authorizer:</b>	Alum Rock Union Elementary School District
<b>Total OPSC Project Cost:</b>	\$513,511
<b>State Apportionment (50% Project Cost):</b>	\$256,755.50
<b>Lump Sum Contribution:</b>	N/A
<b>Total CSFP Financed Amount:</b>	\$256,755.50
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$13,099
<b>First Year of Occupancy of New Project:</b>	2017-18

**Staff Recommendation:** Staff recommends that the California School Finance Authority (CSFA) Board determine that KIPP Bay Area Schools (KIPP), on behalf of KIPP Prize Preparatory Academy (Prize) is financially sound for the Charter School Facilities Program (Program) Preliminary and/or Advance Apportionment, but not Final Apportionment, under the Program. This determination as it relates to a Preliminary/Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. This determination of financial soundness also is contingent upon KIPP agreeing 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 (OPSC) and the State Allocation Board (SAB) regarding this determination.

**Background:** Pursuant to the State Allocation Board's action on March 26, 2014, and as allowed under the California Code of Regulations, Title 2, Section 1859.167.3 (School Facility Program regulations), bond authority that returned to the Charter School Facilities Program for a period of eight months following the November 2014 SAB meeting was used to award additional Preliminary Charter School Apportionments (PCSAs) under the CSFP 2014 Funding Round. PCSAs were awarded using the funding matrix approved at the November 2014 SAB meeting. In its Preliminary Application, Prize requested \$4,073,466 for New Construction and \$11,896,456 for Rehabilitation. However, as only \$513,511 in bond authority for PCSAs was available to provide funding for these projects as of July 24, 2015 under the CSFP 2014 Funding Round to which Prize was next in line to receive, Prize elected to maintain its eligibility for the Rehabilitation project at this lower amount and forfeit the New Construction project. KIPP, on behalf of Prize, reduced the scope of the

Rehabilitation project commensurate with the reduction in project costs (refer to “Project Description” section).

KIPP received preliminary apportionments for two other charter schools, KIPP King Collegiate High (King) (2008) and KIPP Heartwood Academy (2015), and KIPP has received Final Release of Funds for King for New Construction (Total Project Costs of \$8,282,844) (2012). King also has a preliminary apportionment for rehabilitation for which it has not yet received Final Release of funds (\$3,607,942). In evaluating KIPP’s ability to repay the local matching share in the form of a loan, the annual loan payment amount will be based on total project costs represented by the sum of the preliminary apportionment amounts for KIPP Prize Preparatory Academy (\$513,511) and KIPP Heartwood Academy (\$8,807,194), along with the total project costs for King (both new construction and rehabilitation) (\$11,890,786), which is \$21,211,491. The total projected CSFP loan amount is \$10,605,745 (50% of total project costs). The annual CSFP payment for the King project cost of \$8,282,844 was finalized in 2013-14 at \$187,921. Assuming a 3.0% interest rate, a 30-year repayment period, and an estimated remaining combined project cost of \$12,928,647, KIPP’s total annual CSFP payment is projected to be \$517,726. The amortized loan payment amount specific to the Prize CSFP project is \$13,099. Below is a table depicting these costs.

<u>Project Name</u>	<u>Reserved or Actual Costs</u>	<u>CSFP loan amount (Local Match)</u>	<u>Annual Amortized Loan Amount</u>
KIPP King Collegiate (New Construction)	\$8,282,844	\$4,141,422	\$187,921*
KIPP King Collegiate (Rehabilitation)	\$3,607,942	\$1,803,971	\$92,037
KIPP Heartwood Academy	\$8,807,194	\$4,403,597	\$224,668
KIPP Prize Preparatory Academy	\$513,511	\$256,755.50	\$13,099
<b>Total</b>	<b><u>\$21,211,491</u></b>	<b><u>\$10,605,745</u></b>	<b><u>\$517,726</u></b>

\*Existing annual CSFP payment

**Application Highlights:** Below staff has highlighted key criteria that were evaluated when conducting the financial soundness review of KIPP, on behalf of Prize. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>EMO Information</b>	
Demographic Information	1. KIPP has shown substantial and consistent growth since 2010-11, growing from 2,299 students in 2010-11, across seven schools, to 3,835 students across 11 schools in 2015-16, representing growth of 66.8% over four years, or an average annual growth of approximately 13.4%.

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	<p>2. Largely through the addition of new schools and addition of new grades each subsequent year (for all new schools, 19 in total), for 2016-17 through 2019-20, KIPP is projecting aggregate enrollment of 4,782, 6,250, 7,715, and 9,267, respectively, representing overall growth of approximately 240%, or approximately 60% per year over four years .</p>
Debt Service Coverage	<p>1. Based on conservative multi-year projections, KIPP’s projected debt service coverage levels for the anticipated combined CSFP lease payment in 2018-19 and 2019-20 are 171.7% and 280.9%, respectively.</p> <p>2. Although KIPP relies significantly upon contributions to meet the minimum required debt service coverage of 100%, KIPP’s ability to achieve its anticipated contributions is supported by its historical contributions, having raised an average of \$17.34 million per year over the past three years.</p>
Other Financial Factors	<p>1. Measured as a percentage of total revenues, contributions from 2017-18 through 2019-20 are projected to average 11.6% annually.</p> <p>2. KIPP’s net working capital (NWC) as of June 30, 2015 was exceptionally high at \$49.1 million, or 141.4% of total expenses, up from \$33.9 million, or 113.4% of total expenses as of June 30, 2014. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.</p>
Student Performance	<p>1. With respect to API growth scores and meeting of API growth targets, for 2009-10 through 2012-13, where data was available, 100% of KIPP schools achieved API growth scores of greater than 800, and 100% met their API growth targets.</p> <p>2. With respect to KIPP’s statewide and similar schools rankings (base API scores), during the reported years, 2009-10 through 2012-13, where data was available, 100% of schools (7 schools) had statewide and similar schools rankings of “5” or greater In addition, during each of 2011-12 and 2012-13, 100% of schools (7 schools) had both rankings of “8” or greater.</p>
<b>School Information</b>	
Eligibility Criteria	<p>Prize, has met all eligibility criteria: (1) Prize commenced operations in 2014-15; (2) Prize’s charter was approved in 2013 by its charter authorizer, Alum Rock Union Elementary School District, and is in place through June 2018; (3) Prize is in good standing with its chartering authorizer and in compliance with the terms of it charter; and (4) KIPP has been developing and managing charter schools since 2008.</p>
Student Performance	<p>1. Heartwood, as a proxy for Prize, met its API growth targets in each of the four most recent reported years, 2009-10 through 2012-13, and had API growth scores of 915, 900, 906, and 922 for each of these years, respectively.</p>

	2. In all years reported by CDE based on API base scores, Heartwood, as a proxy for Prize, had statewide and similar schools rankings of “9” or “10” (“10” = best) with “10” in both rankings in 2009-10, 2010-11, and 2013-14.
Demographic Information	Prize has increased its enrollment from 106 in 2014-15 to 207 in 2015-16. Prize’s year-to-year retention rate for 2015-16 was 94.0%. Based on the P-2 report, Prize’s ADA rate for 2014-15 was 97.2%. Prize has a current wait list with 334 students.

**Program Eligibility:** On November 23, 2015, at CSFA staff’s request, verification was received from Alum Rock Union Elementary School District (District) confirming that Prize (1) is in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. Prize’s charter is effective through June 30, 2018. In addition, the Program Applicant, KIPP, has been developing and managing charter schools since 2008.

**Legal Status Questionnaire:** Staff reviewed KIPP’s responses, on behalf of Prize, to the questions contained in the Legal Status Questionnaire (LSQ) signed on November 3, 2015. In response to the questions in the LSQ, KIPP stated the following: (1) “There are no regulatory proceedings or investigations that will have a material impact on the viability of the project”; and (2) “There have been no civil, criminal, or regulatory actions in which the individuals/entities referenced above have been named as defendants.”

**Project Description:** KIPP, on behalf of Prize, is requesting CSFP funding for rehabilitation of existing classrooms, as well as administrative and multi-use portions of school facilities in order to update an aging infrastructure. Anticipated rehabilitation will include: roof repair/replacement; updated electrical circuitry/outlets; updated heating, ventilation, and air conditioning; and other structural repairs as needed. The rehabilitation is likely to be completed in anticipation of the 2017-18 school year. The school has a current enrollment of 207 students in grades 5-6, with a full enrollment of 425 in grades 5-8 anticipated for the 2017-18 school year.

**School Organizational Information:** Prize began operations in 2014-15 with 106 fifth graders in October 2014. Prize currently serves 207 students in grades 5-6. Prize’s target population is represented by a largely underserved community in east San Jose, which is reflected by 88.7% of Prize students being eligible for free or reduced-price meals. Prize’s demographic profile includes an ethnicity mix of 86% Hispanic, 11% Asian, 1% African-American, and 2% “Other.” In addition, 45% of Prize students are considered “English Language Learners.” Prize shares the same campus with KIPP Heartwood Academy, another middle school under KIPP’s umbrella. KIPP has established two distinct middle schools on the same campus in order to maintain a small school environment for the middle school students.

**Management Experience for Schools Open Less than Two Years:** Although Prize began operations in 2014-15, the Charter Management Organization, KIPP Bay Area Schools, responsible for developing and managing Prize, and also the Applicant in the CSFP application, has been in operations since 2008, and hence has more than two years of charter operations experience.

**School Management:** Autumn Zangrilli has served as Principal of Prize since it opened in 2014. Prior to this position, Ms. Zangrilli was a Miles Fellow at the KIPP AMP Academy in Brooklyn, New York where she served as Dean of Teaching and Learning (2010-14). Prior to this position, Ms. Zangrilli served as a teacher at the American International School in Rome, Italy (2009-10). Prior to this position, Ms. Zangrilli was at Teach for America where she received training from the Teachers College Reading and Writing Project and served as a Fellow Advisor for the New Teacher Project. Ms. Zangrilli holds a B.A. from the University of California, Berkeley and a Masters of Science in Teaching from Pace University.

**CMO Organization and Management:** KIPP is a non-profit, public benefit corporation with 501(c)(3) status, founded in 2008 through the consolidation of seven charter schools, which currently operates the following eleven public charter schools (middle schools and high schools) in the San Francisco Bay Area: KIPP Bridge Charter; KIPP Bayview Academy; KIPP San Francisco Bay Academy; KIPP San Francisco College Preparatory Academy; KIPP Heartwood Academy; KIPP Heritage Academy; KIPP Prize Preparatory Academy; KIPP San Jose Collegiate; KIPP King Collegiate; KIPP Summit Academy; and KIPP Excelencia Community Prep.

The following table depicts, for each school under KIPP, the opening year, grade levels served, and current student enrollment.

School	Opened	Grades Served	2015-16 Enrollment
KIPP Bridge Charter	Aug. 2007	5-8	318
KIPP Bayview Academy	July 2003	5-8	299
KIPP San Francisco Bay Academy	Aug. 2003	5-8	385
KIPP San Francisco College Prep	Aug. 2013	9-12	315
KIPP Heartwood Academy	Aug. 2004	5-8	412
KIPP Heritage Academy	Aug. 2014	5-8	216
KIPP Prize Preparatory Academy	Aug. 2014	5-8	207
KIPP King Collegiate	Sept. 2007	9-12	566
KIPP San Jose Collegiate	Aug. 2008	9-12	486
KIPP Summit Academy	Aug. 2003	5-8	417
KIPP Excelencia Community Prep	Aug. 2015	K-8	214
<b>Total</b>			<b>3,835</b>

KIPP Bay Area Schools is associated with the KIPP national network of schools, which has over 100 schools across the nation all managed by local, regionalized nonprofits. The KIPP Foundation, located in San Francisco, provides professional development, evaluation, and advocacy support for all KIPP schools nationwide. KIPP’s mission is to operate high-

achieving public schools in educationally underserved communities, developing knowledge, skills, and character essential to thrive in college, shape the future, and positively impact the world.

Prize was established following the national KIPP model, as set forth by the KIPP Foundation. The hallmarks of the KIPP program include the following five pillars: 1) High Expectations: KIPP schools have clearly defined and measurable high expectations for academic achievement and conduct that make no excuses based on the students' backgrounds. Students, parents, teachers, and staff create and reinforce a culture of achievement and support through a range of formal and informal rewards and consequences for academic performance and behavior; 2) Choice & Commitment: Students, their parents, and the faculty of each KIPP school choose to participate in the program. No one is assigned or forced to attend a KIPP school. Everyone must make and uphold a commitment to the school and to each other to put in the time and effort required to achieve success; 3) More Time: KIPP schools know that there are no shortcuts when it comes to success in academics and life. With an extended school day, week, and year, students have more time in the classroom to acquire the academic knowledge and skills that will prepare them for competitive high schools and colleges, as well as more opportunities to engage in diverse extracurricular experiences; 4) Power to Lead: The principals of KIPP schools are effective academic and organizational leaders who understand that great schools require great school leaders. They have control over their school budget and personnel. They are free to swiftly move dollars or make staffing changes, allowing them maximum effectiveness in helping students learn; 5) Focus on Results: KIPP schools relentlessly focus on high student performance on standardized tests and other objective measures. Students are expected to achieve a level of academic performance that will enable them to succeed at the nation's best high schools and colleges.

**CMO Management:** Beth Sutkus-Thompson, Executive Director of KIPP Bay Area Schools, is the founding Executive Director of KIPP Bay Area Schools. Previously, she was the west coast trailblazer at the KIPP Foundation, where she was responsible for creating and implementing a west coast strategic growth plan for KIPP schools. Prior to her work at the KIPP Foundation, Ms. Sutkus-Thompson was on the founding team of NewSchools Venture Fund. Ms. Sutkus-Thompson is a graduate of The Broad Residency in Urban Education, a management development program for emerging executives working in urban school districts and charter management organizations. Ms. Sutkus-Thompson holds a B.A. in Education, and an M.B.A. with a certificate in nonprofit management, all from Stanford University.

Cindy Tsai joined KIPP Bay Area Schools in 2010. As the Director of Regional Operations, she leads the development and sustainability of high-quality operational systems at our schools to support teaching and learning. This includes managing the process for opening new sites, implementing cohesive policies and procedures, and partnering with schools to solve operational challenges. She also negotiates services and contracts on behalf of schools for food service, facilities, insurance, and other necessary materials. Additionally, Cindy leads the recruitment of school-based operations staff and their ongoing professional development. Ms Tsai received her B.A. in Economics from Pomona College.

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**Board Experience:** KIPP Bay Area is governed by a Board of Trustees and currently includes members with a variety of occupations and experiences, as noted below. The Board of Trustees is responsible for variety of functions, which include: Define and refine the organization’s mission, vision, and strategic direction; recruit, support, and evaluate the Executive Eirector (e.g., including hire and fire authority); monitor and evaluate the organizations programs and services; and ensure fiscal, legal and ethical integrity and maintain accountability.

<b>Name</b>	<b>Occupation</b>	<b>County of Residence</b>	<b>Term</b>
Jay Allen	EVP, Human Resources, Charles Schwab & Co., Inc.	San Francisco	2009-17
John Philip Coghlan	Former president and CEO of VISA USA	San Francisco	2014-17
Lauren Dutton (Board Chair)	Education consultant	Alameda	2014-17
Chuck Daggs (Board Vice Chair)	Executive Vice President of Wells Fargo’s Wealth Management Group	Alameda	2013-16
Andrea Evans	Commissioner, San Francisco Fire Dept.	San Francisco	2013-22
Kevin Eyres	Mentor, Growth Advisor, and Angel Investor		2014-23
Doris Fisher	Founder Gap, Inc.	San Francisco	Director for life
Laura Fisher	Community Volunteer	San Francisco	2013-16
Cheryl Frank	Investment Analyst, Capital Group		2014-23
Abe Friedman	Managing Partner, CamberView Partners	Alameda	2012-21
Ron Gonzales	CEO, Hispanic Foundation Silicon Valley	Santa Clara	2013-16
Sukey Grousbeck	Community Volunteer	Santa Clara	2013-16
Andrea Higuera-Ballard	Community Volunteer	San Mateo	2013-22
Ken Hirsch	Managing Director and Partner, Goldman Sachs	Santa Clara	2012-21
Tom Holland	COO, Sunrun, Inc.	San Francisco	2012-21
Tonia Karr	Community Volunteer	San Francisco	2013-22
*Rob Lake	Community Volunteer		2015-24
Katie Paige	Grants Chair, Charles and Helen Schwab Foundation	San Francisco	2013-22
Satya Patel	Director at Twitter Inc.	San Mateo	2014-17
David Paulson	Partner with Jones Day LLP	San Francisco	2013-16
Jenny Shimizu Risk	Community Volunteer	San Mateo	2012-21
Lisa Sobrato Sonsini	Board President, Sobrato Family Foundation	Santa Clara	2013-22
Grace Voorhis	Former Partner at Morgan Stanley Venture Partners	San Mateo	2012-21
Ted Williams	Managing Partner, Springbok Partners	Marin	2013-22

Chris J. Young	Business Development and Legal Counsel, OpenGov		2015-22
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**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 to adopt the standards, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through their Local Control Funding Formulas (LCFFs), 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 has been 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.

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%.<sup>[1]</sup> 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.

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<sup>[1]</sup> Information regarding AYP requirements are derived from the California Department of Education’s “2013 Adequate Yearly Progress Report Information Guide.”

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Because Prize was only opened in 2014-15, to date there is no reporting on academic performance through CDE’s Accountability Progress Reporting. Because KIPP Prize shares its campus with KIPP Heartwood Academy (Heartwood), and Heartwood has more than four years of reported API scores and AYP results, allowing a review of progress and comparison to similar schools, Staff has reviewed Heartwood’s performance as a proxy for Prize’s potential performance. The following table summarizes Heartwood’s student performance for 2009-10 through 2012-13, the four most recent years for which CDE has reported API and AYP results.

<b>KIPP Heartwood Academy</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>				
Met All AYP Criteria?	Yes	No	Yes	No
Criteria Met / Required Criteria	21 / 21	16 / 17	17 / 17	16 / 17
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
<b>ACADEMIC PERFORMANCE INDEX (API)</b>				
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	10	10	9	9
API Base Similar Schools Rank (10 = best)	10	10	10	10
School's Actual Growth	22	-16	6	15
Similar Schools Median of Actual Growth	11	9	5	N/A
Did School's Growth Exceed Median?	Yes	No	Yes	N/A

Heartwood met its API growth targets in each of the four most recent reported years, 2009-10 through 2012-13, and had API growth scores of 915, 900, 906, and 922 for each of these years, respectively. In all years, based on API base scores, Heartwood had statewide and similar schools rankings of “9” or “10” (“10” = best) with “10” in both rankings in 2009-10 and 2010-11. Heartwood met all AYP criteria in two of the four most recent years reported, 2009-10 and 2012-13. Though not in the table, Heartwood had “10” in both rankings in 2013-14.

Staff also reviewed academic performance data that were available for the seven KIPP schools that were in operations from 2009-10 through 2012-13, the four most recent years reported by CDE, as shown in the tables below.

<b>KIPP Bay Area Schools - API Growth Scores/Met Schoolwide API Growth Target</b>				
<b>School</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
KIPP Bridge Charter (5-8)	864/Yes	911/Yes	901/Yes	905/Yes
KIPP Bayview Academy (5-8)	825/Yes	867/Yes	864/Yes	838/Yes
KIPP San Francisco Bay Academy (5-8)	845/Yes	859/Yes	907/Yes	868/Yes
KIPP Heartwood Academy (5-8)	915/Yes	900/Yes	906/Yes	922/Yes
KIPP San Jose Collegiate (9-12)	893/Yes	909/Yes	900/Yes	875/Yes
KIPP King Collegiate (9-12)	N/A / N/A	819/ N/A	833/Yes	833/Yes
KIPP Summit Academy (5-8)	845/Yes	859/Yes	912/Yes	933/Yes

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With respect to API growth scores and meeting of API growth targets, for 2009-10 through 2012-13, where data was available, 100% of KIPP schools achieved API growth scores of greater than 800, and 100% met their API growth targets.

<b>KIPP Bay Area Schools - Base API Score Statewide Ranking / Similar School Ranking (10 = best)</b>				
<b>School</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
KIPP Bridge Charter (5-8)	7/10	9/10	10/10	9/10
KIPP Bayview Academy (5-8)	5/9	8/10	9/10	8/10
KIPP San Francisco Bay Academy (5-8)	8/10	8/10	8/10	9/10
KIPP Heartwood Academy (5-8)	10/10	10/10	9/10	9/10
KIPP San Jose Collegiate (9-12)	10/ N/A	10/10	10/10	10/10
KIPP King Collegiate (9-12)	10/10	N/A / N/A	8/10	9/10
KIPP Summit Academy (5-8)	8/8	8/10	8/8	9/10

With respect to KIPP's statewide and similar schools rankings (base API scores), during the reported years, 2009-10 through 2012-13, where data was available, 100% of schools (7 schools) had statewide and similar schools rankings of "5" or greater. In addition, during each of 2011-12 and 2012-13, 100% of schools (7 schools) had both rankings of "8" or greater.

<b>KIPP Bay Area Schools - Met All AYP Targets</b>				
<b>School</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
KIPP Bridge Charter (5-8)	Yes	No	No	No
KIPP Bayview Academy (5-8)	Yes	Yes	No	No
KIPP San Francisco Bay Academy (5-8)	Yes	No	Yes	No
KIPP Heartwood Academy (5-8)	Yes	No	Yes	No
KIPP San Jose Collegiate (9-12)	Yes	Yes	Yes	No
KIPP King Collegiate (9-12)	No	Yes	Yes	No
KIPP Summit Academy (5-8)	Yes	No	Yes	Yes

As shown in the above table, in spite of the increasingly difficult task of meeting all AYP criteria over successive years, 71% of the KIPP schools (5 of 7) continued to meet such criteria during 2011-12. Staff acknowledges the challenge for schools in meeting the percent-proficient requirement of approximately 89% in 2012-13 in both mathematics and English-language arts, and does not consider results for this year to be indicative of general performance. Overall, staff considers KIPP's consistently high academic performance across all schools, as well as Heartwood's performance individually, as a proxy for Prize, to be supportive of a recommendation for financial soundness.

**Enrollment Trends and Projections:** The table below depicts KIPP's growth in enrollment over the past five years. KIPP has shown substantial and consistent growth since 2010-11, growing from 2,299 students in 2010-11, across seven schools, to 3,835 students across 11 schools in 2015-16, representing growth of 66.8% over five years, or an average of approximately 13.4% per year. This growth is primarily due to the growth of individual

schools (contributing to about 65% of total growth), and secondarily due to the addition of four new schools (contributing to about 35% of total growth).

**Student Enrollment by School and by Year\***

School	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Actual	Actual	Actual	Actual	Actual	Actual
KIPP Bayview	249	255	253	267	287	299
KIPP Bridge	256	262	323	317	340	318
KIPP Heartwood	394	401	398	403	414	412
KIPP Heritage	0	0	0	0	105	216
KIPP Prize	0	0	0	0	106	207
KIPP San Francisco Bay	333	351	348	363	367	385
KIPP Summit	396	397	397	405	407	417
KIPP King Collegiate	405	448	474	497	529	566
KIPP San Jose Collegiate	266	356	409	449	475	486
KIPP SF College Prep	0	0	0	120	255	315
KIPP Excelencia Comm.	0	0	0	0	0	214
<b>Total</b>	<b>2,299</b>	<b>2,470</b>	<b>2,602</b>	<b>2,821</b>	<b>3,285</b>	<b>3,835</b>

\*Based on enrollment as reported in October of each school year

For 2016-17 through 2019-20, KIPP is projecting aggregate enrollment of 4,782, 6,250, 7,715, and 9,267, respectively, representing overall growth of approximately 240% over four years, or average annual growth of approximately 60%. Within KIPP’s multi-year projections, KIPP sets forth its intent to add one new school in 2016-17, resulting in 12 schools, three new schools in 2017-18, resulting in 15 schools, three new schools in 2018-19, resulting in 18 schools, and one new school in 2019-20, resulting in 19 schools. KIPP is basing its overall growth on the addition of eight new schools, the addition of new grades within each new school over subsequent years, and the growth of existing schools.

To further substantiate KIPP’s projected growth, KIPP provided the numbers of students on the waitlists of its existing schools, which averages more than 200 students per school. In addition, KIPP indicated that for its newest school that opened this year, KIPP Excelencia Community Preparatory (Excelencia), which is anticipated to grow from 214 students in grades TK<sup>1</sup>, K-1 and 4 to 1,032 students in grades TK and K-8 in 2018-19, KIPP has received 561 intent-to-enroll forms and applications from interested parents.

<sup>1</sup> Transitional Kindergarten

Although staff considers KIPP's enrollment projections to be aggressive, staff considers the projections to be reasonable in light of historical performance with growth, the addition of eight new schools, numbers of students on the wait lists; and successful academic performance.

KIPP's average daily attendance (ADA) for 2012-13, 2013-14, and 2014-15 was 95.8%, 96.8%, and 96.2%, respectively, for an average ADA of 96.3%. Although KIPP's assumption of 98% in its multi-year projections is slightly higher than KIPP's historical performance, staff considers this assumption to be within a reasonable range of KIPP's performance. Further, since the historical ADA is based on October-based enrollment and the assumed enrollment in the budget projections is based on average annual enrollment, staff considers the difference in ADA to not be materially significant.

Prize opened in 2014-15 with 106 students in grade 5 and currently has 207 students in grades 5-6. KIPP is projecting the following enrollment growth for Prize through the addition of grades 7 and 8 as well as growth across grades: 306 students in 2016-17; and 408 students in all subsequent years. Prize's year-to-year retention rate for 2015-16 was 94.0%. Based on the P-2 report, Prize's ADA rate for 2014-15 was 97.2%. Prize has a current wait list with 334 students.

Overall, staff considers KIPP's and Prize's demonstrated enrollment growth as well as performance with attendance and retention to be supportive of a recommendation for financial soundness and supportive of the assumed projected enrollment growth.

**Financial Analysis:** Staff's financial analysis of KIPP is based upon review of the following documents: (1) KIPP's audited financial statements for 2011-12 through 2013-14, (2) KIPP's 2014-15 unaudited actuals, (3) KIPP's adopted budget for 2015-16; and (4) KIPP's multi-year budget projections for 2016-17 through 2019-20. Additionally, KIPP provided enrollment projections through 2019-20.

KIPP's multi-year budget projections are based upon the following assumptions: (1) occupancy of the construction CSFP project in 2017-18; (2) increases in enrollment as described above under the Enrollment Trends and Projections section; (3) 2014-15 Local Control Funding Formula (LCFF) per-ADA funding rates for 2015-16 through 2019-20 based on the most recent School Services of California, Inc. dashboard, with the exception that cost of living adjustments (COLAs) to LCFF rates were capped at 2.0%; (4) projected ADA rates of 98%, which is slightly higher than KIPP's historical performance; (5) COLAs for expense categories of 2.6%; and (6) an additional COLA on teacher salaries for 2015-16 through 2017-18 to keep pace with LCFF rate increases (approximately 4.7% per year on average). Staff notes that the LCFF per-ADA target rates that KIPP assumes for its multi-year budget projections are extremely conservative in that, on average, they only fill approximately 60% of the gap normally required under the LCFF model, as promulgated by CDE. As such, the multi-year budget projections are also considered conservative.

Highlighted in this section are financial data and credit indicators used to evaluate KIPP's ability to meet its CSFP obligations for its projects funded by Proposition 1D. Staff's financial analysis is based on information for KIPP as an organization and not for Prize on a stand-alone basis. Please note that the revenue, expenditure and changes to net assets

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recorded in financial audits and provided in KIPP’s financial projections have been modified by staff, where necessary, to include capital outlays, operating leases and repayment of debt and other significant obligations, and to exclude non-cash items such as depreciation.

<b>KIPP Bay Area Schools</b>	<b>Actual FY 2012/13</b>	<b>Actual FY 2013/14</b>	<b>Actual FY 2014/15</b>	<b>Budget FY 2015/16</b>	<b>Projected FY 2016/17</b>	<b>Projected FY 2017/18</b>	<b>Projected FY 2018/19</b>	<b>Projected FY 2019/20</b>
<b>ENROLLMENT PROJECTIONS</b>								
Enrollment	2,602	2,821	3,285	3,835	4,782	6,250	7,715	9,267
Average Daily Attendance	2,494	2,730	3,153	3,758	4,686	6,125	7,561	9,082
Average Daily Attendance (%)	96%	97%	96%	98%	98%	98%	98%	98%
<b>FINANCIAL PROJECTIONS</b>								
Total Revenues Available for CSFP Payment	\$ 37,207,586	\$ 41,860,635	\$ 48,205,298	\$ 57,614,728	\$ 63,273,090	\$ 79,465,711	\$ 93,068,630	\$ 111,536,188
Total Expenses Paid Before CSFP Payment	26,038,176	29,881,559	34,733,623	44,589,795	54,421,389	74,430,757	92,179,753	110,081,748
Accounting Adjustments	-	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 11,169,410	\$ 11,979,076	\$ 13,471,675	\$ 13,024,933	\$ 8,851,701	\$ 5,034,954	\$ 888,877	\$ 1,454,440
CSFP Payment	\$ -	\$ 62,640	\$ 187,921	\$ 187,921	\$ 187,921	\$ 187,921	\$ 517,726	\$ 517,726
Net Revenues After CSFP Payment	\$ 11,169,410	\$ 11,916,436	\$ 13,283,754	\$ 12,837,012	\$ 8,663,780	\$ 4,847,033	\$ 371,151	\$ 936,714
<b>FINANCIAL INDICATORS</b>								
Net Revenues Available for CSFP Payment	\$ 11,169,410	\$ 11,979,076	\$ 13,471,675	\$ 13,024,933	\$ 8,851,701	\$ 5,034,954	\$ 888,877	\$ 1,454,440
Debt Service Coverage by Net Revenues	N/A	19123.7%	7168.8%	6931.1%	4710.3%	2679.3%	171.7%	280.9%
Contributions	\$ 16,784,743	\$ 16,595,561	\$ 17,499,651	\$ 16,403,441	\$ 14,764,106	\$ 14,037,292	\$ 9,979,530	\$ 9,092,153
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	-7369.9%	-2143.4%	-1797.8%	-3146.2%	-4790.5%	-1755.9%	-1475.2%
CSFP Lease Payment / Revenues	N/A	0.1%	0.4%	0.3%	0.3%	0.2%	0.6%	0.5%
Contributions / Revenues	45.1%	39.6%	36.3%	28.5%	23.3%	17.7%	10.7%	8.2%
Net Revenues After CSFP Payment / Revenues	30.0%	28.5%	27.6%	22.3%	13.7%	6.1%	0.4%	0.8%
Revenues / ADA	\$ 14,921	\$ 15,332	\$ 15,289	\$ 15,330	\$ 13,502	\$ 12,974	\$ 12,310	\$ 12,281
Expenses / ADA	\$ 10,442	\$ 10,967	\$ 11,076	\$ 11,914	\$ 11,653	\$ 12,183	\$ 12,260	\$ 12,178
Surplus (Deficit) / ADA	\$ 4,479	\$ 4,364	\$ 4,213	\$ 3,416	\$ 1,849	\$ 791	\$ 49	\$ 103
Net Working Capital	\$ 23,012,735	\$ 33,897,164	\$ 49,125,710					
Net Working Capital / Expenses	88.4%	113.4%	141.4%					

**Long-Term Liabilities** – No long-term debt was outstanding as of June 30, 2015 or indicated by the school’s financial projections other than the CSFP obligations from KIPP King in the amount of \$4,106,166.

**Short-Term Liabilities:** KIPP has a commercial card line of credit with a financial institution for up to \$400,000. This line of credit is associated with KIPP’s credit cards and is settled monthly. The line of credit is set to expire in April 2016. KIPP also has a revolving line of credit with a financial institution for \$1,000,000. It carries a variable interest rate of prime plus 1.75% with a 5% minimum rate and expires May 2016. KIPP Bay Area Schools currently as no amounts outstanding under this line of credit.

**School Facilities:** KIPP leases various facilities under operating leases. The aggregate rental payments required under the terms of their operating leases were \$728,783 in 2013-14 and \$1,444,982 in 2014-15.

The facility costs for all KIPP schools incorporated into the financial projections are as follows: \$1.61 million (2015-16), \$2.82 million (2016-17), \$5.30 million (2017-18), \$7.84 million (2018-19), and \$10.40 million (2019-20). The facilities cost estimates are generally based on \$1,300 per pupil and are not inclusive of SB740 State facility cost subsidies. These estimated expenses are equivalent to an average of 6.4% 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.

**Non-Operating Revenues from Contributions** - Over the last four years, KIPP received the following total amounts of private grants and contributions, averaging \$17.34 million per

year: \$18.5 million in 2011-12, \$16.78 million in 2012-13, and \$16.56 million in 2013-14, and \$17.5 million in 2014-15. KIPP anticipates \$16.4 million in contributions in 2015-16 and \$14.8 million in contributions in 2016-17. The financial projections estimate donations averaging \$11.0 million per year from 2017-18 through 2019-20. Historically, fundraising annual receipts averaged 40.3% of revenues for years 2012-13 through 2014-15, but this average is expected to decrease to 11.6% from 2017-18 through 2019-20.

A significant trend that staff has identified through its review of KIPP's historical performance, current year's budget, and multi-year budget projections is that, in spite of KIPP's ability to substantiate its projected private contributions, KIPP relies on such contributions in order to operate on at least a break even basis. Based on a stress test of KIPP's reliance on private contributions using KIPP's budget forecasts, KIPP would need to receive the vast majority of its projected contributions in order to maintain debt service coverage levels of at least 100.0% (at least 99% in 2018-19 and at least 92% in 2019-20). However, as this conclusion is based on an extremely conservative budget forecast, KIPP would likely be able to withstand a significantly greater reduction in contributions and still meet the minimum threshold. Further, given KIPP's strong track record of fundraising and the broad base of contributors, staff finds KIPP's sizable projected contributions to be reasonable. Finally, given KIPP's substantial net working capital and cash reserves, KIPP would likely be able to compensate for any shortfalls in contributions through its fund reserves without adversely affecting its net operating margin (refer to "Liquidity" section below).

Staff Adjusted Changes in Net Assets - KIPP's historical and projected financial operations incorporate the aforementioned described enrollment trends, facility costs and non-operating revenues from contributions.

Factoring in their contribution revenues, KIPP experienced net revenues of \$11.17 million in 2012-13, \$11.98 million in 2013-14, and \$13.28 million in 2014-15 (excluding capital outlays). In 2015-16, KIPP projects net revenue of \$12.84 million, based on operating revenue of \$57.61 million, including contributions of \$16.40 million, and expenses of \$44.78 million (excluding capital outlays). The financial projections indicate net revenues of \$8.66 million and \$4.85 million in 2016-17 and 2017-18, respectively, including contribution revenues and excluding capital outlays. KIPP projects net revenues available after the CSFP lease payments to be \$371,151 and \$936,714, respectively, in 2018-19 and 2019-20, excluding capital outlays. Staff notes that KIPP is projecting to incur significant capital expenditures for site improvements at its campuses during the projected years, including \$404,790 in 2015-16, \$29,005,992 in 2016-17, \$2,290,000 in 2017-18, \$6,850,000 in 2018-19, and \$8,770,233 in 2019-20. As KIPP has sufficient net assets and cash reserves to fund these capital outlays (please also refer to the "Liquidity" section below) and KIPP can exercise discretion with these outlays without compromising its CSFP loan payments, staff has chosen not to incorporate capital outlays into the multi-year projections.

Projected Debt Service Coverage – Debt service coverage ratios on CSFP payments are calculated using net revenues available after payment of debt service on any existing and projected indebtedness. KIPP does have debt outstanding, which has been incorporated into their financial projections.

The annual CSFP payment for the KIPP King project cost of \$8,282,844 was finalized in 2013-14 at \$187,921. Assuming a 3.0% interest rate, a 30-year repayment period, and an estimated remaining combined project cost of \$12,928,647, KIPP's total annual CSFP payment is projected to be \$517,726. Beginning 2018-19, the year following project occupancy, KIPP's projected net revenues of \$888,877 for 2018-19 and \$1,454,440 for 2019-20 would provide debt service coverage of 171.7% and 280.9%, respectively.

The CSFP payments in addition to the projected facilities costs would represent 9.0% and 9.5% of projected revenues for 2018-19 and 2019-20, respectively, which is below the preferred maximum range of 10-15%.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. KIPP's NWC for 2014-15 of \$49.1 million, or 141.4% of total expenses, increased from \$33.9 million in 2013-14, or 113.4% of total expenses. As of June 30, 2015, KIPP maintained \$37.4 million in cash reserves. KIPP's liquidity position remains exceptional. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

Overall, staff finds that KIPP's financial performance, including projected debt service coverage, as well as historical performance, as described above, is supportive of a recommendation for financial soundness.

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

- + KIPP's schools have consistently met all AYP criteria, scored in the 800's or 900's in regards to their API growth scores, and ranked among the highest schools in the state, both in the similar school and statewide rankings.
- + As of June 30, 2015, KIPP's net working capital was \$49.1 million, representing 141.4% of total expenses and its cash reserves were \$37.4 million.
- + Based on conservative budget projections, staff projects debt service coverage levels for 2018-19 and 2019-20 of 171.7% and 280.9%, respectively.
- + KIPP has demonstrated strong management and leadership with support of local districts, having been in operations since 2008. The KIPP organization is well established throughout the nation, with significant experience within the charter school area and providing a network of support.
- + KIPP has demonstrated having received substantial private contributions to augment its revenues, with average annual contributions of \$17.34 million over the past four years.
- + KIPP has demonstrated substantial enrollment growth over the past five years, growing from 2,299 students in 2010-11, across seven schools, to 3,835 students across 11 schools in 2015-16, representing growth of 66.8% over five years, or an average of approximately 13.4% per year.

- + Prize has increased its enrollment from 106 in 2014-15 to 207 in 2015-16. Prize's year-to-year retention rate for 2015-16 was 94.0%. Based on the P-2 report, Prize's ADA rate for 2014-15 was 97.2%. Prize has a current wait list with 334 students.

**Staff Recommendation:** Staff recommends that the California School Finance Authority (CSFA) Board determine that KIPP Bay Area Schools (KIPP), on behalf of KIPP Prize Preparatory Academy (Prize) is financially sound for the Charter School Facilities Program (Program) Preliminary and/or Advance Apportionment, but not Final Apportionment, under the Program. This determination as it relates to a Preliminary/Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. This determination of financial soundness also is contingent upon KIPP agreeing 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 (OPSC) and the State Allocation Board (SAB) regarding this determination.