

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT –MAY 2016**

Applicant/Obligor:	Education for Change Public Schools
Project School:	Lazear Charter Academy
CDS (County – District – School) Code:	01-10017-6002000
Proposed Location:	824 29 th Street, Oakland, CA 94601
Type of Project:	Rehabilitation
County:	Alameda
District in which Project is Located:	Alameda County Office of Education
Charter Authorizer:	Alameda County Office of Education
Total OPSC Project Cost:	\$12,221,618
State Apportionment (50% Project Cost):	\$6,110,809
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$6,110,809
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$311,769
First Year of Occupancy of New Project:	2019-20

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) Advance and/or Final Apportionment. This determination as it relates to Advance/Final Apportionment is in place for twelve 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.

Background Information: The Authority found Lazear financially sound for Preliminary Apportionment in November 18, 2014, and the State Allocation Board awarded Lazear a Preliminary Apportionment in the amount of \$12,221,618 at its November 25, 2014 meeting. Lazear is now seeking Advance Apportionment for design in the amount of \$1,222,161.80 for design.

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.

Criteria	Comments
Eligibility Criteria	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.
Demographic Information	<ol style="list-style-type: none"> 1. Since commencing operations in 2012-13, Lazear’s student enrollment has grown from 300 students in grades K-6 to 455 students in grades K-8. Lazear achieved year-to-year retention rates of 95% and 93% for 2014-15 and 2015-16, respectively 2. Over the past five years, ECPS has demonstrated consistent enrollment growth, growing from 1,169 in 2010-11 to 2,966 for the 2015-16. ECPS is projecting student enrollment of 3,113 (across six schools) for all projected years, 2016-17 through 2021-22, which is conservative in relation to the historical enrollment growth.
Debt Service Coverage	ECPS’s projected debt service coverage ratios of 658% in 2020-21 and 740% in 2021-22 exceed the minimum requirement of 100%.
Other Financial Factors	In projected years, ECPS has relatively small reliance on contributions from private sources. Contributions are projected to constitute only 2.0% of revenues in 2020-21 and 2021-22. 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 2014-15 of \$5.16 million represented 19.5% of total expenses, which exceeds the preferred minimum of 5.0%.
Student Performance	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 March 9, 2016, 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 2017.

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 February 26, 2016. 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 Charter School, a Kindergarten through Eighth Grade school, EFCPS is proposing to replace 18 existing portable classrooms and administrative offices as well as the Multi-Purpose Room. The project will consist of construction of either permanent facilities or modular buildings (permanent wood framed structures) that will support the school's program of Science, Technology, Engineering and Mathematics on land leased long term from Oakland Unified School District. The anticipated first full year of project occupancy is 2019-20, 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 2012-13, 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 serving grades K-3 was subsumed under Achieve Academy, formerly serving grades 4-5, and now serving 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 an 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.

Jennifer Koelling has served as Co-Principal of Lazear since July 2015. Prior to this position, Ms. Koelling served as Director of Program with Citizen Schools, a national non-profit that expands the learning day for middle school students. Prior to her work with Citizen Schools,

Jennifer was an Academic Dean and Instructional Coach at Cesar Chavez Academy in East Palo Alto. Jennifer began her career in education with Teach For America and was placed in Alum Rock School District in San Jose where she taught 4th & 5th grade for several years. While in Alum Rock, Jennifer served as a school advisor for MESA (Mathematics, Engineering, Science Achievement) and chaired her school’s Young Authors’ Faire committee. Jennifer has an Ed.M. in Education Policy and Management from Harvard Graduate School of Education, and most recently completed her coursework with Reach Institute’s Instructional Leadership Academy to receive her CA Preliminary Administrative Credential.

Sarah Morrill has served as Co-Principal of Lazear since June 2015. Prior to this position, Ms. Morrill served as the senior director for the Teach For America west coast teacher training in Los Angeles, managing the program of 500 new teachers and 100 staff members to create a strong summer school for over 2,000 students. Prior to that role, she worked with the same training in Los Angeles as the district school partners point to ensure students had a strong instructional summer school program to set them up for success in the upcoming year. She started her career in Atlanta, Georgia, teaching 3rd grade before becoming a teacher coach across Atlanta for new elementary and social studies teachers. She graduated from Colorado College where she received her BA in International Political Economy and History.

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

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

Name	Occupation	Title	County of Residence	Term Expiration Date
LaRayne Povisen	Director of Human Resources, Education for Change	Non-voting Secretary	Contra Costa	No term
Nick Driver	Vice President, Charter School Management Corporation	Board Chair	San Francisco	2014-17
Adam Smith	Senior Partner, Lippincott	Board Member	Alameda	2016-19
Eva Camp	Volunteer	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	2015-16

Name	Occupation	Title	County of Residence	Term Expiration Date
Mike Barr	Chief Financial Officer, Reading Partners	Board Treasurer	Alameda	2014-17
Brian Rogers	CEO, Rogers Family Foundation	Board Vice Chair	Contra Costa	2013-16
Kathy Cash	Parent Representative	Board Member	Alameda	2016-17
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 2012-13, 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 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. Furthermore, 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 initially implemented in spring 2015 for purposes of establishing a baseline for comparing academic performance between schools, and subsequent improvement. However, the follow up tests have not yet been completed, and CDE has not yet developed standardized reporting for such purposes.

Due to the transition to the Common Core State Standards, since 2013, CDE’s Accountability Progress Reporting has significantly changed as follows: (1) Growth Academic Performance Index (API) and Base API reporting has been temporarily suspended; (2) rankings based on Base API scores are no longer being reported; and (3) 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, and this reporting only incorporates “Percent Proficient” into AYP for 2013-14¹.

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%.² Therefore, with each successive year, charter schools have been increasingly challenged in “making AYP” (meeting all AYP criteria). This requirement applies to both school wide performance and performance of each numerically significant subgroup within any school.

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 the financial soundness determination is limited to API up until 2012-13 and AYP up to 2012-13 with the exception of specific high schools receiving Title 1 funding.

As Lazear commenced operations in 2012-13, 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 Academy³. 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

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.

¹ Reporting for subsequent years only incorporates participation rates as a basis for meeting AYP criteria.

² Information regarding AYP requirements are derived from the California Department of Education’s “2013 Adequate Yearly Progress Report Information Guide.”

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

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. 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 summary of its action plan for assessment and improvement, which is described below.

“Education for Change’s theory of acceleration reinforces our collective vision that every student at ECPS will either demonstrate grade level mastery of standards or make accelerated growth to close the gap between their performance and grade level expectations. To that end, we have adopted and developed a constellation of assessment tools that allow us to measure both academic growth and proficiency. Additionally we define mastery as the ability to demonstrate learning at a range of depth

of knowledge levels. Therefore we have balanced multiple choice assessments with performance tasks and constructed response items.

In mathematics and English language arts, we have adopted, in partnership with Amplify (a maker of digital K-12 educational products and services), grade-level benchmarks and unit tests, aligned to the Common Core math standards and our ECPS instructional pacing. In reading, we have adopted the ‘Developmental Reading Assessment’ (DRA2) for grades K-5. We have also developed a ‘K/1 Diagnostic’ for emergent readers and the ‘Individual-Growth-and-Development-Indicators’ early literacy assessments for transitional kindergarten. Also, we have developed our first iteration of our ‘Writing Performance Tasks’ weeklong, content integrated, genre-focused tasks for all grades. Lastly, we utilize Northwest Evaluation Association’s ‘Measures of Academic Progress’ assessment in Reading and Math to develop personalized growth targets for each student and monitor progress.”

Given CDE’s lack of current reporting on academic performance along with ECPS’ initiative to address performance through its action plan, staff does not believe the ECPS’ mixed results on API and AYP should be considered an impediment to a recommendation for financial soundness.

Enrollment and Retention Rates: Since commencing operations in 2012-13, Lazear’s student enrollment has grown from 300 students in grades K-6 to 455 students in grades K-8 for the current 2015-16 year, and ECPS is projecting Lazear’s enrollment to remain level at 455 students in all projected years through 2021-22. In addition, over the past six years, as depicted in the table below, student enrollment at ECPS schools has grown from 1,169 in 2010-11 to 2,966 in 2015-16, representing overall growth of 154%, or average annual growth of about 31%. This growth has been due, in large part, 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 3,113 (across six schools) for all projected years from 2016-17 through 2021-22, which is conservative in relation to the historical enrollment growth.

Historical Enrollment

School	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Achieve Academy	217	245	226	205	695	750
ASCEND	N/A	N/A	437	434	432	444
Cox Academy	513	550	566	558	575	609
Learning Without Limits	N/A	N/A	380	388	416	417
World Academy	439	475	439	475	N/A	N/A
Lazear Charter Academy	N/A	N/A	300	401	445	455
Epic Academy	N/A	N/A	N/A	N/A	176	291
Total for all Schools	1,169	1,270	2,348	2,463	2,739	2,966

Lazear has achieved year-to-year retention rates of 95% and 93% for 2014-15 and 2015-16, respectively. Based on the P-2 Reports, Lazear had average daily attendance (ADA) rates of 96% and 94% for 2013-14 and 2014-15, respectively. In addition, based on the P-2

Reports for all schools under ECPS, ECPS as an organization had ADA rates of 98% and 97% for 2013-14 and 2014-15, respectively, which is supportive of the ADA assumption in the multi-year projections.

Staff considers ECPS’ consistent enrollment growth, Lazear’s stable enrollment and relatively high retention rates, and both Lazear’s and ECPS’ strong ADA rates as supportive of a recommendation for financial soundness. Staff also considers ECPS’s consistent enrollment growth as supportive of ECPS’ enrollment projections within its multi-year budget projections.

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’s representatives.

Education for Change	Actual FY 2013/14	Actual FY 2014/15	Projected FY 2015/16	Projected FY 2016/17	Projected FY 2017/18	Projected FY 2018/19	Projected FY 2019/20	Projected FY 2020/21	Projected FY 2021/22
ENROLLMENT PROJECTIONS									
Enrollment	2,463	2,739	2,966	3,113	3,113	3,113	3,113	3,113	3,113
Average Daily Attendance	2,366	2,565	2,843	2,974	2,974	2,974	2,974	2,974	2,974
Average Daily Attendance (%)	96%	94%	96%	96%	96%	96%	96%	96%	96%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Payment	\$ 23,700,016	\$ 26,973,689	\$ 33,286,467	\$ 34,346,084	\$ 35,155,424	\$ 35,317,808	\$ 36,275,058	\$ 36,806,917	\$ 37,501,536
Total Expenses Paid Before CSFP Payment	23,356,125	26,490,816	32,902,222	33,085,522	33,591,611	34,048,044	34,324,166	34,756,468	35,194,174
Accounting Adjustments	1,013	27,667	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 344,904	\$ 510,540	\$ 384,245	\$ 1,260,562	\$ 1,563,813	\$ 1,269,764	\$ 1,950,892	\$ 2,050,449	\$ 2,307,362
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 311,769	\$ 311,769
Net Revenues After CSFP Payment	\$ 344,904	\$ 510,540	\$ 384,245	\$ 1,260,562	\$ 1,563,813	\$ 1,269,764	\$ 1,950,892	\$ 1,738,680	\$ 1,995,593
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Payment	\$ 344,904	\$ 510,540	\$ 384,245	\$ 1,260,562	\$ 1,563,813	\$ 1,269,764	\$ 1,950,892	\$ 2,050,449	\$ 2,307,362
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	657.7%	740.1%
Contributions	\$ 718,947	\$ 1,381,085	\$ 1,663,190	\$ 1,002,935	\$ 796,261	\$ 796,261	\$ 746,261	\$ 746,261	\$ 746,261
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	418.3%	500.7%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.8%	0.8%
Contributions / Revenues	3.0%	5.1%	5.0%	2.9%	2.3%	2.3%	2.1%	2.0%	2.0%
Net Revenues After CSFP Payment / Revenues	1.5%	1.9%	1.2%	3.7%	4.4%	3.6%	5.4%	4.7%	5.3%
Revenues / ADA	\$ 10,018	\$ 10,518	\$ 11,708	\$ 11,549	\$ 11,821	\$ 11,876	\$ 12,197	\$ 12,376	\$ 12,610
Expenses / ADA	\$ 9,873	\$ 10,329	\$ 11,573	\$ 11,125	\$ 11,295	\$ 11,449	\$ 11,541	\$ 11,792	\$ 11,939
Surplus (Deficit) / ADA	\$ 145	\$ 188	\$ 135	\$ 424	\$ 526	\$ 427	\$ 656	\$ 585	\$ 671
Net Working Capital	\$ 4,946,760	\$ 5,157,358							
Net Working Capital / Expenses	21.2%	19.5%							

Staff’s financial analysis of ECPS is based upon review of the following documents: (1) three years of audited financial statements (2012-13 through 2014-15), (2) 2015-16 budgeted financials (3) multi-year projections from 2016-17 through 2021-22. Additionally, ECPS provided enrollment projections through 2021-22.

Contributions: ECPS’s contributions over the last two years were as follows: \$718,947 for 2013-14 and \$1.38 million for 2014-15. ECPS anticipates contributions of \$1.66 million in 2015-16, \$1.00 million in 2016-17, and between \$750,000 and \$800,000 in projected years. Staff notes that projected contribution levels are reasonable given the historical trend.

Key Assumptions: ECPS’s financial projections are based upon the following assumptions: (1) occupancy of the CSFP project in 2019-20; (2) increases in enrollment as described above; (3) 2016-17 LCFF Entitlement funding rate of \$9,366 for grades K-3, 4-6, and 7-8 as provided in Governor’s January 2016 Budget; (4) conservative projected ADA rates of 96%; (5) average Local Control Funding Formula (“LCFF”) per ADA target rates of \$9,701, \$9,742, \$10,054, \$10,180, and \$10,307 for 2017-18 through 2021-22. The LCFF rates include a

0.47% COLA in 2016-17 and 1.25% thereafter. 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, 2015, ECPS maintained no long-term liabilities other than the preliminary apportionment from the Lazear CSFP obligation.

School Facilities: ECPS has entered into facility, lease, and equipment lease agreements totaling \$3.30 million outstanding, including estimated future annual payments of \$1.32 million in 2015-16, \$1.49 million in 2016-17.

The facility costs (Consists of Rental, Lease, Repair, and Non-Capital Improvement Costs) for all ECPS schools incorporated into the financial projections are as follows: \$1.45 million (2015-16), \$1.77 million (2016-17), \$1.79 million (2017-18), \$1.81 million (2018-19), and \$2.07 million (2019-20), \$2.10 million (2020-21), and \$2.12 million (2021-22). In the first years of CSFP repayment, these estimated expenses are equivalent to an average of 6% of annual total revenues. 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: 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). In 2013-14, ECPS ended with a slight net surplus of \$344,904 after contributions of \$718,947. Based on the audited financial statements for 2014-15, ECPS recorded a net gain of \$510,540 on revenues of \$27.0 million and expenses of \$26.5 million, including \$1.38 million in contributions.

Per ECPS's 2015-16 projections, ECPS anticipates operating at a net gain of \$384,245. This is based on revenues and expenses of \$33.29 million and \$32.90 million, respectively. ECPS's enrollment is expected to grow modestly with no more than 3,113 students starting in 2016-17 and projected thereafter. However, revenue has already increased markedly due to LCFF state funding. In the first year of the CSFP project occupancy, 2019-20, ECPS projects revenues and expenses of \$36.28 million and \$34.32 million, respectively, producing available net revenues of \$1.95 million. ECPS projections indicate net revenues available to pay the CSFP lease payment of \$2.05 million and \$2.31 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's annual CSFP payment would be \$311,769 beginning in 2020-21. ECPS's projected net revenues prior to CSFP payment of \$2.05 million for 2020-21 would provide debt service coverage of 658%, while the projected net revenues of \$2.31 million would result in debt service coverage of 740% for 2021-22.

Liquidity: On June 30, 2015, ECPS reported holding \$4.76 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's NWC for 2013-14 and 2014-15 was \$4.95 million and \$5.16 million, respectively, or 21.2% and 19.5% of total expenses for these years. 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 455 students in grades K-8. Lazear achieved year-to-year retention rates of 95% and 93% for 2014-15 and 2015-16, respectively, and ADA rates of 93% and 94% for 2013-14 and 2014-15, respectively.
- + Over the past five years and for the current year, ECPS has demonstrated consistent enrollment growth, growing from 1,169 in 2010-11 to 2,966 for the 2015-16. ECPS had ADA rates of 98% and 97% for 2013-14 and 2014-15, respectively
- + ECPS projects debt service coverage of 658% in 2020-21, and 740% in 2021-22.
- +/- 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.

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) Advance and/or Final Apportionment. This determination as it relates to Advance/Final Apportionment is in place for twelve 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.