

**CHARTER SCHOOL FACILITIES PROGRAM
PROP 1D 2009 FUNDING ROUND
STAFF SUMMARY REPORT – FEBRUARY 2017**

Applicant/Obligor:	KIPP Bay Area Schools
Project School:	KIPP King Collegiate High School
CDS (County – District – School) Code:	01-61309-0114421
School Address/Proposed Site:	San Lorenzo, CA. 94580
Type of Project:	New Construction/Rehabilitation
County:	Alameda
District in which Project is Located:	San Lorenzo Unified School District
Charter Authorizer:	San Lorenzo Unified School District
	NC: \$8,282,844
	<u>Rehab: \$808,348</u>
Total OPSC Project Cost:	Total: \$9,091,192
	NC: \$4,141,422
	<u>Rehab: \$404,174</u>
State Apportionment (50% Project Cost):	Total: \$4,545,596
Lump Sum Contribution:	N/A
	NC: \$4,141,422
	<u>Rehab: \$404,174</u>
Total CSFP Financed Amount:	Total: \$4,545,596
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
	NC: \$211,292
	<u>Rehab: \$20,621</u>
Estimated Annual CSFP Payment:	Total: \$281,383
First Year of Occupancy of New Project:	2017-18

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that KIPP Bay Area Schools (KIPP) on behalf of KIPP King Collegiate High School (King), is financially sound for the purposes of the CSFP Final Apportionment. This determination of financial soundness is contingent upon KIPP's execution of an Implementation Agreement with CSFA, the State Controller's Office and California Department of Education (CDE), at the appropriate time, whereby CSFA will intercept KIPP's state-aid portion of its General Purpose Block Grant at regular intervals to satisfy the payment requirements of its CSFP obligations 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: On May 6, 2008, the Authority determined that KIPP, on behalf of King, was financially sound for purposes of a preliminary apportionment. The State Allocation Board subsequently awarded the preliminary apportionment in the amount of \$14,649,816, (\$3,607,942 for rehabilitation and \$11,041,874 for new construction). On November 9, 2011, the Authority found KIPP financially sound for purposes of a final new construction

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apportionment of \$8,282,844. Payments to CSFA for the new construction costs began in 2014 and project occupancy began in November 2012. KIPP has received Final Release of Funds for King for New Construction (Project Costs of \$8,282,844) (2012).

For the rehabilitation project, the Authority found KIPP financially sound for purposes of an advanced apportionment (design) of \$360,794 on July 17th, 2013. KIPP, on behalf of King, is now seeking a Final Apportionment of \$808,348 for the rehabilitation portion of its CSFP award. The current anticipated occupancy date is August 2017.

In addition, KIPP received preliminary apportionments for two other charter schools, KIPP King Collegiate High (King) (2008) and KIPP Heartwood Academy (2015).

To evaluate KIPP’s ability to repay the local matching share in the form of a loan, the 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), and King (both new construction and rehabilitation) (\$9,091,192), need to be considered. The sum of all school project costs is \$18,411,897. The total projected CSFP loan amount is \$9,205,948.50 (50% of total project costs). 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)	\$808,348	\$404,174	\$20,621
KIPP Heartwood Academy	\$8,807,194	\$4,403,597	\$224,668
KIPP Prize Preparatory Academy	\$513,511	\$256,755.50	\$13,099
Total	\$18,411,897	<u>\$9,205,948.50</u>	<u>\$446,309</u>

As mentioned previously, KIPP began making payments for the new construction portion of the King loan in January 2014. When the rehabilitation portion of the payments begins in 2018-19, KIPP is scheduled to make five annual payments towards its new construction loan totaling \$939,605.

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

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Criteria	Comments
EMO Information	
Demographic Information	<ol style="list-style-type: none"> 1. In 2015-16, KIPP operated 11 charter schools chartered by 7 districts; enrollment totaled 3,790 students (up 16%); the system-wide ADA rate was 96%. 2. By 2017-18 (1st Full Year of Project Occupancy), KIPP plans to operate 12 schools with total projected enrollment of 4701 students.
Debt Service Coverage	<ol style="list-style-type: none"> 1. Based on conservative multi-year projections including the aforementioned KIPP projects in CSFP, KIPP's projected debt service coverage levels for the anticipated combined CSFP lease payments in 2018-19 and 2019-20 are 1208.5% and 816.2%, respectively. 2. Although KIPP relies significantly upon contributions to meet the minimum required debt service coverage of 100%, their ability to achieve anticipated contributions is supported by historical contribution levels. KIPP has raised an average of \$63.38 million per year over the past three years.
Other Financial Factors	<ol style="list-style-type: none"> 1. Measured as a percentage of total revenues, contributions from 2016-17 through 2019-20 are projected to average 21% annually. 2. KIPP's net working capital (NWC) as of June 30, 2016 was exceptionally high at \$87.46 million, or 199.9% of total expenses. This amount is up from \$65.51 million, or 185.7% of total expenses as of June 30, 2015. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.
School Information	
Eligibility Criteria	King has met all eligibility criteria: (1) King commenced operations in 2007-08; (2) King's charter was approved in December 2011 and is in place through June 2017; (3) King is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	King students have outperformed both district and neighboring public schools in English Language Arts and Mathematics per the "Smarter Balanced" assessment provided through CDE.
Demographic Information	King currently serves 588 students in grades 9-12. Enrollment in 2016-17 is expected to be 593 students. ADA rates of 96%, were achieved for all school years between 2013-16. KIPP's financial projections assume an ADA rate of 95.0% for King.

Program Eligibility: On February 2, 2017, at CSFA staff's request, verification was received from San Lorenzo Unified School District (SLUSD) confirming that KIPP King Collegiate is (1) in compliance with the terms of its charter agreements, and (2) in good standing with its chartering authority.

Legal Status Questionnaire: Staff reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead staff to question the financial or legal integrity of this applicant.

Project Description: The rehabilitation project includes renovation of certain existing classrooms and related core area in the original building on the school’s current site. Among other things, the rehabilitation project consists of updating life and safety systems and technology infrastructure. The rehabilitation is of four existing classrooms and related core area totaling 4,310 square feet. The rehabilitation project involves replacing existing exterior windows and some doors with new energy-efficient, insulated windows and doors that comply with current codes. Further, the doors to classrooms and staff restrooms will be modified to comply with accessible clearances required by the California Building Code. The new windows and doors will create a more welcoming and safe learning environment. Project completion is expected in August 2017. Students will be occupying the facility during the course of the project.

KIPP anticipates funding its 50% local matching share of the OPSC calculated Project cost of \$9,091,192 (Both construction and rehabilitation) through a 30-year agreement with the State. CSFP payments started in January 2014 for the new construction and the rehabilitation related payments are scheduled to start in FY 2018-19. KIPP will make the payments on behalf of King.

CMO Organization and Management: KIPP is a non-profit, public benefit corporation with 501(c)(3) status, which currently operates eleven public charter schools in the San Francisco Bay Area. KIPP Bay Area Schools (KIPP BAS) is associated with the KIPP national network of schools, which has 200 schools across the nation all managed by local, regionalized non-profits. KIPP was created in October 2008 through a consolidation of seven charter schools, including five middle schools and two high schools, under its auspices: KIPP Bayview Academy; KIPP Bridge Academy; KIPP Heartwood Academy; KIPP San Francisco Bay Academy; KIPP Summit Academy; KIPP King Collegiate; and KIPP San Jose Collegiate High School. By 2008, KIPP BAS had opened 4 additional charter schools: KIPP Excelencia Community Preparatory; KIPP San Francisco College Preparatory; KIPP Heritage Academy; and KIPP Prize Preparatory Academy. Each of these schools was established under the KIPP model, and KIPP Bay Area Schools assumed all fiscal and operational oversight responsibilities. The national organization promoting the KIPP program, the KIPP Foundation, located in San Francisco, provides professional development, evaluation, and advocacy support for all KIPP schools nationwide.

KIPP King 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. Just as there are no shortcuts, there are no excuses. 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.

Following the national KIPP model, all KIPP students spend “more time on task” by devoting nine hours every weekday, plus alternate Saturdays throughout the extended school year, to class work and school-based activities. In addition, summer school is in session four hours a day for three weeks. KIPP King Collegiate correlates its curriculum objectives to California standards and works to ensure that all students master all areas of the content standards.

CMO Management: Beth Sutkus Thompson, Chief Executive Officer, 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 Thomas was on the founding team of NewSchools Venture Fund. Ms. Sutkus Thomas 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 Thomas holds a B.A. in Education, and an MBA with a certificate in nonprofit management, all from Stanford University.

April Chou is the Chief Growth & Operating Officer responsible for the expansion of new KIPP schools in the Bay Area and oversees the operating functions that support the success of our students and schools. Previously, April was a Partner at NewSchools Venture Fund and worked as a management consultant with McKinsey & Company in Washington, DC, Beijing, and San Francisco. April serves as the board chair of Students for Education Reform (SFER), a national nonprofit whose mission is to empower college students and organize them to close the achievement gap. She received her bachelor's degree from Princeton University's Woodrow Wilson School of Public and International Affairs and has a dual MBA and Masters in Education from Stanford University.

Adam Kaye is the Director of Real Estate and applies his experience with charter schools and real estate management, development and finance to develop and implement the facilities strategy for KIPP's existing and future schools, with the goal of creating superior learning environments for all KIPP students. Prior to his role as KIPP's Director of Real

Estate, Adam was the Director of Acquisitions at Rocketship Education, has had various roles in the real estate industry, and is co-founder and founding Board Member of the North Oakland Community Charter School, a K-8 public charter school in Oakland, CA. Adam received his BA from the State University of New York at Albany, and his MBA in finance and accounting from the University of California at Davis.

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 director (e.g., including hire and fire authority); monitor and evaluate the organization’s programs and services; and ensure fiscal, legal and ethical integrity and maintain accountability.

Name	Occupation	City of Residence	Term
John Philip Coghlan	Former President and CEO of VISA USA	San Francisco, CA	Current term ends 2017
Lauren Dutton	Education Consultant	Piedmont, CA	Current term ends 2017
Chuck Daggs (Board Chair)	Former Executive Vice President, Wells Fargo	Lafayette, CA	Current term ends 2019
Jay Allen	Former Executive Vice President, Charles Schwab & Co.	San Francisco, CA	Current term ends 2019, eligible through 2021
Michael Cohen	Co-founder & Principal, Strada	San Francisco, CA	Current term ends 2020, eligible through 2026
Doris Fisher	Founder, Gap, Inc.	San Francisco, CA	Life term
Andrea Evans	Lawyer, Self-Employed	San Francisco, CA	Current term ends 2019, eligible through 2022
Kevin Eyres	Mentor, Growth Advisor, and Angel Investor	Los Alto Hills, CA	Current term ends 2017, eligible through 2023
Cheryl Frank	Partner, Capital Group	San Francisco, CA	Current term ends 2018, eligible through 2021
Abe Friedman	Managing Partner, CamberView Partners, LLC	Oakland, CA	Current term ends 2017, eligible through 2023

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Andrea Higuera-	Community Volunteer	Hillsborough, CA	Current term ends 2019, eligible through 2022
Ken Hirsch	Managing Director & Partner, Goldman Sachs	Portola Valley, CA	Current term ends 2018, eligible through 2021
Tom Holland	Former President, SunRun, Inc.	Orinda, CA	Current term ends 2018, eligible through 2021
Tonia Karr	Community Volunteer	San Francisco, CA	Current term ends 2019, eligible through 2022
Satya Patel	General Partner, Homebrew	San Francisco, CA	Current term ends 2017
Jenny Risk	Community Volunteer	Hillsborough, CA	Current term ends 2018, eligible through 2021
Emily Rummo	Partner, Transcend Education	San Francisco, CA	Current term ends 2019, eligible through 2025
Lisa Sonsini	Board President, Sobrato Family Foundation	Cupertino, CA	Current term ends 2019, eligible through 2022
Grace Voorhis	Community Volunteer	Hillsborough, CA	Current term ends 2018, eligible through 2021
Ted Williams	Managing Partner, Sprinkbok Partners	Ross, CA	Current term ends 2019, eligible through 2022
Chris Young	General Counsel, GoFundMe	Oakland, CA	Current term ends 2018, eligible through 2024

King Organizational Information: King’s charter was approved by the SLUSD on December 6th, 2011, with the charter set to expire on June 30, 2017

Management Experience for Schools Open Less than Two Years: Not applicable as King began operations in 2007-08, exceeding the two years of instruction requirement.

School Management: King is led by Kelly Lara, Principal. Prior to joining the KIPP team and family in January, she spent 6 years working in the Alameda Unified School District as Principal at Alameda High School. Ms. Lara taught high school history and English Language Development in Oakland and Concord, California. As a classroom teacher she

established the English Language Development Department, advocated for language learners amongst the staff and community, and coordinated and facilitated school-wide professional development for colleagues on best practice instructional strategies for working with English Learners. Ms. Lara received her B.A. in History from Fordham University where she attended on a full scholarship for Track and Field, and her M.A. in Education from St. Mary’s College.

Enrollment Trends and Projections: The table on the following page presents school and enrollment information for KIPP’s schools open during 2015-16 and projections for 2016-17 through 2019-20. As of June 30, 2016, KIPP operated eleven charter schools chartered by seven districts. Over the next three years, KIPP plans to open five new schools

In 2015-16, enrollment totaled 3,790 students, with average daily attendance (ADA) at 3,627.97 students to produce an ADA rate of 96%. From 2013-14 and 2014-15, KIPP’s schools had total enrollments (and ADA rates) of 2,829 (96%), and 3,271 (96%), respectively. The aggregate ADA rate has averaged 96% for the last 3 years.

KIPP has noted that their re-enrollment (retention) rate is at 92% in 2014-15 and 89% in 2015-16 for all schools. KIPP King had a reported retention rate of 93% in 2014-15 and 91% in 2015-16.

System-wide enrollment for 2014-15 was up by 16% to 3271 students from 2013-14, and increased by 16%, to 3790 students, for the 2015-16 school year. The majority of the enrollment growth in 2014-15 and subsequent years is expected to come from new schools opening, existing schools adding new grades and enrollment levels reaching maturity. Projected enrollment totals for 2016-17 through 2019-20 are 4701, 5523, 6138, and 7357 students, respectively.

KIPP School	2013-14	Rate	2014-15	Rate	2015-16	Rate	2016-17	2017-18	2018-19	2019-20
Bayview	268	92%	283	93%	288	96%	271	292	305	320
Bridge	309	99%	340	96%	317	95%	594	741	781	811
Excelencia					212	95%	500	660	756	852
Heartwood	413	96%	413	98%	406	98%	415	413	414	415
King	498	96%	528	96%	559	96%	593	623	654	672
SF College Prep	119	96%	251	92%	312	92%	392	434	462	499
SF Bay	365	95%	363	96%	374	94%	376	402	402	402
San Jose	452	96%	475	97%	484	97%	500	489	569	651
Heritage			105	96%	216	97%	335	424	424	424
Prize			106	97%	206	96%	376	402	402	402
Summit	405	98%	407	97%	416	98%	419	420	420	420
New School								223	363	511
New School									180	360
New School										204
New School										204
New School										204
Total	2,829	96%	3,271	96%	3,790	96%	4,701	5,523	6,138	7,357

King Academic Performance: Staff views student performance as a leading indicator of a school’s financial position and soundness. 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 Local Control Funding Formula (LCFF), school districts must submit Local Control and Accountability Plans (LCAP) 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. Within the State of California, the Standards are derived from a set of tests, entitled Smarter Balanced Assessment System.”

Due to the transition to the Standards, CDE’s Accountability Progress Reporting is in the process of being revised under a new rubric with new metrics anticipated for 2017. Both the Academic Performance Index (API) (growth scores, base scores, and rankings) and Adequate Yearly Progress (AYP) reporting pursuant the No Child Left Behind Act of 2001 have been suspended with the last complete set of results having been reported for the 2012-13 academic year.

Assuch, staff is limited as to the availability of standardized reports for purposes of financial soundness. Notwithstanding this limitation, CDE informed staff of aggregate reports for “Smarter Balanced” testing relative to percentages of students within the following ranges for mathematics and English language arts: “Standard Exceeded”; “Standard Met”; “Standard Nearly Met”; and “Standard Not Met.” These reports are currently available only for the 2014-15 and 2015-16 years.

For purposes of assessing academic performance via these reports, staff decided to compare the 2014-15 and 2015-16 results of KIPP King with those of a nearby traditional public high school (less than one mile away), Arroyo High School, as well as the entire San Lorenzo Unified School District. Although both KIPP King and Arroyo High serve grades 9-12, CDE only provided Smarter Balanced results for 11th graders for both schools. Therefore, only the 11th grade percentages from the overall district were used to allow for a more direct comparative.

English Language Arts (2015-16) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
KIPP King	39%	37%	19%	5%
Arroyo High	27%	41%	18%	14%
San Lorenzo Unified	19%	37%	22%	21%

Mathematics (2015-16) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
KIPP King	21%	28%	29%	22%
Arroyo High	12%	32%	27%	29%
San Lorenzo Unified	8%	26%	25%	41%

English Language Arts (2014-15) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
KIPP King	47%	33%	17%	4%
Arroyo High	17%	30%	18%	35%
San Lorenzo Unified	15%	28%	25%	32%

Mathematics (2014-15) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
KIPP King	13%	28%	33%	27%
Arroyo High	10%	20%	27%	29%
San Lorenzo Unified	8%	16%	24%	53%

KIPP King has outperformed both Arroyo High and the San Lorenzo District in every major category. KIPP King has a larger percentage of students exceeding standards and of students meeting standards (a measure of both “Standard Exceeded” and “Standard Met”). KIPP King also had the lowest percentage of students not meeting the standards presented.

KIPP Bay Area Schools Academic Performance: As mentioned previously, staff views student performance as a leading indicator of a school’s financial position and soundness. These numbers are also provided through the smarter balanced assessment results. For purposes of assessing academic performance via these reports, staff decided to compare the 2015-16 and 2014-15 results of all KIPP BAS with the school district in which the school site is physically located. Due to limitations in results, only certain grade cohorts could be used to ensure a better comparison. Here is breakdown each district and the associated KIPP BAS(s) used for the comparison, along with the grade cohort measures:

- San Francisco Unified – KIPP Bayview (gr. 5-8), SF College Prep (gr. 11), and SF Bay (gr. 5-8)
- Oakland Unified – KIPP Bridge (gr. 5-8)

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- Redwood City – KIPP Excelencia (gr. 4)
- San Lorenzo Unified – KIPP King (gr. 11), and Summit (gr. 5-8)
- Alum Rock Union Elementary – KIPP Heartwood (gr. 5-8), and Prize (gr. 5)
- East Side Union High – KIPP San Jose (gr. 11)
- Franklin-McKinley Elementary – KIPP Heritage (gr. 5)

The district results are from the same grade cohort as represented from the schools. If the school performed better than the district average in the “Standard Exceeded” and “Standard Met”, the respective cell is green. If the school performed worse than the district average in “Standard Not Met”, the respective cell is red.

English Language Arts (2015-16) – Comparison

<u>KIPP Schools</u>	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Bayview	15%	49%	24%	13%
Bridge	9%	37%	27%	28%
Excelencia	35%	20%	25%	20%
Heartwood	23%	42%	22%	13%
King	39%	37%	19%	5%
SF College Prep	32%	48%	17%	2%
SF Bay	15%	36%	28%	21%
San Jose	38%	35%	19%	9%
Heritage	34%	32%	15%	19%
Prize	22%	39%	16%	23%
Summit	45%	39%	10%	5%

Mathematics (2015-16) – Comparison

<u>KIPP Schools</u>	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Bayview	13%	24%	36%	27%
Bridge	10%	35%	29%	27%
Excelencia	31%	31%	26%	12%
Heartwood	39%	25%	26%	9%
King	21%	28%	29%	22%
SF College Prep	16%	34%	30%	20%
SF Bay	11%	17%	32%	40%
San Jose	13%	37%	30%	20%
Heritage	34%	23%	25%	18%
Prize	11%	21%	32%	36%
Summit	48%	25%	19%	8%

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English Language Arts (2014-15) – Comparison

KIPP Schools	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Bayview	10%	18%	32%	39%
Bridge	10%	37%	29%	23%
Excelencia				
Heartwood	18%	43%	26%	13%
King	47%	33%	17%	4%
SF College Prep				
SF Bay	13%	28%	32%	28%
San Jose	36%	41%	19%	4%
Heritage	45%	24%	16%	16%
Prize	16%	24%	20%	39%
Summit	39%	42%	13%	6%

Mathematics (2014-15) – Comparison

KIPP Schools	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Bayview	15%	23%	29%	33%
Bridge	10%	24%	34%	33%
Excelencia				
Heartwood	26%	24%	33%	17%
King	13%	28%	33%	27%
SF College Prep				
SF Bay	13%	15%	35%	37%
San Jose	26%	35%	23%	16%
Heritage	41%	25%	23%	12%
Prize	7%	12%	33%	49%
Summit	47%	28%	17%	7%

KIPP BAS students out performed their associated district averages in most available categories. Eight KIPP BAS outperformed district averages in the ‘Standard Exceeded’ category for English Language Arts in 2015-16 which is an increase from seven schools in 2014-15. Seven KIPP BAS also outperformed district averages in the ‘Standard Exceeded’ category for Mathematics in 2015-16 which is an increase from six schools in 2014-15. Considering 2015-16, seven KIPP BAS had a higher percentage in both “Standard Exceeded” and “Standard Met” for both English Language Arts and Mathematics. In 2015-16, three KIPP BAS (King, SF College Prep, and Summit) had at least 75% of their students meet the English Language Standard in 2015-16 and all but one school had over 50%.

Financial Analysis: Staff's financial analysis of KIPP is based upon review of the following documents: (1) three years of audited financial statements (2013-14 through 2015-16), (2) multi-year budget projections from 2016-17 through 2019-20 and (3) enrollment projections through 2019-20.

KIPP's financial projections are based upon the following assumptions: (1) occupancy of the rehabilitation CSFP project in 2017-18; (2) increases in enrollment as described in the Enrollment Trends and Projections section; (3) 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 95%, which is consistent with KIPP's historical performance; (5) assumed COLA growth for expenses of 2.22% in 2016-17; 2.39% in 2017-18; 2.46% in 2018-19; and 2.83% in 2019-20 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.

This model also takes into effect the payments already submitted from KIPP King and the payments scheduled for the rehabilitation that will occur in 2018-19.

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 KIPP King Collegiate on a stand-alone basis. Please note that the revenue, expenditure and changes to net assets 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.

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KIPP BAS (On Behalf of KIPP King)	Actual	Actual	Actual	Budget	Projected	Projected	Projected
	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
ENROLLMENT PROJECTIONS							
Enrollment	2,829	3,271	3,790	4,701	5,523	6,138	7,357
Average Daily Attendance	2,721	3,134	3,628	4,466	5,247	5,831	6,989
Average Daily Attendance (%)	96%	96%	96%	95%	95%	95%	95%
FINANCIAL PROJECTIONS							
Total Revenues Available for CSFP Payment	\$ 41,860,585	\$ 53,454,761	\$ 65,351,507	\$ 79,981,218	\$ 80,483,596	\$ 79,499,863	\$ 93,387,593
Total Expenses Paid Before CSFP Payment	29,881,559	35,274,462	43,741,878	57,736,074	67,444,126	74,113,526	89,749,786
Accounting Adjustments	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 11,979,026	\$ 18,180,299	\$ 21,609,629	\$ 22,245,144	\$ 13,039,470	\$ 5,386,337	\$ 3,637,807
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 445,712	\$ 445,712
Net Revenues After CSFP Payment	\$ 11,979,026	\$ 18,180,299	\$ 21,609,629	\$ 22,245,144	\$ 13,039,470	\$ 4,940,625	\$ 3,192,095
FINANCIAL INDICATORS							
Net Revenues Available for CSFP Payment	\$ 11,979,026	\$ 18,180,299	\$ 21,609,629	\$ 22,245,144	\$ 13,039,470	\$ 5,386,337	\$ 3,637,807
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	1208.5%	816.2%
Contributions	\$ 16,595,561	\$ 22,913,618	\$ 23,874,225	\$ 28,645,480	\$ 18,571,904	\$ 12,950,735	\$ 12,056,347
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	-1697.1%	-1888.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	0.6%	0.5%
Contributions / Revenues	39.6%	42.9%	36.5%	35.8%	23.1%	16.3%	12.9%
Net Revenues After CSFP Payment / Revenues	28.6%	34.0%	33.1%	27.8%	16.2%	6.2%	3.4%
Revenues / ADA	\$ 15,386	\$ 17,054	\$ 18,013	\$ 17,909	\$ 15,339	\$ 13,634	\$ 13,362
Expenses / ADA	\$ 10,983	\$ 11,254	\$ 12,057	\$ 12,928	\$ 12,854	\$ 12,786	\$ 12,905
Surplus (Deficit) / ADA	\$ 4,403	\$ 5,800	\$ 5,956	\$ 4,981	\$ 2,485	\$ 847	\$ 457
Net Working Capital	\$ 47,473,483	\$ 65,510,828	\$ 87,459,574				
Net Working Capital / Expenses	158.9%	185.7%	199.9%				

Long-Term Liabilities – Through Proposition 1D, KIPP King was awarded a total of \$8,282,844 for construction of a new school facility. \$4,141,422 of the award is in the form of a 30 year note bearing interest at a rate of 2%. During the year ended June 30, 2016, payments of \$111,072 were made. The total balance as of June 30, 2016 was \$3,995,094. KIPP Bay Area Schools entered into a note agreement with Charter School Growth Fund for \$1,000,000 on February 23, 2016. The note bears interest at 1% and matures on December 31, 2019. The balance as of June 30, 2016 was \$1,000,000.

Short-Term Liabilities: KIPP Bay Area Schools 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 was renewed on July 5, 2016 for \$3,000,000. This line of credit is collateralized with KIPP Bay Area Schools’ accounts, inventory, and equipment. KIPP Bay Area Schools has no amounts outstanding under this line of credit as of June 30, 2016.

School Facilities KIPP Bay Area Schools leases its facilities under several lease agreements with expirations ranging from July 1, 2015 to June 30, 2019. The aggregate rental payments required under the terms of their operating leases were \$1,011,344 in 2014-15 and \$1,011,344 in 2015-16.

The facility costs for all KIPP schools incorporated into the financial projections are as follows: \$1.68 million (2016-17), \$3.16 million (2017-18), \$4.28 million (2018-19), and \$6.00 million (2019-20). These estimated expenses are equivalent to an average of 4.25% 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.

Below is a chart of KIPP BAS’s facilities for 2016-17, their associated costs and lessors.

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KIPP Bay Area Schools Leases		
School	16/17 Cost	Lessor
Bayview	\$ 158,261	Archdiocese of San Francisco Parish and School Juridic Persons Real Property Support Corporation
Bridge	\$ 250,000	Oakland Unified School District
Excelencia	\$ 51,759	Redwood City School District
Heartwood	\$ 38,371	Alum Rock School District
King	\$ 128,564	San Lorenzo Unified School District
SF College Prep	\$ 87,444	San Francisco Unified School District
SF Bay	\$ 90,324	San Francisco Unified School District
San Jose	\$ 37,960	East Side Union School District
Heritage	\$ 32,000	Franklin McKinley School District
Prize	\$ 28,778	Alum Rock School District
Summit	\$ 82,921	San Lorenzo Unified School District

Non-Operating Revenues from Contributions - Over the last three years, KIPP received the following total amounts of private grants and contributions averaging \$21.1 million per year: \$16.6 million (2013-14), \$22.9 million (2014-15), and \$23.9 million (2015-16). KIPP anticipates \$28.65 million in contributions in 2016-17, \$18.57 million in 2017-18, \$12.95 million in 2018-19 and \$12.06 million in 2019-20. The financial projections estimate donations averaging \$18.06 million per year from 2016-17 through 2019-20. Historically, fundraising annual receipts averaged 40% of revenues for years 2013-14 through 2015-16, but this average is expected to decrease to 21% over the next four years, starting at 35% in 2016-17 and decreasing to 13% in 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 more than 75% of its projected contributions in order to maintain debt service coverage levels of greater than 100% for 2018-19 and 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.

Staff notes that KIPP has been able to maintain positive ending fund balances due to receipt of sizeable donations. Factoring in their contribution revenues, KIPP experienced an increase to net assets in 2013-14 of \$11.97 million, a net increase in 2014-15 of \$18.18 million, and a net increase in 2015-16 of \$21.61 million. KIPP's projections include increases to net assets in the amounts of \$22.25 million in 2016-17, \$13.04 million in 2017-18, \$5.39 million in 2018-19 and \$3.64 million in 2019-20. KIPP projects net revenues available after the CSFP lease payments to average \$4.51 million.

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. Prior to KIPP's expected CSFP payments, the annual increases in net assets are projected to be \$5.39 million in 2018-19 and \$3.64 million in 2019-20.

Assuming a 3.0% interest rate, a 30-year repayment period, and KIPP's CSFP projects have received their final apportionment with an estimated final project cost of \$18,411,897, KIPP's annual CSFP payment is projected to be \$445,712 beginning 2018-19, the year following project occupancy. KIPP's projected net revenues of \$5.39 million for 2018-19 and \$3.64 million for 2019-20 would provide debt service coverage of 1208.5% and 816.2% respectively, which is much higher than the minimum requirement of 100%. The CSFP payments would represent 0.6% and 0.5% of projected revenues for each of these years, which is well below the preferred maximum range of 10-15%. However, if projected contributions are not realized, debt service coverage for 2018-19 and 2019-20 would be well below 0%, respectively.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. KIPP's NWC for 2015-16 of \$87.5 million, or 108.5% of total expenses, increased from \$65.5 million in 2014-15, 185.7% of total expenses. As of June 30, 2016, KIPP maintained \$57.5 million in unrestricted 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 Bay Area schools have outperformed their district counterparts on average in both English Language Arts and Mathematics assessment in the last two years and that overall trend is improving.

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- + Staff projects debt service coverage ratios for 2018-19 and 2019-20 of 1146.8% and 774.5%, respectively.
- + Strong management and leadership with support of local districts. The KIPP organization is well established throughout the nation, with significant experience within the charter school area and providing a network of support. KIPP King also has strong local school leadership.
- KIPP would need to receive at least 75% of expected contributions for 2018-19 (expected to be \$12.95 million) and 2019-20 (expected to be \$12.06 million) to maintain debt service coverage ratios of greater than 100.0%.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that KIPP Bay Area Schools on behalf of KIPP King Collegiate is financially sound for the Charter School Facilities Program Final Apportionment (for its new construction apportionment only). This recommendation is contingent upon KIPP electing to have its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.