

**Charter School Facilities Program
 Proposition 51 Funding Round
 Staff Summary Report – December 2017**

Applicant/Obligor:	Urban Montessori Charter
Project School:	Urban Montessori Charter
CDS (County – District – School) Code:	01-10017-0125567
School Address/Proposed Site:	5328 Brann St., Oakland, CA. 94619
Type of Project:	New Construction/Rehabilitation
Type of Apportionment:	Preliminary
County:	Alameda
District in which Project is Located:	Alameda County Office of Education
Charter Authorizer:	Alameda County Office of Education
	NC: \$7,459,632.40
	<u>Rehab: \$1,539,689.80</u>
Total OPSC Project Cost:	Total: \$8,999,322.20
	NC: \$3,729,816.20
	<u>Rehab: \$769,844.90</u>
State Apportionment (50% Project Cost):	Total: \$4,499,661.10
Lump Sum Contribution:	N/A
	NC: \$3,729,816.20
	<u>Rehab: \$769,844.90</u>
Total CSFP Financed Amount:	Total: \$4,499,661.10
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
	NC: \$190,292
	<u>Rehab: \$39,277</u>
Estimated Annual CSFP Payment:	Total: \$229,569
First Year of Occupancy of New Project:	2020-21

Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Urban Montessori Charter (UMC) is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance 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 UMC 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 Authority Board direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.

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

Criteria	Comments
Eligibility Criteria	UMC meets all eligibility criteria as follows: (1) UMC began operations in August 2012, hence meeting the minimum 2-year requirement for operations; (2) UMC is in good standing with its charter authorizer and in compliance with the terms of its charter; and (3) UMC’s charter is current and active through June 30, 2022.
Demographic Information	UMC began operations in 2012 with 214 students in grades K-2, and has grown to 447 students in grades K-7 for 2017-18. UMC has shown consistent enrollment growth and stability over the past five years, growing on average 21.8% per year between 2011-12 and 2017-18. UMC achieved average daily attendance rates of 93.7% and 93.3% for 2015-16 and 2016-17, respectively. .
Debt Service Coverage	UMC projects debt service coverage of 187.6% and 136.9% for 2021-22 and 2022-23, respectively, the first two years of CSFP payments.
Other Financial Factors	<ol style="list-style-type: none"> 1. Although UMC is reliant upon private contributions to meet the debt service coverage requirement, based on its audited financial statements, as well as documented evidence showing receipt of contributions for 2016-17, UMC has demonstrated meeting contribution levels that support the levels incorporated into its projections. 2. UMC’s networking capital as of June 30, 2016 was \$572,350 or 18.7% of total expenses, and UMC’s net working capital as of June 30, 2017 was \$817,791 or 22.1% of expenses, both of which are well above the 5% threshold to be considered sufficient.
Student Performance	UMC has outperformed both District and neighboring public schools in English Language Arts and mathematics per the “Smarter Balanced” assessment provided through CDE.

Program Eligibility: On September 5, 2017, at CSFA staff’s request, verification was received from Alameda County Office of Education (Alameda) confirming that UMC is (1) in compliance with the terms of its charter agreements, and (2) in good standing with its chartering authority. Alameda’s response also indicates that UMC’s current charter is effective through June 30, 2022. UMC has been in operations since August 2012; hence, meeting the requirement of two-years of charter school operations experience.

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 New Construction project consists of the construction of a two-story modular building consisting of five new classrooms, one for the elementary grades and four for the middle school grades at the site on 5328 Brann St., Oakland, California.

The anticipated occupancy date is 2020-21, and the student capacity is 133 students (both elementary and middle grades).

The Rehabilitation project consists of the demolition and replacement of three modular classrooms for elementary school grades, representing 2,510 square feet, at the site on 6038 Brann St., Oakland, California. The anticipated occupancy date is 2020-21.

Applicant Organizational Information: UMC began operations in August 2012 as a non-profit 501(c)(3) independent charter school with 214 students in grades K-2. The school has grown to 374 students in grades K-6 in 2016-17 and to 409 students in grades K-7 for the current 2017-18 academic year. Chartered to serve grades K-8, UMC anticipates growth to 525 students during the first year of project occupancy, 2020-21, and all future projected years. UMC's mission and principal goal, as set forth in its charter, are the following.

Mission: Urban Montessori Charter School's mission is to develop self-directed and engaged learners who are academically, socially and emotionally prepared to succeed in any high school. Nurturing the innovators of tomorrow to creatively meet the challenges of today's world with confidence, compassion and grace, Urban Montessori mission includes cultivating individual curiosities and strengths, while holding children to a high standard of excellence. Urban Montessori intends to deepen children's understanding of what it means to live responsibly in a diverse urban community.

UMC's curriculum stresses creativity and critical thinking in all subject areas, including math, language arts, science, history/social studies, world language, physical education, music, arts and design. Children have extended blocks of uninterrupted learning time that allow for concentration and practice. Moreover, UMC stresses regular collaboration among children, individualized learning plans, and creative thinking as integral to the student experience at UMC.

UMC's demographics in terms of race/ethnicity is as follows: 30.7% Caucasian; 25.7% Latino; 20.1% African-American; 7.2% Asian; 15.2% mixed race; 19.7% English-language learners; and 36.2% socio-economically disadvantaged.

Applicant Management: Key staff members of the UMC's management team are: Interim Head of School, Taima Beyah; and Director of Instruction, Jennifer Heeter. Staff reviewed the resumes of ROC's management team and determined that, collectively and individually, the management team demonstrates having the required experience and educational background to effectively oversee the operations of ROC.

School Academic Performance:

Pursuant to SB X51 (2010), a designated California State Commission was given the authority to review the Common Core State Standards (Standards), as promulgated by the U.S. Department of Education, and make recommendations to the California Board of Education (Board). This resulted in the Board's adoption of the Standards for purposes of statewide accountability on academic performance. 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. Within the State of California, the Standards are derived from a set of tests, entitled “Smarter Balanced Assessment System.”

As a part of the Common Core State Standards, CDE reports upon aggregate data for “Smarter Balanced” testing relative to percentages of students within the following categories for mathematics and English language arts: “standard exceeded”; “standard met”; “standard nearly met”; and “standard not met.” For purposes of this financial soundness review, staff decided to compare UMC’s results with those of the District and two nearby non-charter public schools (within the same school district and same elementary school attendance area). Staff selected Laurel Elementary (Laurel), a grades K-5 school, and Melrose Leadership Academy, a grades K-8 school, for this purpose.

The following tables represent the 2015-16 and 2016-17 academic performance results for UMC, Oakland Unified School District, Melrose Leadership Academy and Laurel Elementary.

***English Language Arts (2016-17) – Comparison**

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
UMC	30%	22%	22%	26%
Laurel Elementary	10%	17%	23%	50%
Melrose Leadership Academy	12%	16%	23%	49%
District	12%	20%	22%	46%

***Mathematics (2016-17) – Comparison**

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
UMC	14%	19%	24%	43%
Laurel Elementary	7%	16%	27%	49%
Melrose Leadership Academy	7%	11%	25%	57%
District	11%	14%	23%	51%

***English Language Arts (2015-16) – Comparison**

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
UMC	34%	19%	18%	29%
Laurel Elementary	11%	18%	22%	49%
Melrose Leadership Academy	7%	15%	26%	52%
District	11%	19%	23%	46%

***Mathematics (2015-16) – Comparison**

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
UMC	17%	18%	25%	40%
Laurel Elementary	8%	15%	29%	48%
Melrose Leadership Academy	4%	10%	25%	60%
District	10%	15%	25%	51%

*Due to rounding errors, percentages may not add up to 100%.

Based on the above tables, for both 2015-16 and 2016-17, UMC’s performance in both English-language arts and mathematics was significantly above that of the nearby non-charter public schools as well as the District. Based on these results, staff concludes that the academic performance supports a recommendation for financial soundness.

Enrollment Trends and Projections:

UMC began operations in August 2012 with 214 students in grades K-2 and has grown to 317 students in 2015-16, 374 students in 2016-17 and 447 students in grades K-7 for the current 2017-18 academic year, adding one new grade per year. UMC has shown consistent enrollment growth and stability over the past five years with average annual growth of 22%. UMC is projecting to grow to 497 students in grades K-8 in 2019-20; and to 525 students in grades K-8 in all subsequent years, including the first year of project occupancy (2020-21). Overall, UMC is projecting a 17% increase in enrollment over the next three years. UMC had a year-to-year retention rate of 85% for the current 2017-18 academic year. UMC’s average daily attendance (ADA) for 2015-16 and 2016-17 was 93.7% and 93.3%, respectively. Although the multi-year budget projections assume 95% ADA, staff notes that the historical rates are only marginally less than the projection of 95% and that, because the historical rates are based on CALPADS enrollment (reported in October of each year), which is normally higher than the average annual enrollment (due to attrition), the historical rates are likely to be slightly higher. In addition, UMC has 80 students on its current wait list. Based on the information submitted, staff concludes that UMC’s assumptions regarding future enrollment and ADA are reasonable for purposes of

the multi-year budget projections and supportive of a recommendation for financial soundness.

Financial Analysis:

Financial Data Sources: This financial analysis is based on the consideration and review of the following for UMC: (1) audited financial statements for 2013-14, 2014-15 and 2015-16; (2) unaudited actuals for 2016-17; (3) adopted budget for 2017-18; and (4) budget projections for 2018-19 through 2022-23, along with assumptions.

Assumptions: UMC's financial projections, as incorporated into staff's financial analysis, are based upon the following assumptions: (1) increases in enrollment as described in the Enrollment Trends and Projections section; (2) projected ADA rates of 95%, which are supported by historical performance; (3) Local Control Funding Formula (LCFF) per-ADA funding rates of \$8,063, \$8,274, and \$8,470 for 2017-18 through 2019-20, respectively, with the cost-of-living adjustments (COLAs) already incorporated into these rates (COLAs of 2.6% and 2.3%, respectively); and (4) private contributions of \$242,328, \$249,598, \$257,068, \$264,798, \$272,742, and \$280,924 for 2017-18 through 2022-23, respectively (refer to discussion below on "Private Contributions"). Staff notes that the LCFF per-ADA target rates that UMC assumes for its multi-year budget projections are reasonable based on its "Unduplicated Count" (40.5%) and the base rates that CDE reports on its website for 2017-18. As such, the multi-year budget projections are also considered reasonable.

Long Term Liabilities: UMC has no long-term liabilities.

Private Contributions: Although UMC relies substantially upon private contributions in order to demonstrate financial soundness, UMC's audited financial statements for 2013-14, 2014-15 and 2015-16 along with documentation for specific contributions received for 2016-17 and 2017-18 support the assumption of between \$242,000 and \$281,000 per year during the projected years. The audited financial statements for 2013-14, 2014-15 and 2015-16 show private contributions of \$352,607, \$317,533 and \$257,100, respectively, representing an average of \$309,080. UMC's unaudited actuals for 2016-17 set forth that UMC received \$425,000 for the year, and UMC provided supportive documentation (canceled checks) for major donors representing \$175,000 for the year as well as a list of all donors and categories totaling to the quoted amount. In addition, UMC provided partial supportive documentation for 2017-18. It is noteworthy that UMC's private contributions represent, on average, only 6.6% of revenues, which is well within the benchmark of less than 15%.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff's analysis regarding UMC's financial soundness. Where a threshold has been established based on industry standards or practice, the listing indicates whether or not the threshold was met.

OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS									
	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023
Operating Revenues/ADA	\$ 10,193	\$ 11,501	\$ 11,319	\$ 11,711	\$ 10,100	\$ 10,372	\$ 11,145	\$ 11,402	\$ 11,638
% Change		12.8%	-1.6%	3.5%	-13.8%	2.7%	7.5%	2.3%	2.1%
Operating Expenses plus CSFP Lease/ADA	\$ 9,402	\$ 10,329	\$ 10,616	\$ 12,340	\$ 9,586	\$ 9,896	\$ 10,525	\$ 11,260	\$ 11,729
% Change		9.9%	2.8%	16.2%	-22.3%	3.2%	6.4%	7.0%	4.2%
Free Cash Flow/ADA	\$ 790	\$ 1,173	\$ 703	\$ (629)	\$ 513	\$ 475	\$ 620	\$ 143	\$ (91)
	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023
DEBT SERVICE COVERAGE									
Total Operating Revenues	\$ 2,650,050	\$ 3,415,872	\$ 3,950,317	\$ 5,529,325	\$ 5,037,214	\$ 5,172,854	\$ 5,558,633	\$ 5,686,770	\$ 5,804,500
Total Operating Expenses	2,444,536	3,067,588	3,704,874	5,826,238	4,781,246	4,935,868	5,249,345	5,386,121	5,620,276
Total Other Sources/Uses	-	-	-	-	-	-	-	-	-
Net Income Available for CSFP Lease Payment	205,514	348,284	245,443	(296,913)	255,968	236,986	309,288	300,649	184,224
Add Back Capital Outlay	-	-	-	1,300,000	-	-	-	-	-
Add Back Depreciation	-	-	-	-	130,000	130,000	130,000	130,000	130,000
Adjusted Net Income Available for CSFP Lease Pymt.	205,514	348,284	245,443	1,003,087	385,968	366,986	439,288	430,649	314,224
CSFP Lease Payments	-	-	-	-	-	-	-	229,569	229,569
Free Cash Flow	\$ 205,514	\$ 348,284	\$ 245,443	\$ 1,003,087	\$ 385,968	\$ 366,986	\$ 439,288	\$ 201,080	\$ 84,655
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	187.6%	136.9%
DSC from LCFF Sources subject to CSFA Intercept								1457.1%	1496.1%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.0%	4.0%
FUNDRAISING									
Fundraising for Operations	\$ 317,533	\$ 257,100	\$ 425,000	\$ 242,328	\$ 249,598	\$ 257,086	\$ 264,798	\$ 272,742	\$ 280,924
Fundraising/Oper. Revenues	12.0%	7.5%	10.8%	4.4%	5.0%	5.0%	4.8%	4.8%	4.8%
DSC without Fundraising	N/A	N/A	N/A	N/A	N/A	N/A	N/A	68.8%	14.5%
% of Fundraising Required for 100% DSC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	26.3%	69.9%
LIQUIDITY									
Current Assets	\$ 532,562	\$ 820,187	\$ 963,824						
Current Liabilities	258,496	247,837	146,033						
Net Working Capital	\$ 274,066	\$ 572,350	\$ 817,791						
Net Working Capital/Oper. Expenses	11.2%	18.7%	22.1%						
Unrestricted Cash & Cash Equivalents	\$ 159,970	\$ 333,383	\$ 534,952						
Unrest. Cash & CE/Oper. Expenses (Days)	24	40	53						
Unrest. Cash & CE/All Expenses (Days)	24	40	53						

Benchmark Summary:

- Free Cash Flow/ADA (average) – Met (average of \$521)
- Free Cash Flow (average) – Met (average of \$364,000)
- Net Working Capital and Net Working Capital as Portion of Operating Expenditures – \$572,350 (18.7%) and \$817,791 (22.1%) for 2015-16 and 2016-17, respectively – Met minimum threshold of 5%
- Unrestricted Cash & Cash Equivalents as Portion of Expenditures (average of days) – Not Met (39 days)
- Ending Fund Balance (as of 6/30/17) - \$817,793

- Debt Service Coverage (DSC) – Met (187.6% and 136.9% for 2021-22 and 2022-23, respectively)
- CSFP Lease Payment as Portion of Operating Revenue – Met (4%)
- Fundraising as Portion of Operating Revenue (average) – Met (6.6%)
- DSC without Fundraising – Not Met

Summary of Financial Findings and Special Considerations: As reflected in the table above, UMC experienced net gains of \$205,514, \$348,284, and \$245,443 for 2014-15, 2015-16, and 2016-17, respectively. UMC is anticipating a net deficit for 2017-18 of \$296,913 for the current 2017-18 year, primarily due to a capital outlay of \$1,300,000 for a separate project. For 2018-19 through 2022-23, UMC is projecting net gains of \$255,968, \$236,986, \$309,288, \$300,648, and \$184,244, respectively. During all projected years, UMC is projecting fund balances in excess of \$500,000. As of June 30, 2016, UMC had net working capital of \$572,350, representing 18.7% of expenditures, and as of June 30, 2017, UMC had net working capital of \$817,791, representing 22.1% of expenditures, both exceeding the recommended minimum threshold of 5%. UMC meets the minimum required debt service coverages for the first two years following project occupancy, with levels of 187.6% and 136.9% for 2021-22 and 2022-23, respectively, supporting a recommendation for financial soundness.

Although UMC's debt service coverage without contributions does not meet the minimum requirement of 100%, given UMC's demonstrated success in achieving contribution levels in excess of those projected (refer to "Private Contributions" above), staff does not consider this to be an impediment towards a recommendation of financial soundness. In addition, although UMC's "free cash flow/ADA" is negative for 2017-18 and 2022-23, UMC's average was \$521, meeting the standard of greater than zero. Although UMC did not meet the minimum of 90 days for "Unrestricted Cash & Cash Equivalents as Portion of Expenditures" (39 days versus the 90-day benchmark), on balance with other strengths in performance, staff does not consider this to be an impediment in its recommendation for financial soundness. As noted above, UMC has consistently demonstrated success in meeting fundraising levels that support the levels in its projections. With respect to UMC's reliance on contributions, UMC provided a contingency plan to address the unlikely event of its not meeting its contribution targets.

Overall, staff concludes that UMC's financial performance supports a recommendation that UMC be found financially sound.

Strengths, Weaknesses and Mitigants:

- + UMC projects debt service coverage ratios for 2021-22 and 2022-23 of 187.6% and 136.9%, respectively.
- + As of June 30, 2017, UMC had net working capital of \$817,791, representing 22.1% of expenditures.
- + UMC has outperformed both District and neighboring public schools in English Language Arts and Mathematics per the "Smarter Balanced" assessment provided

through CDE. In 2015-16 and 2016-17, more than 50% of students met or exceeded the standard in English Language/Arts.

+/- Although UMC's debt service coverage without contributions does not meet the minimum requirement of 100%, UMC demonstrated success in achieving contribution levels in excess of those projected.

Staff Recommendation: Staff recommends that the Authority Board determine that Urban Montessori Charter (UMC) is financially sound for the purposes of Charter School Facilities Program ("Program" or "CSFP") Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance 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 UMC 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 Authority Board direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.