

**Charter School Facilities Program
Proposition 51 Funding Round
Staff Summary Report – January 2018**

Applicant/Obligor:	Education for Change
Project School:	Lazear Academy
CDS (County – District – School) Code:	01-10017-60020000
School Address/Proposed Site:	824 29 th Ave. Oakland, 94601
Type of Project:	Rehabilitation/New Construction
Type of Apportionment:	Preliminary Apportionment
County:	Alameda
District in which Project is Located:	Oakland Unified School District
Charter Authorizer:	Oakland Unified School District
Total OPSC Project Cost:*	(Rehab) \$2,608,313 (NC) <u>\$2,789,233</u> \$5,397,546
State Apportionment (50% Project Cost):	(Rehab) \$1,304,157 (NC) <u>\$1,394,616</u> \$2,698,773
Lump Sum Contribution:	N/A
Total CSFP Financed Amount:	(Rehab) \$1,304,157 (NC) <u>\$1,394,616</u> \$2,698,773
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$58,230 <u>\$62,270</u> \$120,500
First Year of Occupancy of New Project:	2020-21 (Rehabilitation) 2021-22 (New Construction)

**The amount identified as total project costs represents an estimate provided by the Office of Public School Construction for purposes of Preliminary-Apportionment financial soundness review. Final project costs will be provided at the time of Final Apportionment.*

Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Education for Change (“CMO” or “EFC”) on behalf of Lazear Academy (“School” or “Lazear”) is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This recommendation, as it relates to 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 Education for Change, on behalf of Lazear Academy, 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 key criteria that were evaluated when conducting its financial soundness review of Education for Change on behalf of Achieve Academy. Detailed information is contained in the body of the report.

Criteria	Comments
Obligor Information	
Demographic Information	EFC currently serves 3,112 students in grades K-8. Enrollment in 2018-19 is expected to be 3,162 students. ADA rates are projected to be 95.8%, which staff find reasonable. For 2017-18, the unduplicated pupil count of at EFC as a percentage of ADA is 93.0%.
Debt Service Coverage	EFC’s DSC is 124.5%, 132.4%, and 112.7% for 2021-22 through 2023-24 respectively. Staff’s determination includes the three additional CSFP projects mentioned in the report.
Other Financial Factors	<ul style="list-style-type: none"> • EFC’s operating fund has a projected balance of \$6,524,601 as of the end of 2017-18. • EFC’s expected annual total of CSFP payments only account for 2.0%, 2.1%, and 2.0% operating revenue for EFC for 2012-22 through 2023-24 respectively.
School Information	
Eligibility Criteria	Lazear Academy has met all eligibility criteria: (1) Achieve Academy began operation in 2012; (2) Lazear Academy’s most recent charter was approved with a term from July 2016 through June 2021; (3) Lazear Academy is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	Lazear has performed comparably to its authorizing district and local public elementary schools.
Demographic Information	Lazear Academy currently serves 472 students in grades K-8. Enrollment in 2018-19 is expected to be 472 students. ADA rates are projected to be 95.8%, which staff find reasonable. For 2017-18, the unduplicated pupil count of at Aspire Public Schools as a percentage of ADA is 91%. 60% of the student body are English Language Learners. 84% qualify for Free and Reduced Price Meals.

Program Eligibility: On October 6, 2017, at CSFA staff’s request, verification was received from Education for Change confirming that Lazear Academy is: (1) in compliance with the terms of its charter agreements, and (2) in good standing with its chartering authority. Lazear’s current charter is effective through June 2021.

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: Lazear Academy is applying for both rehabilitation and new construction for 28050 Road 148 address. The Lazear Prop 51 rehabilitation proposal consists of rehabilitating portables P3 (875 sq. ft.), P4 (819 sq. ft. normal and 56 sq. ft. toilet), P25 (900 sq. ft.), and P26 (1,200 sq. ft.) not previously included in the Prop 1D application that was awarded as part of Cycle 12. This represents a total of 3,738 normal sq. ft. and 56 sq. ft. of toilet space. The new construction project will add new 6-8 classrooms, increasing capacity by 52 students. Education for Change projects construction beginning in 2020, with an anticipated instructional commencement date of 2021. The Lazear Prop 51 new construction proposal shall consist of the addition of two new classrooms to account for the additional students added since the prior charter petition and Prop 1D application previously awarded in cycle 12. This construction will consist of two full size classrooms at a minimum of 960 square feet each for a total of minimum of 1,920 square feet as well as the estimated site work that will take up approximately 2 acres and any additional bathroom space as necessitated by Ed Code requirements based on the current capacity.

Obligor Organizational Information: Education for Change (EFC) began in 2005 when the Oakland Unified School District partnered with New Schools Venture Fund to create a CMO to take over failing Oakland Unified Elementary Schools. Hawthorne Elementary and E. Morris Cox are the first 2 conversions. In 2012 the number of facilities converted by EFC doubled from 3 to 6 elementary schools. In 2014 EFC opened Epic School, the Network's first non-conversion and middle school.

Education for Change operates schools exclusively in Oakland/the Oakland Unified School District, with an emphasis on the Fruitvale and Elmhurst neighborhoods, areas generally high in poverty. EFC's mission revolves around 4 actions: **Transform** – Transforming struggling neighborhood schools into high performers that champion the students dependent on them and build strong secondary school options to ensure all children have access to a strong K-12 pipeline for college and career success; **Invest** – Investing in strong partnerships with parents and community organizations; **Recruit and Develop** – Recruiting and developing teaching and administrative leaders who work collaboratively within the classroom and across the Education for Change organization. **Support** – Supporting students, faculty, and autonomy amongst the EFC campuses. Education for Change presently serves 5 grade schools and one junior high

The CEO of Education for Change is Hae-Sin Thomas, who has 22 years of K-12 public education experience as a teacher, administrator and advocate. Ms. Thomas has been a teacher, principal, school developer and executive officer with the Oakland Unified School District. She is also the co-founder of GO Public Schools, an Oakland-based education advocacy and watchdog group. While with the Oakland Unified School District Ms. Thomas led a team responsible with facilitating the redesign and opening of 22 new schools, replacing 18 failing ones. Ms. Thomas has a B.A. in Economics from the University of Pennsylvania, a Master's in Curriculum and Instruction from the University of San

Francisco, and a Master's in Administration, Planning and Social Policy from Harvard University. Education for Change's Chief of Schools, Enikia Ford-Morthel, has been with EFC for over 4 years. She was previously the principal at Cox Academy as well as a principal in the Hayward Unified School District. Ms. Morthel holds a B.A. and M.A. in Education from the University of California Berkley.

The 2017-18 Education for Change board consists of Chair Nick Driver, Vice Chair Nrian Rogers, Treasurer Michael Barr, Secretary LaRayne Povlsen, Eva Camp, Paul Byrd, Adam Smith, Sadhir Aggarwal, Dirk Tillotson, Kathy Cash, and Roy Benford. Hae-Sin Thomas is the Chief Executive Officer and Enikia Ford-Morthel is the Chief of Schools. Staff has reviewed the credentials of the key board members and staff and determined them to have the proper background and experience to govern and effectively oversee the operations of the CMO.

School Organizational Information: Achieve Academy is a public charter school located within the boundaries of the Oakland Unified School District and is authorized by the Oakland Unified School District. Achieve Academy's most recent charter was approved by the Oakland Unified School District on July 1 2016 and is active through June 30 2021. The school is a direct-funded independent charter school and is operated by a California public benefit corporation with IRS approved 501(c)(3) status, Education for Change.

Lazear is located in Oakland's Fruitvale neighborhood, one of the city's most diverse but also poorest areas. 65.5% of Fruitvale residents identify as Hispanic, 14.3% as Asian, 12.7% as black, and 7.5% as other. The median household income is \$24,577, with 41% of the population living in poverty, 34% greater than the Oakland average, and 92% than California's. The majority of Lazear Academy's students are: students from low-income families (97%); students who are English Language Learners when they enroll as elementary students (73%); students living in communities with low-performing secondary schools and low college-going rates; students who would be the first in their families to attend college.

Lazear focuses on six key elements for school and student success: a coherent, standards-driven STEAM instructional program with integrated Science, Technology, Engineering, Arts and Mathematic instruction; high quality instruction and high expectations, using a variety of research-based strategies to support a diverse body of learners; standards-aligned assessments are used to monitor progress and personalize instruction; community school with a healthy family center and decades of cultural traditions and celebrations that integrate the school with the surrounding neighborhood; targeted academic, behavioral and social/emotional interventions as part of a multi-tiered system of supports; instructional improvement driven by a significant investment in a comprehensive teacher development plan that differentiates support and tracks and monitors growth in practice.

Lazear is governed by EFC's board as listed in the section above. Lazear Academy is co-lead by Sarah Morrill and Jennifer Koelling. Staff has reviewed the credentials of the key board members and staff and determined them to have the proper background and experience to govern and effectively oversee the operations of the School

School Academic Performance: The following tables represent the 2014-15, 2015-16 and 2016-17 academic performance of Lazear, the combined averages of Achieve Academy and EPIC Charter (Local Schools), and Oakland Unified (Oakland USD). The results are provided through CDE’s CAASPP Smarter Balanced testing data.

English Language Arts – Comparison

	Years		
	2014-15	2015-16	2016-17
Lazear	24%	23%	24%
Local Schools	17%	15%	19%
Oakland USD	23%	25%	26%

	All Students Performance			Student Groups w/ Below Avg. Performance		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Lazear	N/A	Lowest	Lowest	N/A	3/3	3/3
Local Schools	N/A	Lowest; Low	Lowest; Low	N/A	3/3; 3/3	3/3; 2/3
Oakland USD	N/A	Average	Low	N/A	6/11	9/13

Mathematics– Comparison

	Years		
	2014-15	2015-16	2016-17
Lazear	16%	15%	16%
Local Schools	17%	14%	16%
Oakland USD	16%	16%	15%

	All Students Performance			Student Groups w/ Below Avg. Performance		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Lazear	N/A	Lowest	Lowest	N/A	3/3	3/3
Local Schools	N/A	Lowest; Low	Average; Lowest	N/A	3/3; 3/3	0/3; 3/3
Oakland USD	N/A	Average	Low	N/A	4/11	9/13

Enrollment Trends and Projections: The tables below present enrollment information for EFC and Lazear from 2013-14 through 2023-24. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

District-wide Student Enrollment and Average Daily Attendance

<u>EFC</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	2,463	2,791	2,976	3,084	3,112	3,162	3,212	3,302
ADA	95.9%	95.5%	94.8%	95.1%	95.8%	95.8%	95.8%	95.8%

	2021-22	2022-23	2023-24
Enrollment	3,392	3,432	3,472
ADA	95.8%	95.8%	95.8%

School Student Enrollment and Average Daily Attendance

<u>Lazear</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	207	749	746	719	472	472	472	472
ADA	96.1%	95.7%	95.7%	95.7%	95.9%	95.8%	95.8%	95.8%
	2021-22	2022-23	2023-24					
Enrollment	472	472	472					
ADA	95.8%	95.8%	95.8%					

Financial Data Sources: This financial analysis is based on the consideration and review of the following for EFC, the financial obligor and Applicant, on behalf of Lazear: (1) audited financial statements for 2013-14 through 2016-17; (2) adopted budget for 2017-18; and (3) budget projections for 2018-19 through 2023-24 along with assumptions.

Assumptions: EFC’s financial projections are based upon the following assumptions: (1) occupancy of rehabilitation and new construction projects in 2021-22 and 2022-23 respectively; (2) the occupancy of the Prop 51 rehabilitation project of Achieve Academy in 2021-22; (3) the repayment of Lazear’s Prop 1D project beginning in 2021-22; (4) CMO-wide enrollment projections as provided above under “Enrollment Trends and Projections”; (5) Projected CMO-wide ADA rates of 95.8%, which are consistent with historical performance; and (6) Local Control Funding Formula (LCFF) per-ADA funding rate of \$9,632 for 2017-18, as included with EFC’s adopted budget document for 2017-18.

Long Term Liabilities: As of June 30, 2017 the lone long term liability. EFC is the obligor for an additional CSFP project. EFC on the behalf of Lazear was approved for Prop 1D final apportionment of \$12,221,618 on May 19, 2016. On September 30, 2016, Lazear received \$1,222,161.80 in in design related apportionments which is the lone liability reflected in the audit. EFC will be expected to begin payments on its matching share of \$6,110,809 in the second year after project completion. For this financial soundness review, staff assumed payments to begin in 2021-22.

Private Contributions: EFC projects very conservative fundraising and contribution income for 2018-19 through 2023-24 compared to its historic averages. EFC projects an average of about \$600,000 a year which accounts for 1.4% of operating revenues which is much lower than the Authority’s threshold of 15%.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff’s analysis regarding EFC’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.

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Education for Change on behalf of Lazear Academy
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OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS											
	Actual FY 2014	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	Projected FY 2024
OPERATIONAL & FINANCIAL											
Enrollment	2,463	2,791	2,976	3,084	3,112	3,162	3,212	3,302	3,392	3,432	3,472
Average Daily Attendance (ADA)	2,362	2,665	2,822	2,933	2,980	3,030	3,078	3,163	3,250	3,288	3,326
Average Daily Attendance (%)	95.9%	95.5%	94.8%	95.1%	95.8%	95.8%	95.8%	95.8%	95.8%	95.8%	95.8%
FTE Teachers	118	125	137	158	160	160	164	170	173	174	176
Pupil-Teacher Ratio	20.9	22.3	21.7	19.5	19.5	19.8	19.6	19.4	19.6	19.7	19.7
LCFF Sources/ADA	\$ 7,041	\$ 7,760	\$ 8,877	\$ 9,408	\$ 9,632	\$ 10,036	\$ 10,424	\$ 10,637	\$ 10,847	\$ 11,065	\$ 11,287
% Change		10.2%	14.4%	6.0%	2.4%	4.2%	3.9%	2.0%	2.0%	2.0%	2.0%
Operating Revenues/ADA	\$ 10,034	\$ 10,121	\$ 11,910	\$ 12,009	\$ 12,516	\$ 12,482	\$ 12,872	\$ 13,087	\$ 13,303	\$ 13,530	\$ 13,761
% Change		0.9%	17.7%	0.8%	4.2%	-0.3%	3.1%	1.7%	1.6%	1.7%	1.7%
Operating Expenses plus CSFP Lease/ADA	\$ 9,888	\$ 9,940	\$ 11,404	\$ 12,208	\$ 12,266	\$ 12,235	\$ 12,601	\$ 12,849	\$ 13,238	\$ 13,440	\$ 13,729
% Change		0.5%	14.7%	7.1%	0.5%	-0.2%	3.0%	2.0%	3.0%	1.5%	2.1%
Free Cash Flow/ADA	\$ 146	\$ 181	\$ 506	\$ (199)	\$ 250	\$ 246	\$ 270	\$ 238	\$ 64	\$ 91	\$ 32
DEBT SERVICE COVERAGE											
Total Operating Revenues	\$ 23,700,016	\$ 26,973,689	\$ 33,608,797	\$ 35,223,118	\$ 37,296,597	\$ 37,819,615	\$ 39,619,462	\$ 41,395,142	\$ 43,233,245	\$ 44,488,096	\$ 45,768,556
Total Operating Expenses	23,356,125	26,490,816	32,181,900	35,807,354	36,552,655	37,073,264	38,787,398	40,641,913	42,174,885	43,268,483	44,740,249
Total Other Sources/Uses	-	-	-	-	-	-	-	-	-	-	-
Net Income Available for CSFP Lease Payment	343,891	482,873	1,426,897	(584,236)	743,941	746,351	832,064	753,230	1,058,360	1,219,613	1,028,308
Add Back Capital Outlay	-	-	-	-	-	-	-	-	-	-	-
Add Back Depreciation	1,013	27,667	40,563	36,883	-	-	-	-	-	-	-
Adjusted Net Income Available for CSFP Lease Pymt.	344,904	510,540	1,467,460	(547,353)	743,941	746,351	832,064	753,230	1,058,360	1,219,613	1,028,308
CSFP Lease Payments	-	-	-	-	-	-	-	-	850,181	921,465	921,465
Free Cash Flow	\$ 344,904	\$ 510,540	\$ 1,467,460	\$ (547,353)	\$ 743,941	\$ 746,351	\$ 832,064	\$ 753,230	\$ 208,179	\$ 298,148	\$ 106,843
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	124.5%	132.4%	112.6%
DSC from LCFF Sources subject to CSFA Intercept									N/A	343.5%	3282.7%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.0%	2.1%	2.0%
FUNDRAISING											
Fundraising for Operations	\$ 718,947	\$ 1,381,085	\$ 1,333,945	\$ 770,767	\$ 1,531,157	\$ 596,382	\$ 598,860	\$ 601,376	\$ 603,929	\$ 606,521	\$ 609,151
Fundraising/Oper. Revenues	3.0%	5.1%	4.0%	2.2%	4.1%	1.6%	1.5%	1.5%	1.4%	1.4%	1.3%
DSC without Fundraising	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	53.5%	66.5%
% of Fundraising Required for 100% DSC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	65.5%	50.8%
LIQUIDITY											
Current Assets	\$ 7,323,905	\$ 7,956,983	\$ 8,041,174	\$ 8,767,439							
Current Liabilities	2,377,145	2,799,625	3,026,250	3,273,443							
Net Working Capital	\$ 4,946,760	\$ 5,157,358	\$ 5,014,924	\$ 5,493,996							
Net Working Capital/Oper. Expenses	21.2%	19.5%	15.6%	15.3%							
Unrestricted Cash & Cash Equivalents	\$ 1,983,378	\$ 4,756,223	\$ 3,351,619	\$ 3,750,609							
Unrest. Cash & CE/Oper. Expenses (Days)	31	66	38	38							
Unrest. Cash & CE/All Expenses (Days)	31	66	38	38							

Benchmark Summary:

- Free Cash Flow/ADA – Met: \$166 avg. (>\$0)
- Free Cash Flow – Met: \$496,755 avg. (>\$0)
- Debt Service Coverage from Adjusted Net Income – Met: 124.5% and 132.4%
- Net Working Capital as Portion of Operating Expenses – Met: 17.9% (>5%)
- Unrestricted Cash & Cash Equivalents as Portion of All Expenses – Not Met: 43 days (> 90 days)

Strengths, Weaknesses and Mitigants:

- + EFC’s DSC for Lazear from adjusted net income is 124.5%, 132.4%, and 112.7% for 2021-22 through 2023-24 respectively.
- + EFC’s operating fund balance, as of June 30, 2017, was \$6,542,601.
- + CSFP loan payments only account for 2.0% and 2.1% operating revenue for EFC for 2012-22 and 2022-23 respectively. EFC will be responsible for payments on three projects in 2021-22 and four projects in 2022-23.

Staff Recommendation: Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Education for Change on behalf of Lazear Academy is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This recommendation, as it relates to 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 Education for Change, on behalf of Lazear Academy, 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.