

**Charter School Facilities Program
2014 Funding Round / Proposition 51
Staff Summary Report – April 2019**

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
OPSC Project Numbers:	(2014 Rehab) 54/61259-00-004 (Prop 51 Rehab) 54/61259-12-003 (Prop 51 NC) 54/61259-12-004
Type of Apportionment:	Final Apportionment
County:	Alameda
District in which Project is Located:	Oakland Unified School District
Charter Authorizer:	Alameda County of Education
Total OPSC Project Cost:*	(2014 Rehab) \$13,607,440 (Prop 51 Rehab) \$2,001,214 (Prop 51 NC) <u>\$1,425,334</u> \$17,033,988
State Apportionment (50% Project Cost):	(2014 Rehab) \$6,803,720 (Prop 51 Rehab) \$1,000,607 (Prop 51 NC) <u>\$715,667</u> \$8,516,994
Lump Sum Contribution:	N/A
Total CSFP Financed Amount:	(2014 Rehab) \$6,803,720 (Prop 51 Rehab) \$1,000,607 (Prop 51 NC) <u>\$715,667</u> \$8,516,994
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	(2014 Rehab) \$347,121 (Prop 51 Rehab) \$51,050 (Prop 51 NC) <u>\$36,360</u> \$434,531
First Year of Occupancy of New Project:	2020-21

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”) Final Apportionment. This determination as it relates to 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 Education for Change, on behalf of Lazear Academy, electing to have its CSFP payments intercepted 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 (SAB) regarding this determination.

Background: Regarding the 2014 funding round rehabilitation project, the Authority found EFC, on behalf of Lazear, financially sound for a Preliminary Apportionment for a rehabilitation project in November 2014. SAB awarded EFC a Preliminary Apportionment in the amount of \$12,221,618. In May 2016, the Authority found EFC, on behalf of Lazear, financially sound for an Advance Apportionment and SAB awarded an Advance Apportionment of \$1,222,161.80 for design.

Regarding the Proposition 51 rehabilitation and new construction projects, the Authority found EFC, on behalf of Lazear, financially sound for a Preliminary and Advance Apportionment for a both projects in January 2018. SAB awarded EFC a Preliminary Apportionment in the amount of \$2,453,168 and \$2,614,924 for the rehabilitation and new construction projects respectively.

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 2,995 students in grades K-12. Enrollment in 2019-20 is expected to be 3,066 students. ADA rates are projected to be 96.3%, which staff find reasonable while being slightly higher than historical average of 95.2%. For 2018-19, the unduplicated pupil count of at EFC as a percentage of ADA is 92.6%.
Debt Service Coverage	EFC’s DSC is 352.0%, 534.8%, and 775.3% for 2021-22 through 2023-24 respectively.
Other Financial Factors	<ul style="list-style-type: none"> • EFC’s operating fund has a projected balance of \$6,376,787 as of the end of 2018-19. • EFC’s expected annual total of CSFP payments only account for 0.9% operating revenue for EFC for 2012-22 through 2023-24.
School Information	
Eligibility Criteria	Lazear Academy has met all eligibility criteria: (1) Lazear Academy began operation in 2012; (2) Lazear Academy’s most recent charter was approved with a term from July 2016 through June 2022; (3) Lazear Academy is in good standing with its chartering authority, and in compliance with the terms of its charter.

Student Performance	Lazear performed comparably to the district and/or local public schools in 2015-16 and 2016-17. Lazear outperformed both the district and local public schools in 2017-18.
Demographic Information	Lazear Academy currently serves 463 students in grades K-8. Enrollment in 2019-20 is expected to be 460 students. ADA rates are projected to be 97.1%, which staff find reasonable while being slightly higher than historical average of 95.2% but consistent with the recent trend of increasing ADA. For 2018-19, the unduplicated pupil count of at Lazear as a percentage of ADA is 91.0%.

Program Eligibility: On March 19, 2019, 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 2022.

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 824 29th Avenue address. Lazear intends to modernize 23 existing classrooms (20 will be demolished and replaced in-kind, 3 will be rehabilitated), restrooms, and administrative offices and workspace (all located in portable buildings), as well as a site-built multi-purpose building. Lazear also plans to construct two additional classrooms for a total of 25 classrooms. The project will involve the demolition and replacement in-kind of every structure on the existing campus, except for three portable classrooms that were recently installed that will be rehabilitated. 21 new classrooms and administrative buildings will be provided by Enviroplex, a modular vendor. The new multi-purpose building will be constructed on site by the general contractor that will also be doing the site work.

The project will be under construction while school operations continue in the existing facilities for the 2019-2020 school year. Site work will begin in August 2019. Enviroplex modular buildings will be delivered and installed in the construction area in November 2019. All newly constructed buildings, including the multi-purpose building, will be move-in ready by June 1, 2020 in order to receive existing FF&E that will be moved from the existing buildings when the 2019-2020 school year concludes. After the move is complete, the existing buildings will be demolished. Then the new playground, parking lot, and sports field will be constructed in the south half of the campus to be ready for the start of school in August 2020.

Obligor Organizational Information: EFC currently manages seven (7) charter schools, Achieve Academy (Achieve), ASCEND, Cox, Epic Charter (Epic), Lazear, Learning Without Limits (LWL) and Latitude 37.8 High School (Latitude). EFC began in 2005 when the Oakland Unified School District (“District”) partnered with New Schools Venture Fund to create a CMO to take over failing Oakland Unified Elementary Schools. Cox was granted its charter in 2005; Achieve in 2006; ASCEND, Lazear, and LWL in 2012; Epic in 2014; and Latitude in 2018, all pursuant to the terms of the Charter Schools Act of 1992, as amended. Achieve, ASCEND,

and LWL are all sponsored by the Oakland Unified School District; Cox, Epic, and Lazear are sponsored by the Alameda County Office of Education. Latitude 37.8 High School is sponsored by the California State Board of Education and began serving students in August 2018.

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: (1) 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; (2) Invest – Investing in strong partnerships with parents and community organizations; (3) Recruit and Develop – Recruiting and developing teaching and administrative leaders who work collaboratively within the classroom and across the Education for Change organization. (4) Support – Supporting students, faculty, and autonomy amongst the EFC campuses. Education for Change presently serves 5 grade schools and one junior high

The Education for Change board is a ten member board with three subcommittees which are the Executive Committee, Finance Committee, and Student Outcomes Committee. The 2018-19 board consists of Adam Smith, Nick Driver, Eva Camp, Dirk Tillotson, Mike Barr, Sudhir Aggarwal, Roy Benford, Lauren Weston, Carmen Ryan, and Aurora Gonzalez.

Hae-Sin Thomas is the Chief Executive Officer. Ms. Thomas 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.

Larissa Adam is the Superintendent of Schools for EFC. Before transitioning into her current role, she served as Chief Talent Officer for three years and prior to that served for ten years as Principal at ASCEND, a K-8 school recognized for its arts-integrated expeditionary learning model and effective community engagement practices. Ms. Adam started teaching in Oakland through Teach for America in 1993, and continued teaching at her original placement site for eight years. She holds a B.A. in Spanish and International Relations from UC Davis, and a Master's in Educational Leadership from UC Berkeley.

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: Lazear Academy is a public charter school located within the boundaries of the Oakland Unified School District and is authorized by the Alameda County Office of Education. Lazear Academy's most recent charter was approved by the

Alameda County Office of Education on July 1 2016 and is active through June 30 2022. 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 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 2015-16, 2016-17, and 2017-18 academic performance of Lazear, the averages of similar local public schools (International Community, Roosevelt Middle School, and Aspire ERES Academy), and the District. The results are provided through CDE’s CAASPP Smarter Balanced testing data. The percentage of student groups performing below average is based on the number of student groups served, e.g. a school where one of four student groups performed below average would have a percentage of 25%. Student groups, as determined in Ed. Code Section 52052 (a)(2), are ethnic subgroups, socioeconomically disadvantaged pupils, English learners, pupils with disabilities, foster youth, and homeless youth. The data for student groups performing below average was first made available for 2016-17.

English Language Arts – Comparison

% of Students Meeting or Exceeding Avg. Performance

	2015-16	2016-17	2017-18
Lazear	23.00%	23.70%	35.78%
Local Schools	23.00%	23.69%	23.15%
District	30.00%	31.86%	33.12%

All Students Performance

	2015-16	2016-17	2017-18
Lazear	N/A	Lowest	Average
Local Schools	N/A	Low	Low

District	N/A	Low	Low
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Student Groups w/ Below Avg. Performance

	2015-16	2016-17	2017-18
Lazear	N/A	100%	0%
Local Schools	N/A	89%	78%
District	N/A	69%	77%

Mathematics– Comparison

% of Students Meeting or Exceeding Avg. Performance

	2015-16	2016-17	2017-18
Lazear	15.00%	16.09%	28.91%
Local Schools	23.33%	20.50%	22.33%
District	25.00%	25.50%	26.81%

All Students Performance

	2015-16	2016-17	2017-18
Lazear	N/A	Average	Average
Local Schools	N/A	Low	Low
District	N/A	Low	Low

Student Groups w/ Below Avg. Performance

	2015-16	2016-17	2017-18
Lazear	N/A	0%	0%
Local Schools	N/A	67%	67%
District	N/A	69%	62%

Enrollment Trends and Projections: The tables below present enrollment information for EFC and Lazear from 2015-16 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>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Enrollment	2,976	3,084	2,980	2,995	3,066	3,185	3,304
ADA	94.9%	95.1%	95.0%	96.0%	96.2%	96.3%	96.5%
	2022-23	2023-24					
Enrollment	3,365	3,427					
ADA	96.5%	96.5%					

School Student Enrollment and Average Daily Attendance

<u>Lazear</u>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Enrollment	459	462	463	463	460	457	448
ADA	94.3%	94.6%	96.5%	96.8%	96.9%	97.1%	97.3%
	2022-23	2023-24					
Enrollment	441	443					
ADA	97.3%	97.3%					

As part of Staff’s review, historical enrollment from 2015-16 through 2017-18 is used as a measure for the reasonability regarding projected enrollment for 2019-20 through 2023-24. The projected 14% growth from 2018-19 through 2023-24 with EFC is reasonable considering the addition of a new school, Latitude, which opened in 2018-19 and expects to realize enrollment in all grades by 2022-23. Taking aside Latitude, EFC’s project growth is 3.8% from 2018-19 through 2023-24 which staff finds reasonable.

From 2015-16 through 2017-18, Lazear grew an average of 2.0% with the largest increase in 2015-16. Lazear used a negative enrollment growth for budget projection as a method of providing conservative projections, which Staff considers reasonable as it is only a 4.0% overall decline from 2019-20 through 2023-24 as well as based on aforementioned historical information. Staff also compared Lazear’s historical enrollment changes with Local Schools and the District as an additional measure of reasonability. The Local Schools had negative enrollment change of 0.8% but it should be noted that all three schools experienced enrollment increases from 2016-17 to 2017-18 by 1.7%, 4.6%, and 0.5% respectively. The District and Lazear have had similar enrollment growth from 2015-16 through 2017-18. The District’s enrollment grew by an average of 1.5% over those three years.

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 2014-15 through 2017-18; (2) adopted budget for 2018-19; and (3) budget projections for 2019-20 through 2023-24 along with assumptions.

Assumptions: EFC’s financial projections are based upon the following assumptions: (1) Occupancy of both rehabilitation and new construction projects in 2020-21; (2) CMO-wide enrollment projections as provided above under “Enrollment Trends and Projections”; (3) Projected CMO-wide ADA rates of 96.3%, which are consistent with historical performance; (4) A projected COLA adjustment for revenue being 3.46%, 2.86%, 2.92%, 2.90%, and 2.89% for 2019-20 through 2023-24 respectively; (5) Projected CMO-wide UPP rate of 96.4%, which are consistent with historical rates; and (6) Local Control Funding Formula (LCFF) per-ADA funding rate of \$10,354 for 2018-19.

Long Term Liabilities: As of June 30, 2018, EFC has one long term liabilities. As mentioned above, EFC was award an advance apportionment of \$1,222,161.80 for design related cost. EFC will be expected to begin payments on its matching share of \$611,181 in the second year after project completion. For this financial soundness review, staff assumed payments

to begin in 2021-22. EFC also has an available \$1,500,000 line of credit with Bank of America which has not been drawn against as of this report.

Private Contributions: EFC projects similar fundraising and contribution income percentages for 2018-19 through 2023-24 compared to its historic averages. EFC projects an average of about \$1,544,915 a year which accounts for 2.7% of operating revenues which is much lower than the Authority’s threshold of 15%. It is also consistent with contributions and fundraising from 2014-15 through 2017-18 which averaged 2.7%.

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.

OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS										
	Actual FY 2015	Actual FY 2016	Actual FY 2017	Actual FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024
OPERATIONAL & FINANCIAL										
Enrollment	2,791	2,976	3,084	2,980	2,995	3,066	3,185	3,304	3,365	3,427
Average Daily Attendance (ADA)	2,669	2,825	2,934	2,830	2,876	2,949	3,068	3,188	3,246	3,305
Average Daily Attendance (%)	95.6%	94.9%	95.1%	95.0%	96.0%	96.2%	96.3%	96.5%	96.5%	96.5%
FTE Teachers	123	154	145	145	145	148	153	156	160	163
Pupil-Teacher Ratio	22.8	19.4	21.3	20.6	20.7	20.7	20.8	21.2	21.0	21.0
LCFF Sources/ADA	\$ 7,749	\$ 8,866	\$ 9,405	\$ 9,729	\$ 10,354	\$ 10,735	\$ 11,093	\$ 11,463	\$ 11,815	\$ 12,176
% Change		14.4%	6.1%	3.4%	6.4%	3.7%	3.3%	3.3%	3.1%	3.1%
Operating Revenues/ADA	\$ 10,107	\$ 11,895	\$ 12,005	\$ 13,249	\$ 14,021	\$ 14,381	\$ 14,575	\$ 14,842	\$ 15,129	\$ 15,156
% Change		17.7%	0.9%	10.4%	5.8%	2.6%	1.4%	1.8%	1.9%	0.2%
Operating Expenses plus CSFP Lease/ADA	\$ 9,926	\$ 11,390	\$ 12,204	\$ 13,503	\$ 13,823	\$ 14,188	\$ 14,412	\$ 14,499	\$ 14,547	\$ 14,268
% Change		14.7%	7.2%	10.6%	2.4%	2.6%	1.6%	0.6%	0.3%	-1.9%
Free Cash Flow/ADA	\$ 181	\$ 505	\$(199)	\$(254)	\$ 198	\$ 193	\$ 164	\$ 343	\$ 582	\$ 887
OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS										
	Actual FY 2015	Actual FY 2016	Actual FY 2017	Actual FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024
DEBT SERVICE COVERAGE										
Total Operating Revenues	\$ 26,973,689	\$ 33,608,797	\$ 35,223,118	\$ 37,490,011	\$ 40,327,386	\$ 42,414,333	\$ 44,721,269	\$ 47,310,467	\$ 49,115,385	\$ 50,096,772
Total Operating Expenses	26,490,816	32,181,900	35,807,354	38,208,540	39,756,671	41,844,856	44,218,889	45,781,072	46,791,600	46,727,781
Total Other Sources/Uses	-	-	-	-	-	-	-	-	-	-
Net Income Available for CSFP Lease Payment	482,873	1,426,897	(584,236)	(718,529)	570,715	569,477	502,380	1,529,395	2,323,785	3,368,991
Add Back Capital Outlay	-	-	-	-	-	-	-	-	-	-
Add Back Depreciation	27,667	40,563	36,883	65,992	-	-	-	-	-	-
Adjusted Net Income Available for CSFP Lease Pymt.	510,540	1,467,460	(547,353)	(652,537)	570,715	569,477	502,380	1,529,395	2,323,785	3,368,991
CSFP Lease Payments	-	-	-	-	-	-	-	435,411	435,411	435,411
Free Cash Flow	\$ 510,540	\$ 1,467,460	\$(547,353)	\$(652,537)	\$ 570,715	\$ 569,477	\$ 502,380	\$ 1,093,984	\$ 1,888,374	\$ 2,933,580
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	351.3%	533.7%	773.7%
DSC from LCFF Sources subject to CSFA Intercept	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8392.2%	8809.0%	9243.2%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.9%	0.9%	0.9%
FUNDRAISING										
Fundraising for Operations	\$ 1,381,085	\$ 1,333,945	\$ 770,767	\$(126,474)	\$ -	\$ 345,000	\$ 1,844,894	\$ 1,844,894	\$ 1,844,894	\$ 1,844,894
Fundraising/Oper. Revenues	5.1%	4.0%	2.2%	-0.3%	0.0%	0.8%	4.1%	3.9%	3.8%	3.7%
DSC without Fundraising	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-72.5%	110.0%	350.0%
% of Fundraising Required for 100% DSC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	40.7%	-2.4%	-59.0%
LIQUIDITY										
Current Assets	\$ 7,956,983	\$ 8,041,174	\$ 8,767,439	\$ 5,638,112						
Current Liabilities	2,799,625	3,026,250	3,273,443	3,059,268						
Net Working Capital	\$ 5,157,358	\$ 5,014,924	\$ 5,493,996	\$ 2,578,844						
Net Working Capital/Oper. Expenses	19.5%	15.6%	15.3%	6.7%						
Unrestricted Cash & Cash Equivalents	\$ 4,756,223	\$ 3,351,619	\$ 3,750,609	\$ 969,667						
Unrest. Cash & CE/Oper. Expenses (Days)	66	38	38	9						
Unrest. Cash & CE/All Expenses (Days)	66	38	38	9						

Benchmark Summary:

- Free Cash Flow/ADA – **Met:** \$260.13 avg. (>\$0)
- Free Cash Flow – **Met:** \$622,516.49 avg. (>\$0)
- Debt Service Coverage from Adjusted Net Income – **Met:** 351.3%, 533.7%, and 773.7%
- Net Working Capital as Portion of Operating Expenses – **Met:** 14.3% (>5%)

- Unrestricted Cash & Cash Equivalents as Portion of All Expenses – **Not Met:** 37.76 days (> 90 days)

Strengths, Weaknesses and Mitigants:

- + EFC’s DSC for Lazear from adjusted net income is 351.3%, 533.7%, and 773.7% for 2021-22 through 2023-24 respectively.
- + EFC’s operating fund balance, as of June 30, 2018, was \$5,806,072.
- + CSFP loan payments only account for 0.9% of operating revenue for EFC for 2021-22 and 2022-23 respectively.

Staff Recommendation: 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”) Final Apportionment. This determination as it relates to 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 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.