

**Charter School Facilities Program
Proposition 51 Funding Round
Staff Summary Report – July 2019**

Applicant/Obligor:	Leadership Public Schools
Project School:	LPS – R & D Oakland
CDS (County – District – School) Code:	01-61259-0126748
School Address/Proposed Site:	8601 MacArthur Blvd, Oakland 94605
Type of Project:	Rehabilitation and New Construction
OPSC Project Numbers:	Rehabilitation – 54/61259-09-008 New Construction – 54/61259-09-009
Type of Apportionment:	Advance
County:	Alameda
District in which Project is Located:	Oakland Unified School District
Charter Authorizer:	Oakland Unified School District
Total OPSC Project Cost:*	Rehabilitation - \$2,464,774 New Construction - \$25,654,800 Total - \$28,119,574
State Apportionment (50% Project Cost):	Rehabilitation - \$1,232,387 New Construction - \$12,827,400 Total - \$14,059,787
Lump Sum Contribution:	N/A
Total CSFP Financed Amount:	Rehabilitation - \$1,232,387 New Construction - \$12,827,400 Total - \$14,059,787
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00
Estimated Annual CSFP Payment:	Rehabilitation - \$62,875 New Construction - \$654,444 Total - \$717,320
First Year of Occupancy of New Project:	2022-23

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

Staff recommends the California School Finance Authority (“Authority” or “CSFA”) Board determine that Leadership Public Schools (“CMO” or “LPS”) on behalf of LPS – R & D Oakland (“School” or “LPS-RDO”) is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Advance Apportionment. This determination as it relates to Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time. This recommendation is contingent upon LPS, on behalf of LPS – RDO, electing to have its CSFP payments intercepted at the state-level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the California 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.

Background: LPS currently has three active CSFP project: (1) LPS – Richmond which Authority’s latest determination was made in May 2013 related to Final Apportionment; (2) LPS – Hayward Authority’s latest determination was October 2018 related to Preliminary and Advance Apportionment; and (3) LPS-RDO, the project being review. Specifically related to LPS-RDO, the Authority found LPS-RDO financially sound for a Preliminary and Advance Apportionment at its January 2018 meeting, and the State Allocation Board (SAB) awarded LPS-RDO a Preliminary Apportionment in the amount of \$2,464,774 for the rehabilitation project and \$25,654,800 for the new construction project. Staff provides additional detail regarding the two additional CSFP projects in the *Long-Term Liabilities* section below.

Application Highlights: Below, staff highlighted key criteria that were evaluated when conducting its financial soundness review of LPS on behalf of LPS-RDO. Detailed information is contained in the body of the report.

Criteria	Comments
<i>Obligor Information</i>	
Demographic Information	LPS currently serves 1,675 students in grades 9-12. Enrollment in 2019-20 is expected to be 1,719 students. ADA rates are projected to be 93.0%, which staff find reasonable based on historical performance
Debt Service Coverage	LPS’ DSC is 173.1% for 2023-24 and 2024-25 respectively. Staff’s determination includes the two additional CSFP projects mentioned in <i>Long-Term Liabilities</i> section.
Other Financial Factors	<ul style="list-style-type: none"> • LPS’ operating fund has a projected balance of \$10,841,709 as of the end of 2018-19. • LPS expected total annual CSFP payments of \$1,422,014 is approximately 4.2% of the average projected operating revenue for 2023-24 and 2024-25.
<i>School Information</i>	
Eligibility Criteria	LPS-RDO has met all eligibility criteria: (1) LPS-RDO began operation in 2012; (2) LPS RDO’s charter was approved in February 2017 and is in place through June 2023; (3) LPS-

	RDO is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	LPS – RDO outperformed the average of the local schools reviewed and its district in English Language Arts (ELA) and performed comparably in Mathematics. Additional detail in the Long-Term Liabilities section below.
Demographic Information	LPS-RDO currently serves 483 students in grades 9-12. For 2018-19, 30% of the student body are English Language Learners and 92.3% qualify for Free and Reduced Price Meals. Enrollment in 2019-20 is expected to be 519 students and ADA rates are projected to be 93.0%, which staff find reasonable.

Program Eligibility: On July 1, 2019, at CSFA staff's request, verification was received from Oakland Unified School District ("District" or "OUSD") confirming that LPS-RDO (1) in compliance with the terms of its charter agreements, and (2) in good standing with its chartering authority. LPS-RDO's current charter is effective through June 2023.

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: LPS-RDO is a 9-12 charter high school authorized by the OUSD. The school has been located at Castlemont High School, a District site, since LPS-RDO opened its doors. The school's current enrollment is 483 students, and is currently in the process of expanding, in part due to enrollment demand and the growth in newcomer population within Oakland. LPS-RDO at full enrollment will serve 600 students and LPS anticipates serving 519 students in the fall of 2019.

LPS-RDO proposes to rehab existing District facilities at Castlemont High School, located at 8601 MacArthur Blvd, Oakland 94605. The existing facilities are the three portables adjacent to the athletic field. These three portables classrooms are approximately 3,200 square feet (sf) of classroom space and 160 sf of toilet space. LPS-RDO plans to raze these existing portables and replace the existing square footage with new construction facilities. These new facilities will be incorporated into a single permanent new construction larger design funded by LPS-RDO's joint New Construction Prop 51 Application.

The joint new construction application will fund the bulk of the permanent new constructed facility. The new facility will include a minimum of 23 classrooms. The new facility may include: 18 standard classrooms, three science labs, one art room, one-two Resource Specialist Program classrooms, Early College Center, College Resources and Media Center, Flex space/meeting space, teacher workroom/ copy room, administration space, boys and girls bathrooms, unisex bathroom, staff bathrooms, elevator, storage, MEP/utility room and server room, janitor's closets, and exterior courtyard space to serve 600 LPS-RDO students at full enrollment.

The vision for the Early College Center is a more stand-alone design that can serve as a community resource. It is a critical element of the LPS-RDO program, ensuring high school

students participate in a college experience prior to graduation that both earns them college credit and gives them the tools and experiences to succeed in college. This Center would offer college classes in partnership with local community colleges that would be open to the entire Castlemont Community.

LPS-RDO anticipates 18 months for design and approval by the Division of the State Architect, and 24 months of construction. LPS Oakland R&D plans to occupy the new construction facility in the fall of 2022.

Obligor Organizational Information: In 2002, Mark Kushner, supported by Scott Pearson – the Board Chair, was LPS's first CEP and founder. With backing by New Schools Venture Fund, it was one of the early charters in California. The founding mission of LPS was to provide high-quality college-prep education in underserved communities with an aim of preparing students to return as leaders to those communities. Student leadership was a strong component of the initial model, drawing on the successful practices of Leadership High School in San Francisco (unaffiliated with LPS) where Mark Kushner, prior to LPS, had been the founding principal. Currently, LPS operates three charter schools: LPS Hayward in Hayward which opened in 2005; LPS Richmond in Richmond which opened in 2003; and LPS-RDO in Oakland which opened in 2012.

The 2018-19 LPS Board of Trustees is a 17 (seventeen) person board currently consisting of President Louise Waters, Chair Luis Chavez, Vice-Chair Kelley Gulley, Treasurer Sandra Becker, Secretary Amy Slater, Parent Representative Tana Monteiro, Parent Representative Sophia Thomas, Sheliagh Andujar, Treasurer Sandra Becker, Chuck Bowes, Brentt Brown, Lynn Dantzker, Jesuscita Fishel, Brigitte Lowe, Prasad Ram, David Schiffman, and Robert Shoffner. Christopher Whitmore serves as trustees.

Dr. Louise Bay Waters is the Chief Executive Officer, who holds a B.A. and M.A. from Stanford University and a Ph.D. from Pennsylvania State University. Soo Zee Park, the Chief Business Officer, holds a B.A. in Architecture from North Carolina State University and an M.B.A. from John E. Anderson Graduate School of Management at UCLA. Staff has reviewed the credentials of the key Board Members and determined them to have the proper background and experience to govern and effectively oversee the operations of the CMO.

School Organizational Information: LPS-RDO is a public charter school authorized by, and located within the boundaries of, the OUSD. OUSD approved LPS-RDO's most recent charter 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 as Leadership Public Schools.

LPS-RDO uses LPS Core Curriculum and is referred to as the LPS Common Spine. The LPS Common Spine contains a curated collection of resources and materials by course area. All LPS Common Spine resources are digital and stored online with many already in Gooru website or transitioning to that platform. Student-facing resources are incorporated in Google Docs, Gooru, or other formats. In addition, the LPS Common Spine includes teacher resources, such as unit and lesson plans, that are curated in Google Docs. The Common Spine includes three Core Curriculum Content: **Scope and Sequence**: the agreed-upon standards such as: Common Core State Standards; Next Generation Science Standards; and

College, Career, and Civic Life Framework for Social Studies State Standards and topics and instructional pace for each course – tightly defined in some cases (math & ELA) and more loosely in others (Spanish); **Core Content Resources**: the online educational resource websites such as Springboard by The College Board and Engage NY by the New York State Education Department, and other key pieces of shared content that is sometimes incorporated into Gooru; and **Applied Learning**: curriculum embedded activities that extend learning and develop both critical thinking and college-readiness skills aligned to the LPS Graduate Profile– science labs, projects, Socratic Seminars, debates, etc. The Common Spine also includes three Common Assessments: **Performance Assessments**: A range of performance tasks and critical thinking measures are under development in partnership with Stanford Center for Assessment, Learning and Equity and Envision Learning Partners; **Interim/Unit Level Assessments**: the number of common, collaboratively developed assessments varies from course to course; **Formative Assessments**: daily assessments to be scored and used by teachers within their own classes which includes real-time formative assessments using ExitTicket – a just-in-time data application and Crowd-Source Grading - a rubric scoring tool that allows for self, teacher and peer scoring of essays, projects and exhibitions.

LPS-RDO partnered with Merritt Community College (Merritt) to ensure every student has the opportunity to take a college-level course and graduate with credit. This LPS-Merritt program pairs students in an online Merritt course with a dedicated LPS-RDO teacher to help students navigate rigorous academic materials and learn college routines and language. LPS-RDO students are held to the same expectations as traditional Merritt students but have in-school support to guide them towards more independent learning.

LPS-RDO's principal, David Castillo, has more than 14 years of experience as a school principal and teacher in Oakland, including leadership positions at Oakland Unity High School and Urban Montessori Charter School. Mr. Castillo also holds a Masters in Educational Leadership from California State University East Bay. Soo Zee Park serves as Chief Business Official. Ms. Park brings experience as Director of Real Estate Development for Community Housing Opportunities Corporation in Solano, Yolo, and Sacramento Counties. Ms. Park holds a Bachelor's degree in architecture from North Carolina State University and an MBA from John E. Anderson Graduate School of Management at UCLA.

LPS's Board as listed in the section above governs LPS-RDO. Staff reviewed the credentials of the key Board Members 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 LPS-RDO, the averages of similar local public schools: Castlemont High, Fremont High, and Oakland Unity High (Local Schools) and OUSD.

The results are provided through CDE's CAASPP "Smarter Balanced" testing data. The percentage of student groups meeting or exceeding average performance is based on the number of student groups served. Student groups, as determined in California Education 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 at or above average was first made available for 2016-17 with only

English Language Arts metric available. As of 2017-18, both English Language Arts and Mathematics metrics are available.

English Language Arts – Comparison

% of Students Meeting or Exceeding Average Performance

	2015-16	2016-17	2017-18
LPS - RDO	68.00%	62.29%	47.11%
Local Schools	29.67%	27.37%	10.00%
OUSD	30.00%	31.86%	33.12%

All Students Performance

	2015-16	2016-17	2017-18
LPS - RDO	N/A	Highest	Low
Local Schools	N/A	Low	Low
OUSD	N/A	Low	Low

Student Groups Meeting or Exceeding Average Performance

	2015-16	2016-17	2017-18
LPS - RDO	N/A	100.0%	0.0%
Local Schools	N/A	33.3%	33.3%
OUSD	N/A	30.8%	23.1%

Mathematics– Comparison

% of Students Meeting or Exceeding Average Performance

	2015-16	2016-17	2017-18
LPS - RDO	22.00%	26.66%	5.77%
Local Schools	14.00%	13.43%	12.41%
OUSD	25.00%	25.50%	36.10%

All Students Performance

	2015-16	2016-17	2017-18
LPS - RDO	N/A	N/A	Lowest
Local Schools	N/A	N/A	Low
OUSD	N/A	N/A	Low

**Student Groups Meeting or Exceeding Average
Performance**

	2015-16	2016-17	2017-18
LPS - RDO	N/A	N/A	0.0%
Local Schools	N/A	N/A	33.3%
OUSD	N/A	N/A	38.5%

Enrollment Trends and Projections: The tables below present enrollment information for LPS and LPS-RDO from 2015-16 through 2024-25. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

CMO-wide Student Enrollment and Average Daily Attendance

LPS

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Enrollment	1,381	1,479	1,587	1,675	1,719	1,750	1,778	1,800	1,800	1,800
ADA	94.5%	94.2%	94.1%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%

School Student Enrollment and Average Daily Attendance

LPS - RDO

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Enrollment	337	353	417	483	519	550	578	600	600	600
ADA	90.7%	91.6%	92.5%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%

As part of Staff's review, historical enrollment from 2015-16 through 2018-19 is used as a measure for the reasonability regarding projected enrollment for 2019-20 through 2023-24. From 2015-16 through 2018-19, LPS-RDO grew an average of 12.9% with the largest increase from 2017-18 and 2018-19. The projected 5.0% average growth from 2019-20 through 2022-23 (the last year of projected enrollment growth) to be consistent with historical performance and therefore Staff considers reasonable. Staff also compared LPS-RDO's historical enrollment changes with Local Schools and the District as an additional measure of reasonability. The Local Schools averaged about a 5.7% gain in enrollment. With this information, staff considered LPS-RDO's averaged projected growth of 5.0% reasonable.

District Financial Analysis:

Financial Data Sources: This financial analysis is based on the consideration and review of the following for LPS, the financial obligor and Applicant, on behalf of LPS-RDO: (1) audited financial statements for 2015-16 through 2017-18; (2) the second interim report for 2018-19; (3) adopted budget for 2019-20; and (4) budget projections for 2019-20 through 2024-25 along with assumptions.

Assumptions: LPS's financial projections are based upon the following assumptions: (1) Occupancy of the project in 2022-23; (2) CMO-wide enrollment projections as provided above

under “Enrollment Trends and Projections”; (3) Projected CMO-wide ADA rates of at least 93%, which are consistent with historical performance; (4) Local Control Funding Formula (LCFF) per-ADA funding rate of \$12,054 for 2019-20; (5) Projections for 2024-25 are the same as 2023-24 to ensure a conservative approach with an sixth year of budget forecasting required; and (6) Increased salary growth of 2% annually.

Long Term Liabilities: LPS Hayward entered into an unsecured loan agreement with 28000 Calaroga, LLC in the amount of \$500,000. Payments are made monthly in the amount of \$8,763 with an interest rate of 2.00%. The loan term is five-years and will mature in August 2019 and will not be a factor in this transaction.

As previously mentioned, LPS currently has two campus with facilities funded by the Program. The LPS Richmond CSFP project was approved for its final apportionment in May 2013 and was occupied in September 2015. LPS has begun payments on a loan agreement under the Program for its local match in the amount of \$3,000,000. Payments are semi-annually in a total amount of \$144,879 with an interest rate of 2.00%. The loan term is 29.16 years. The loan is secured by the facility in that title of the building of the District and it could be reclaimed if LPS defaulted on the agreement.

The LPS Hayward CSFP project was approved for its Preliminary Apportionment in October 2018. The expected completion and occupancy date is 2020-21, therefore 2021-22 is the anticipated first year of repayment. The assumed interest rate is 2.50%, which is to provide a more conservative analysis.

CSFP Project Name	CSFP loan amount (Local Match)*
LPS Richmond*	\$2,740,236 ¹
LPS Hayward**	\$12,840,610 ²
Total	\$15,580,846

- * - Amount Remaining as of June 30, 2019
- * - Final Apportionment
- ** - Preliminary Apportionment
- ¹ – Repayment began in 2016 on \$3,000,000
- ² – Repayment expected to begin in 2021-22

Private Contributions: LPS uses similar projections when it comes to private contributions and fundraising as compared to their historical figures. LPS averaged \$720,437 in private contributions and fundraising from 2015-16 through 2018-19, which averaged 3.50% of operating revenues. LPS projects an average of about \$718,529 from 2019-20 through 2024-25, which averages 2.5% of operating revenues over the same time which is below the program threshold of 15%.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff’s analysis regarding LPS’s financial soundness. Where a threshold has been established based on industry standards or practice, the listing indicates whether the threshold was met.

Item 7 – CSFP Staff Summary
Leadership Public Schools on behalf of LPS – R & D Oakland
Page 9 of 10

OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS										
	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024	Projected FY 2025
Average Daily Attendance (ADA)	1,306	1,393	1,494	1,558	1,599	1,628	1,654	1,674	1,674	1,674
Average Daily Attendance (%)	94.5%	94.2%	94.1%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%
LCFF Sources/ADA	\$ 11,452	\$ 10,501	\$ 10,764	\$ 11,619	\$ 12,013	\$ 12,390	\$ 13,774	\$ 15,135	\$ 16,472	\$ 16,472
% Change		-8.3%	2.5%	7.9%	3.4%	3.1%	11.2%	9.9%	8.8%	0.0%
Operating Revenues/ADA	\$ 15,127	\$ 13,807	\$ 13,923	\$ 15,174	\$ 15,067	\$ 15,458	\$ 17,088	\$ 18,569	\$ 20,197	\$ 20,197
% Change		-8.7%	0.8%	9.0%	-0.7%	2.6%	10.5%	8.7%	8.8%	0.0%
Operating Expenses plus CSFP Matching Share Pymt. /ADA	\$ 14,342	\$ 14,243	\$ 13,429	\$ 14,785	\$ 14,622	\$ 15,085	\$ 16,879	\$ 18,192	\$ 20,050	\$ 20,050
% Change		-0.7%	-5.7%	10.1%	-1.1%	3.2%	11.9%	7.8%	10.2%	0.0%
Free Cash Flow/ADA	\$ 786	\$ (435)	\$ 494	\$ 389	\$ 445	\$ 374	\$ 208	\$ 377	\$ 147	\$ 147

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024	Projected FY 2025
DEBT SERVICE COVERAGE	Programmatic	Programmatic	Programmatic	SACS	SACS	SACS	SACS	SACS	SACS	SACS
Total Operating Revenues	\$ 19,750,485	\$ 19,238,816	\$ 20,794,782	\$ 23,637,748	\$ 24,087,288	\$ 25,158,248	\$ 28,255,084	\$ 31,084,462	\$ 33,810,383	\$ 33,810,383
Total Operating Expenses	18,587,824	19,708,613	19,920,086	22,894,934	23,239,409	24,413,414	27,160,530	29,702,491	32,096,255	32,096,255
Total Other Sources/Uses	(26,234)	103,894	(162,906)	-	-	-	-	-	-	-
Net Income Available for CSFP Matching Share Payment	1,136,427	(365,903)	711,790	742,814	847,879	744,834	1,094,554	1,381,971	1,714,128	1,714,128
Add Back Capital Outlay	-	-	-	-	-	-	-	-	-	-
Add Back Depreciation	-	-	-	430,528	763,682	772,244	747,961	747,961	747,961	747,961
Adj. Net Income Available for CSFP Matching Share Pymt.	1,136,427	(365,903)	711,790	1,173,342	1,611,561	1,517,078	1,842,515	2,129,932	2,462,089	2,462,089
CSFP Matching Share Payments	136,777	136,777	136,777	136,777	136,777	136,777	750,271	750,271	1,467,591	1,467,591
Free Cash Flow	\$ 999,650	\$ (502,680)	\$ 575,013	\$ 1,036,565	\$ 1,474,784	\$ 1,380,301	\$ 1,092,244	\$ 1,379,661	\$ 994,498	\$ 994,498
DSC from Adj. Net Income	830.9%	-267.5%	520.4%	857.9%	1178.2%	1109.2%	245.6%	283.9%	167.8%	167.8%
DSC from LCFF Sources subject to CSFA Intercept						11350.5%	2349.0%	2621.9%	1463.4%	1463.4%
CSFP Matching Share Payment/Oper. Revenues	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%	2.7%	2.4%	4.3%	4.3%
FUNDRAISING										
Fundraising for Operations	\$ 891,863	\$ 518,885	\$ 660,785	\$ 810,215	\$ 689,184	\$ 694,193	\$ 709,959	\$ 725,404	\$ 746,218	\$ 746,218
Fundraising/Oper. Revenues	4.5%	2.7%	3.2%	3.4%	2.9%	2.8%	2.5%	2.3%	2.2%	2.2%
DSC without Fundraising	178.8%	-646.9%	37.3%	265.5%	674.4%	601.6%	151.0%	187.2%	116.9%	116.9%
% of Fundraising Required for 100% DSC	-12.1%	196.9%	13.0%	-27.9%	-114.0%	-98.8%	-53.8%	-90.2%	-33.3%	-33.3%
LIQUIDITY										
Current Assets	\$ 9,736,429	\$ 9,196,499	\$ 9,872,113							
Current Liabilities	1,986,466	1,861,493	1,550,604							
Net Working Capital	\$ 7,749,963	\$ 7,335,006	\$ 8,321,509							
Net Working Capital/Oper. Expenses	41.7%	37.2%	41.8%							
Unrestricted Cash & Cash Equivalents	\$ 6,912,444	\$ 6,578,907	\$ 6,968,445							
Unrest. Cash & CE/Oper. Expenses (Days)	136	122	128							
Unrest. Cash & CE/All Expenses (Days)	135	121	127							

Benchmark Summary:

- Free Cash Flow/ADA – **Met:** \$309.42 average (>\$0)
- Free Cash Flow – **Met:** \$540,779.33 average (>\$0)
- CSFP Matching Share Payment/Operating Revenue* – **Met:** 4.3% average (<15.0%)
- Debt Service Coverage (DSC) from Adj. Net Income* – **Met:** 167.8% average (>100%)
- DSC from Adjusted Net Income without Fundraising* – **Met:** 116.9% average (>100%)
- Net Working Capital/Operating Expenses – **Met:** 40.2% average (>5.0%)
- Unrestricted Cash & Cash Equivalents/All Expenses – **Met:** 127.52 days on average (> 90 days)

* - Average taken in 2023-24 and 2024-25 as all projects are in repayment.

Summary of Financial Findings and Other Considerations: Based on the audited financial statements, LPS exhibited free cash flow of \$999,650, \$(502,680), and \$575,013 for 2015-16 through 2017-18, and unrestricted cash and investments of \$6,912,444, \$6,578,907 and \$6,968,445 million as of June 30, 2016, 2017 and 2018.

Based on the second interim report, LPS is anticipated an increase in free cash flow of \$1,035,565 for 2018-19 fiscal year. LPS' financial projections show the following increases to free cash flow for 2019-20 through 2024-25, respectively: \$1,474,784; \$1,380,301; \$1,379,661; \$994,498 and \$994,498.

Staff considers LPS' liquidity as marginally adequate, based on net working capital and cash and cash equivalents on-hand, as well as unrestricted cash and cash equivalents as portion

of expenditures. As of June 30, 2018, LPS had net working capital of \$8,321,509, representing 41.8% of expenditures, which greatly exceeds the recommended minimum threshold of 5.00%. As of June 30, 2018, LPS had \$6,968,445 in unrestricted cash and cash equivalents. This would be the equivalent of 4.7 years of repayment for all three projects combined. LPS' unrestricted cash and cash equivalents as portion of expenditures has averaged 127.5 days over the past three years, which is above the recommended minimum threshold of 90 days.

LPS has chosen to enter into a loan repayment to cover the local matching share. Assuming a 3.0% interest rate, a 30-year repayment period, a CSFP matching share amount of \$28,119,574 in addition to the LPS Hayward and LPS Richmond matching shares, LPS' annual CSFP payment would be \$1,467,591 commencing in 2023-24. LPS' projected debt service coverage ratios from adjusted net income is 167.8% in 2023-24 and 2024-25, which are above the minimum requirement of 100%. The CSFP payments would represent 4.3% of the projected operating revenues for these years, below the maximum range of 15%.

Overall, staff's review of SHPS' financial performance finds that LPS has demonstrated the ability to meet its operating expenses, projected debt service coverage, and has maintained adequate reserves and liquidity, all supportive of a recommendation of financial soundness.

Strengths, Weaknesses and Mitigants:

- + LPS's DSC from adjusted net income is 167.8% for 2023-24 and 2024-25, the first two years of repayment of all three LPS CSFP project.
- +/- LPS – RDO outperformed the average of Local Schools review and OUSD in English Language Arts and performed comparably in Mathematics.
- + As of June 30, 2018, LPS has \$8,321,509 in net working capital, approximately 41.8% of operating expenses.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Leadership Public Schools, on behalf of LPS – R & D Oakland, is financially sound for the purposes of Charter School Facilities Program Advance Apportionment. This determination, as it relates to Advance Apportionment, is in place for twelve months and assumes no financial, operational, or legal material findings within this time. This recommendation is contingent upon Leadership Public Schools, on behalf of LPS – R & D Oakland, electing to have its Charter School Facilities Program payments intercepted at the state-level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the California Education Code. Staff recommends the Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.