

**CHARTER SCHOOL FACILITIES PROGRAM
2010 LOTTERY FUNDING ROUND
STAFF SUMMARY REPORT – MAY 2013**

Applicant/Obligor:	Leadership Public Schools, Inc.
Project School:	Leadership Public Schools Richmond
CDS (County – District – School) Code:	07 61796 0101477
[Proposed] Project Location:	157 9 th Street, Richmond, CA 94801
Project Type:	Rehabilitation of Existing District Facility
County:	Contra Costa
District in which Project is Located:	West Contra Costa Unified School District
Charter Authorizer:	West Contra Costa Unified School District
Total OPSC Project Cost:	\$23,413,262
State Apportionment (50% Project Cost):	\$11,706,631
Lump Sum Contribution:	\$8,706,631
Total CSFP Financed Amount:	\$3,000,000
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	2.00%
Estimated Annual CSFP Payment:	\$133,950
First Year of Occupancy of New Project:	2015-16

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Leadership Public Schools – Richmond (LPSR) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Final Apportionment. This determination as it relates to a Final Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. This determination of financial soundness also is contingent upon LPSR agreeing to have its CSFP payments intercepted at the state level, pursuant to sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.

Background: At its May 2008 meeting, the State Allocation Board (SAB) awarded LPSR, operating under the auspices of Leadership Public Schools, Inc. (LPSI), a Preliminary Apportionment of \$15,398,181 through the Proposition 1D funding round of the Charter School Facilities Program (Program). On May 11, 2011, the Authority determined that LPSR was financially sound for an Advance Apportionment for design of \$2,479,636. Pursuant to the Authority’s Resolution No. 11-25, the Authority’s determination of financial soundness was valid for six months. As LPSR did not meet the Office of Public School Construction’s requirements for Advance release of funds within six months of the Authority’s determination of financial soundness, the Authority conducted a reassessment of

LPSR's financial soundness, and on January 11, 2012, determined again that LPSR was financially sound for purposes of Advanced Apportionment. Subsequently, on June 7, 2012, the Office of Public School Construction provided an Advance release of funds to LPSR in the amount \$2,479,636.

Staff notes that West Contra Costa Unified School District (District) submitted a letter to the Authority, dated May 15, 2013,, indicating that the District would be able to fund a lump sum payment of \$8,706,631 towards the local matching share through its anticipated issuance of General Obligation Bonds, which are to include \$21 million in Qualified School Construction Bonds (QSCBs). CSFA provided authorization for the District's issuance of the QSCBs at its March 23, 2011 meeting. Based on the District's commitment, LPSR proposes to make a lump sum payment of \$8,706,631 and finance the difference, \$3,000,000, of the local matching share through its annual CSFP payments.

Staff also notes that, although West Contra Costa Unified School District (District) was the original legal applicant for the Program project, based on an amended OPSC Form 50-09 that LPSI submitted in December 2011, the legal applicant is LPSI. Given that the CSFP projects involve District-held facilities, the District will hold title to the facilities in trust to the State of California's public education system.

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

Criteria	Comments
Eligibility Criteria	LPSR has met all Program eligibility criteria: 1) a charter is in place; 2) LPSR has at least two years of instructional operations; and 3) LPSR is in compliance with the terms of its charter and in good standing with its chartering entity.
Demographic Information	LPSR has experienced consistent enrollment growth over the past five years, with an average annual growth of 9.2%, and currently serves 470 students in grades 9-12. LPSR projects enrollment growth to 475, 483, 536, 586, and 601, all for grades 9-12, for 2013-14 through 2017-18, respectively. In addition, for 2011-12 and 2012-13, LPSR achieved year-to-year student retention rates of 95.1% and 94.7%, respectively, and has a current wait list of 235 students.
Debt Service Coverage	LPSR's projected debt service coverage for 2016-17 and 2017-18 (first two years of CSFP payments) is 318.6% and 312.7%, respectively.
Other Financial Factors	<ol style="list-style-type: none"> 1. LPSR has a commitment letter from West Contra Costa Unified School District for the lump sum matching contribution of up to \$9,398,181. Based on the commitment from West Contra Costa Unified School District, LPSR proposes to make a lump-sum payment of \$8,706,631. 2. LPSR is not reliant upon contributions in order to meet the Program debt service coverage requirement. 3. CSFP lease payments are projected to represent 2.8%

	<p>and 2.7% of total revenues in 2016-17 and 2017-18, respectively, which are well below the 10-15% recommended threshold levels.</p> <p>4. As of June 30, 2012, LPSR had net working capital of \$1,166,208, representing 30.7% of total expenses.</p>
<p>Student Performance</p>	<ol style="list-style-type: none"> 1. LPSR met its API growth target for three of the past four years, and achieved API growth of 83 points and 47 points for 2010-11 and 2011-12, respectively. 2. Based on its API base scores, LPSR received statewide ranks of “2” and “6” and similar-schools ranks of “9” and “10” for 2010-11 and 2011-12, respectively. 3. LPSR did not meet all AYP criteria during each of the past four years, resulting in its being placed on “Program Improvement” (PI) status per the No Child Left Behind Act of 2001. LPSR is currently in its third year on PI status.

Program Eligibility: On April 12, 2013, staff received verification from the Superintendent’s Office at West Contra Costa Unified School District, confirming that LPSR is: 1) in compliance with the terms of its charter agreement, and 2) is in good standing with its chartering authority. LPSR’s charter is in place and will expire in 2017. LPSR’s charter has been renewed twice since the school opened in 2003.

Legal Status Questionnaire: Staff reviewed LPSR’s responses to the questions contained in the Legal Status Questionnaire (LSQ). LPSR answered “No” to all LSQ questions.

Project Description: The CSFP project entails a “like-in-kind replacement” for the renovation of existing District facilities at 157 9th St., Richmond, CA 94801, which LPSR plans to share with the District’s Continuation High School, Gompers Continuation High School. The design for the entire project proposes three separate buildings: the LPSR classroom building, a shared gymnasium and health clinic, and the Gompers Continuation High School classroom building. The seismically challenged structures of the former Gompers campus have been demolished and the design of new facilities is underway. While awaiting project completion, LPSR is temporarily located at 251 South 12th St., Richmond, CA 94804. The project is anticipated to be completed in phases, with the LPS classroom building, as well as the shared facilities being anticipated for completion and move-in in summer 2015. It is noteworthy that the CSFP project encompasses the LPSR classroom building and -a portion of the gymnasium to be used by LPSR. While also funded by the District, the renovation of the Gompers building and portion of the gymnasium to be used by the continuation school is not part of the CSFP project. The CSFP project involves the replacement of 27 classrooms with a capacity of approximately 810 students due to issues with its former facility not being in compliance with the Americans with Disabilities Act, hazardous materials (the exterior stucco finish has over 25% asbestos in it), and seismic and system deficiencies. The project will continue to be a shared site with the District’s Continuation High School after occupancy.

Organizational Information: LPSR has been operating as a charter school since 2003-04 under the auspices of Leadership Public Schools (LPS), an educational management

organization. LPSR's charter was originally approved by the District in February 2003, and the school began operations in August of the same year. LPSR currently pays a 3% oversight fee to the District in lieu of facilities fees under Proposition 39. It is expected that the 3%-oversight fee will be ongoing after the new facility is occupied. In addition, as one of four school sites that LPS currently operates, LPSR is responsible for paying 25% of LPS home office expenses, which cover financial management, accounting, legal services, facilities management, professional development, and administrative support.

Educational Management Organization: LPS is a charter school development organization with 501(c)(3) non-profit status founded in 2002 to serve diverse students throughout California with a network of charter high schools. LPS schools serve ethnically and economically diverse student bodies and are located in or near low-income neighborhoods. LPS currently operates four high school sites located in Richmond, San Jose, Oakland, and Hayward. LPS plans to begin developing affiliated middle schools over the next three years while concurrently refining its infrastructure, educational program and instructional support to reflect state-of-the-art best practices in urban education. Subsequently, LPS will begin purposely moving to become an R&D organization focusing on innovation in urban education and disciplined expansion.

Based on materials provided by the applicant, LPS' mission is to prepare students to succeed in college and beyond by developing effective student leaders and partnering with school districts to strengthen both the charter school and public schools.

LPS schools curricula are based on the Six Pillars of Education Excellence: 1) high expectations, 2) significant support, 3) student leadership, 4) talented staff sustained by extensive professional development, 5) parent and community involvement, and 6) focus on results. All students are enrolled in a rigorous college preparatory program and must fulfill the entrance requirements for the UC and CSU systems in order to graduate.

LPS recruits students who are representative of the communities, with levels of ethnic and socioeconomic diversity that is representative of its district boundaries. LPS advertises by distributing enrollment information in multiple languages through community centers, faith-based organizations, youth programs, non-profit organizations, neighborhood associations and other venues. The organization also focuses on local feeder school districts, private schools and charter schools to distribute information and make presentations directly to incoming high school students.

Each school is responsible for the costs associated with facilities including custodial, utilities, minor facilities maintained, and building capital expenditures, while the LPS home office is responsible for facilitating and implementing these facility functions.

Management Experience: The resumes of the school's personnel and the management team demonstrate professional, experienced and qualified individuals serving in key capacities within the organization.

School Management: Shawn Benjamin has been Principal of LPSR for four years, starting in Fall 2007. Prior to this position, Ms. Benjamin served as Assistant Principal of Leadership Public Schools – Hayward. Ms. Benjamin has also served as a Resident Principal with New Leaders for New Schools, a national Urban Principal Training Program.

Prior to joining LPS, Ms. Benjamin obtained a Principal License while completing her Master's work at the Harvard Graduate School of Education. During her year at Harvard, Ms. Benjamin was a Principal Intern at both a Boston Public High School and a K-12 Charter School in Cambridge, MA.

EMO Management: Dr. Louise Bay Waters is the Board President and CEO of Leadership Public Schools. Prior to her position with LPS, Dr. Waters served with the Stupski Foundation where she headed research on districts that have accelerated performance for students of color and poverty. Prior to this position, Dr. Waters served as Assistance Superintendent of Student Achievement at Oakland Unified School District and Principal in the New Haven District (Union City). Dr. Waters holds a B.A. and Masters from Stanford University, and a Ph.D. from Pennsylvania State University.

Soo Zee Park is the Director of Operations of LPS. Prior to this position, Ms. Park worked with the non-profit Unity Council and Fruitvale Development Corporation as the project manager for the \$68 million mixed-use Fruitvale Transit Village adjacent to the Fruitvale BART Station. She also worked on a \$2 million Fruitvale Streetscape Project with the City of Oakland. Ms. Park has over seven years of experience in architecture and construction administration working on a variety of residential, mixed-use, university and museum projects including the award-winning Tenderloin Elementary School in San Francisco. Ms. Park holds a Master of Business Administration from John E. Anderson Graduate School of Management at UCLA, as well as a Bachelors Degree in architecture from North Carolina State University. She is also a board member and facilities committee chair of Lighthouse Community Public Schools in Oakland.

Joyce Montgomery is the Vice President of Finance and has finance and operations management experience in education, advertising, high tech and banking. As a school executive, Ms. Montgomery has served as the Chief Financial Officer at Crystal Springs Uplands School where she was responsible for managing all operations units: business and finance, physical plant and deferred maintenance plans, food service operations, legal affairs, human resources, and construction. She also was the Chief Financial Officer at the Howard School in Atlanta, Georgia.

Board Experience: LPSR is governed by a Board of Directors composed of LPS' CEO, teacher, student, and parent representatives, and several volunteer community members, as shown in the table below. Each Leadership School is also represented by Site Council comprised of parents and community members.

NAME	OCCUPATION	COUNTY OF RESIDENCE	TERM EXPIRATION DATE
Josefina Alvarado-Mena	CEO of Safe Passages, a non-profit organization	Alameda	6/30/2015
Adam Cloth, Board Chair	Investment Banker	San Francisco	6/30/2014
Larry Cuban (education and adhoc working group)	University Professor	San Clara	6/30/2013
David Finke	Managing Director, Russell Reynolds Associates	Santa Clara	11/30/14
Robert Hardaway	Parent, LPS-Richmond	Alameda	6/30/13
Kerry Hamill	Manager, Bay Area Rapid Transit	Alameda	6/30/14

Kevin Katari	Partner, Norcob Capital LLC	San Francisco	12/5/15
Diego Lopez	Student	Contra Costa	6/30/13
Yolanda Peeks	Retired, former teacher, principal and Associate Superintendent for Curriculum and Instruction	Alameda	6/30/14
Ricardo Toyloy	Businessman	Marin	6/30/14
Gautam Thapar	Teacher at LPS-Richmond	Contra Costa	6/30/2013
Mark Kushner	Founder and initial CEO of LPS	San Francisco	6/30/2014
J. R. Matthews, Board Chair	Managing Director of Tregaron Capital, a private investment firm	Santa Clara	6/30/2013
John Selby, Co-chair, Development Committee	Business Community Leader	San Francisco	6/30/2013
Alex Terman, Board Vice-Chair	Business Community Leader, former COO of LPS	San Mateo	12/1/2014
Louise Bay Waters	Superintendent and CEO of LPS	Alameda	N/A
Muti Fagbaya,	President & CEO Performance Fact, Inc.	Alameda	6/30/2014
Stu McLaughlin	Partner Sansome Partners	San Mateo	6/30/2015

Management Experience for Schools Open Less than Two Years: Not applicable. LPS Richmond has been in instructional operations since 2003, which exceeds the two years of management requirement.

Student Performance: Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school's financial position. Schools with improving student performance trends are viewed favorable, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by CDE. The API is also used as an indicator for measuring AYP per the No Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of federal Title 1 funds.

LPSR has more than three years of reported API scores, allowing a review of progress and comparison to similar schools. The following table summarizes LPSR's student performance for the past three years.

Leadership Public Schools Richmond	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	No	No	No
Criteria Met / Required Criteria	5 / 6	3 / 5	15 / 18	13 / 18
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	N/A	No	No
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	No	Yes	Yes
Met Comparable Improvement Growth Target?	No	No	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	No	No	Yes	Yes
API Base Statewide Rank (10 = best)	1	3	2	6
API Base Similar Schools Rank (10 = best)	3	7	9	10
School's Actual Growth	32	5	83	47
Similar Schools Median of Actual Growth	11	22	17	14
Did School's Growth Exceed Median?	Yes	No	Yes	Yes

Although LPSR has failed to meet all AYP criteria for the past four years, and is in its third year on Program Improvement status per No Child Left Behind Act of 2001, LPSR received API growth scores of 668, 673, 753, and 800 for 2008-09, 2009-10, 2010-11, and 2011-12, respectively, and met its API growth target in all of these years except 2009-10, with growth of 83 points and 47 points in each of the past two years, respectively. Based on its API base scores, LPSR received statewide ranks of “2” and “6” and similar-schools ranks of “9” and “10” for 2010-11 and 2011-12, respectively. Upon approval for preliminary apportionment in May 2008, Staff noted academic performance indicators as an area of focus for future monitoring.

Staff notes that the percent-proficient threshold requirement for AYP, both for English-language arts and mathematics, in accordance with the Elementary and Secondary Education Act (ESEA), reflects increases each year and will continue to reflect increases until 2014. Therefore, with each successive year, charter schools are increasingly challenged in “making AYP” (meeting all AYP criteria). This requirement applies to both school wide performance and performance of each numerically significant subgroup within any school. As an example, since 2002, the percent-proficient requirements for English-language arts (elementary schools, middle schools, and elementary school districts) are as follows: 13.6% for each of 2001-02, 2002-03, and 2003-04; 24.4% for each of 2004-05, 2005-06, and 2006-07; 35.2% for 2007-08; 46.0% for 2008-09; 56.8% for 2009-10; 67.6% for 2010-11; 78.4% for 2011-12; and 89.2% for 2012-13. This specific requirement will increase to 100.0% for 2013-14. The English-language arts percent-proficient requirement for high schools shows a similar trend, as do the percent-proficient requirements for mathematics for both elementary schools and high schools. Given that each numerically significant subgroup within a school must meet the percent-proficient requirement in English-language arts and mathematics in order for the school to make AYP, and given the high prevalence of English-language learners in California, charter schools have been faced with increasing difficulty in making AYP¹.

In support of a recommendation for financial soundness, staff acknowledges that LPSR has exhibited significant improvement with its API growth and rankings. However, Staff has

¹ Information regarding AYP requirements is derived from the California Department of Education's "2010 Adequate Yearly Progress Report Information Guide".

continuing concerns with the school's performance with AYP and Program Improvement Status. In response to staff's inquiry regarding LPSR's action plan to address Program Improvement status, LPSR provided its "Improvement Action Plan," which includes the following elements:

1. Continue to improve and expand our use and analysis of student performance data in order to modify/revise curriculum and/or instructional practices.
2. Increase student leadership in the classroom, the school, and the wider community.
3. Develop and implement a system for equipping students with college-ready skills: homework, timeliness, technological literacy, academic literacy, cultural literacy.
4. Develop effective instruction and curriculum to improve student achievement on classroom, college-ready, and state assessments.
5. Improve our ELL and Special Education services, in particular to continue to provide professional development for all staff in effective ELL instructional strategies in all curriculum areas.

This action plan covers a broad range of initiatives to address student character building, academic performance, leadership and organizational skills, and readiness for college. Specific to academic performance, the action plan (element 1) sets forth a system for providing a tracking and evaluating student progress and adjusting curriculum to facilitate such progress, as follows:

- Maintain and regularly evaluate records on our students' performance on the CST, CAHSEE, network Benchmarks, and CELDT. In addition, as of this year, students are given the MAP test in math and English Language Arts at the beginning and end of the year, providing an additional measure of their annual growth in these areas.
- Maintain and regularly evaluate records of student scores on the SAT, ACT, AP exams, and Cal State East Bay entrance
- Teachers work in collaborative pairs to analyze classroom data and make adjustments to their curriculum and instructional practice on a daily basis. Increasingly, teachers re-using an online application call Exit Ticket to track student mastery.
- Teachers have bi-monthly coaching meetings with administrators to review student performance data and plan interventions.
- Teachers administer quarterly benchmark assessments and develop re-teaching and intervention plans based on student performance.
- The school has moved to a mastery based grading system in order to provide clear feedback to students on their mastery of standards and to ensure greater alignment of grading to student attainment of proficiency.

In consideration of LPSR's action plan and significant improvement in API performance, and notwithstanding LPSR's issues with not meeting AYP, staff considers LPSR's academic program to be sufficient to support a recommendation for financial soundness.

Enrollment Information: Although LPSR experienced a significant reduction in enrollment from 444 students in 2006-07 to 304 students in 2007-08, LPSR has experienced consistent enrollment growth since that decline, with enrollment of 325, 386, 402, 447, and 470 students in grades 9-12 from 2008-09 through 2012-13, respectively, representing average

annual growth of 9.2%. Upon Staff's inquiry as to the significant reduction in 2007-08, Staff was informed that the reduction was largely due to the need to temporarily vacate a specific building that did not meet specific structural safety requirements based on a report from the District. LPSR is projecting student enrollment of 475, 483, 536, 586, and 601, for grades 9-12, for 2013-14 through 2017-18, respectively, representing an average annual growth of 5.2%. From 2011-12 to 2012-13, LPSR achieved year-to-year student retention rates of 95.1% and 94.7%, respectively, and has a current wait list of 235 students. Given LPSR's historical growth since 2007-08, the capacity under its new facility, staff considers LPSR's enrollment projections to be reasonable.

LPSR achieved an average daily attendance (ADA) of 91.2%, 93.0%, 93.3%, and 93.8% for 2009-10 through 2012-13, respectively, representing an average ADA of 92.8%. The ADA assumption of 93% in the multi-year projections is consistent with ADA in prior years.

Financial Analysis: Below staff has highlighted selected financial data and credit indicators to evaluate LPSR's ability to meet its CSFP obligation. Staff's review of the LPSR's financial performance is based on the review of LPSR's audited financial statements for 2009-10 through 2011-12, LPSR's 2012-13 Second Interim Budget, and LPSR's multi-year budget projections for 2013-14 through 2017-18.

Leadership Public Schools Richmond	Actual FY 2010-11	Actual FY 2011-12	2nd Interim FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16	Projected FY 2016-17	Projected FY 2017-18
ENROLLMENT PROJECTIONS								
Enrollment	402	447	470	475	483	536	566	601
Average Daily Attendance	374	417	441	442	449	498	526	559
Average Daily Attendance (%)	93.0%	93.3%	93.8%	93.0%	93.0%	93.0%	93.0%	93.0%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Lease Payment	\$ 3,704,301	\$ 3,892,610	\$ 4,048,207	\$ 3,896,935	\$ 3,840,573	\$ 4,320,448	\$ 4,714,807	\$ 5,012,265
Total Expenses Paid Before CSFP Lease Payment	3,648,015	3,793,503	3,952,411	3,778,774	3,702,448	4,152,289	4,288,016	4,593,433
Accounting Adjustments	-	-	-	-	-	-	-	-
Net Revenues Available for CSFP Lease Payment	\$ 56,286	\$ 99,107	\$ 95,796	\$ 118,161	\$ 138,125	\$ 168,159	\$ 426,791	\$ 418,832
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,950	\$ 133,950
Net Revenues After CSFP Lease Payment	\$ 56,286	\$ 99,107	\$ 95,796	\$ 118,161	\$ 138,125	\$ 168,159	\$ 292,841	\$ 284,882
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Lease Payment	\$ 56,286	\$ 99,107	\$ 95,796	\$ 118,161	\$ 138,125	\$ 168,159	\$ 426,791	\$ 418,832
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	318.6%	312.7%
Contributions	\$ 102,746	\$ 49,299	\$ 279,783	\$ 118,155	\$ 3,218	\$ 3,282	\$ 3,348	\$ 3,415
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	316.1%	310.1%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	2.8%	2.7%
Contributions / Revenues	2.8%	1.3%	6.9%	3.0%	0.1%	0.1%	0.1%	0.1%
Net Revenues After CSFP Lease Payment / Revenues	1.5%	2.5%	2.4%	3.0%	3.6%	3.9%	6.2%	5.7%
Revenues / ADA	\$ 9,905	\$ 9,335	\$ 9,180	\$ 8,822	\$ 8,550	\$ 8,667	\$ 8,957	\$ 8,968
Expenses / ADA	\$ 9,754	\$ 9,097	\$ 8,962	\$ 8,554	\$ 8,242	\$ 8,330	\$ 8,401	\$ 8,458
Surplus (Deficit) / ADA	\$ 150	\$ 238	\$ 217	\$ 267	\$ 307	\$ 337	\$ 556	\$ 510
Net Working Capital	\$ 1,067,101	\$ 1,166,208						
Net Working Capital / Expenses	29.3%	30.7%						

The LPSR financial projections, as incorporated into this financial analysis, are based upon the following assumptions: (1) school enrollment as set forth above under "Student Enrollment and Retention Rates"; (2) projected ADA rates of 93%; (3) a general purpose block grant rate of \$6,148 per ADA; (4) cost of living adjustments (COLAs) to the general purpose block grant rate of 0% for 2013-14 and 2014-15, and 2.5% for all further projected years through 2017-18; and (5) growth in certificated salary expenses of 0% for 2013-14 and 2014-15, and 1.3% per year for each of 2015-16 through 2017-18.

It is noteworthy that LPS has three five-year operating leases, one for each of the Leadership Public Schools sites in Hayward and San Jose, and one for LPS' administrative offices. The total annual lease payments for 2012-13 through 2016-17 are \$508,516, \$520,171, \$532,176, \$346,979, and \$357,388, respectively. However, these lease expenses are not allocated to LPSR's expenses, either as a lease expense or as part of the EMO oversight fee. It is also noteworthy that LPSR pays an annual 3%-oversight fee to the District in lieu of a facilities fee for the current district-owned Proposition 39 location of the school, and that LPSR anticipates continuing the 3%-oversight fee following project occupancy.

Contributions: As reported in LPSR's audited financial statements, LPSR received contributions in the amounts of \$29,959, \$52,426, \$59,212, \$102,746, and \$49,299 for 2007-08 through 2011-12, respectively, representing an average of approximately \$59,000 during these years. In addition, LPSR has provided documented evidence that it has received in excess of \$250,000 for the current fiscal year, and has a commitment from one donor that is in excess of \$100,000 for 2013-14. Nonetheless, LPSR's multi-year projections include only a minimal level of contributions for all future years. As such, Staff considers LPSR's multi-year projections to be conservative relative to contributions.

Long Term Debt: As of June 30, 2012, LPSR had no long term debt. LPSR's balance sheet as of March 31, 2013 also reflects no long term debt for LPSR.

Financial Performance/Change in Net Assets: In 2009-10, LPSR recorded net revenues of \$19,405 on revenues of \$3.20 million, expenses of \$3.24 million, and contributions of \$59,212, resulting in a fund balance of \$984,904. In 2010-11, LPSR recorded net revenues of \$56,286 on revenues of \$3.60 million, expenses of \$3.65 million, and contributions of \$102,746. In 2011-12, LPSR recorded net revenues of \$99,107 on revenues of \$3.84 million, expenses of \$3.79 million, and contributions of \$49,299. Based on the 2012-13 Second Interim Budget Report, LPSR anticipates net revenues of \$95,796 on \$3.77 million in revenues, \$3.95 million in expenses, and \$279,783 in contributions, resulting in a fund balance of \$1,234,093. For the projected years of 2013-14 through 2017-18, LPSR anticipates net revenues of \$118,161, \$138,125, \$168,159, \$426,791, \$418,832, respectively.

Projected Debt Service Coverage: Assuming a 2.0% interest rate, a 30-year repayment period, total project costs of \$23,413,262, first full year of project occupancy in 2015-16, and a lump-sum payment of \$8,706,631, LPSR's annual CSFP payment will be \$133,950

beginning in 2016-17. During the first two years of CSFP payments, 2016-17 and 2017-18, LPSR anticipates debt service coverage of 318.6% and 312.7%, respectively.

LPSR projects debt burden (CSFP payments divided by revenues) for the first two years of CSFP payments to be 2.8% and 2.7% of revenues, respectively, which is well within the recommended threshold of 15%. Given LPSR's conservative assumptions regarding contributions, consistent enrollment growth over the past five years, retention rate, and waiting list (also refer to "Student Enrollment" section above), staff considers LPSR's financial performance as supporting a recommendation for financial soundness.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. As of June 30, 2011, LPSR's NWC was \$1,067,101, representing 29.3% of expenses. As of June 30, 2012 the LPSR's NWC was \$1,166,208, representing 30.7% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. As of June 30, 2012, LPSR held \$348,700 in cash.

Strengths, Weaknesses and Mitigants:

- + LPSR has a commitment letter from the District for the Lump Sum Contribution of \$9,398,181 that will come from the District's issuance of General Obligation Bonds.
- + LPSR projects debt service coverage of 318.6% and 312.7% for 2016-17 and 2017-18, respectively.
- + LPSR is not reliant on contributions to meet the Program's debt service coverage requirement.
- + LPSR met its API growth target in three of the past four years. In addition, based on its API base scores, LPSR received statewide ranks of "2" and "6" and similar-schools ranks of "9" and "10" for 2010-11 and 2011-12, respectively.
- + As of June 30, 2012, LPSR had net working capital of \$1,166,208, representing 30.7% of total expenses, and cash reserves of \$348,700.
- + LPSR has experienced consistent enrollment growth over the past five years, with an average annual growth of 9.2%. In addition, LPSR has achieved year-to-year retention rates of 95.1% and 94.7% for 2011-12 and 2012-13, respectively, and has 235 students on its current wait list.
- LPSR has not met all AYP criteria during each of the past four years, 2008-09 through 2011-12, resulting in its placement on "Program Improvement" status per the No Child Left Behind Act of 2001 and currently in its third year on PI status. LPSR has provided a corrective action plan to address its AYP performance.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Leadership Public Schools – Richmond (LPSR) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the

Program) Final Apportionment. This determination as it relates to a Final Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. This determination of financial soundness also is contingent upon LPSR agreeing to have its CSFP payments intercepted at the state level, pursuant to sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.