

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

<b>Applicant/Obligor:</b>	East Bay Innovation Academy
<b>Project School:</b>	East Bay Innovation Academy
<b>CDS (County – District – School) Code:</b>	01-61259-0129932
<b>School Address/Proposed Site:</b>	3400 Malcolm Avenue, Oakland, CA 94605
<b>Type of Project:</b>	Rehabilitation and New Construction
<b>Type of Apportionment:</b>	Preliminary
<b>County:</b>	Alameda
<b>District in which Project is Located:</b>	Oakland Unified School District
<b>Charter Authorizer:</b>	Oakland Unified School District
<b>Total OPSC Project Cost (Rehab):*</b>	\$4,754, 146
<b>Total OPSC Project Cost (NC):*</b>	<u>\$10,245,854</u>
<b>Total OPSC Project Cost (Rehab &amp; NC):*</b>	<b>\$15,000,000</b>
<b>State Apportionment (50% Project Cost):</b>	\$7,500,000
<b>Lump Sum Contribution:</b>	N/A
<b>Total CSFP Financed Amount:</b>	\$7,500,000
<b>Length of CSFP Funding Agreement:</b>	30 Years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$382,644
<b>First Year of Occupancy (Rehab Project):</b>	2020-21
<b>First Year of Occupancy (NC Project):</b>	2021-22

*\*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 East Bay Innovation Academy (EBIA), is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon EBIA 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.

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

<b>Criteria</b>	<b>Comments</b>
<b>School Information</b>	
Eligibility Criteria	EBIA has met all eligibility criteria: (1) EBIA began operation in 2014; (2) EBIA's charter was approved in August 2014 and is in place through June 2019; and (3) EBIA is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	EBIA students have outperformed both the closest grades 6-12 school, and the district as a whole, in English Language Arts and Mathematics per the "Smarter Balanced" assessment provided by the California Department of Education (CDE).
Demographic Information	<ol style="list-style-type: none"> <li>1. EBIA currently has 501 students, and its enrollment is expected to grow to 772 students by 2020-21, the estimated first year of project occupancy.</li> <li>2. EBIA's target population is a student body representative of the socioeconomic, racial, linguistic and cultural diversity of the city of Oakland.</li> <li>3. EBIA is located in Alameda County within the Oakland Unified School District, and is comprised of the following mix of races/ethnicities: 4.3% Asian; 29.8% Hispanic or Latino; 16.2% African-American; 30.8% Caucasian.</li> </ol>
Debt Service Coverage	The projected debt service coverage ratios are 190.3%, 110.0%, and 127.8% from 2020-21 through 2022-23, respectively. This meets the Program's minimum debt service coverage requirement of 100%. In 2020-21, EBIA meets their debt service coverage without fundraising. Beginning in 2021-22, EBIA will be relying on fundraising in order to meet the debt service coverage requirements. In 2021-22, EBIA needs 11% of their projected fundraising amount of \$80,600 or \$8,866 to meet debt service coverage. In 2022-23, EBIA will need 37% of their projected fundraising amount of \$347,000 or \$128,390 to meet debt service coverage. Based on the school's actual fundraising totals from 2014-15 through 2016-17, the fundraising projections are considered reasonable by staff and consistent with the historical data.
Other Financial Factors	<ol style="list-style-type: none"> <li>1. Projected ratios of CSFP payments to operating revenues are 2.3%, 4.6%, and 4.3% from 2020-21 through 2022-23, respectively, which are lower than the maximum range of 10-15%.</li> </ol>

	2. Net working capital of \$564,513 for 2016-17 represented 12.1% of operating expenses, which exceeds the preferred minimum of 5.0%.
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**Program Eligibility:** On October 6, 2017, at CSFA's request, verification was received from the Oakland Unified School District confirming that EBIA (1) is in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority. EBIA's current charter is effective through June 2019.

**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:** EBIA is applying for both rehabilitation and new construction at their Thurgood Marshall campus located at 3400 Malcolm Road in Oakland. The rehabilitation project will modernize and rehabilitate 26,339 square feet for grades 6-8, serving 354 students. Rehabilitation will include upgrading plumbing, electrical, HVAC and fire safety systems; removing and replacing asbestos floor tile; remodeling the bathrooms to better accommodate older children; installing energy-efficient windows; adding security cameras, improving the facility's exterior lighting systems, repairing and/or replacing the roof, repairing and painting the building exterior and modifying existing classrooms to create science laboratories. The new construction project will add a high school building on the south east portion of the Marshall Campus playground. Currently, EBIA's high school students are housed in a basement of a Prop 39 building approximately 8.3 miles away from the Marshall campus. EBIA would like to construct the new high school building of approximately 33, 299 square feet to house all EBIA students at one location. The new building will support 440 high school students.

**Organizational Information:** EBIA is a public charter school located within the boundaries of Oakland Unified School District. EBIA's initial charter was submitted to the Oakland Unified School District on August 14, 2013, was approved and is effective through June 30, 2019. EBIA is a direct-funded, independent charter school and is operated by a California public benefit corporation with IRS approved 501(c)(3) status. EBIA operates autonomously from the District, with the exception of the supervisory oversight as required by statute and other contracted services as negotiated between the District and the School.

EBIA's education philosophy focuses on 5 core beliefs: 1) **Possibility and Perseverance** – EBIA believes in pushing limits through constant application of a growth mindset; a mindset that fosters a belief that one's most basic abilities can be cultivated through dedication and hard work, and that smarts and talent are only a starting point. It is also a mindset that understands the underlying success in experiencing failure.

**Creativity and Curiosity** – EBIA values exploration, perspective and determination, and the belief that social and emotional learning skills are as important for success as are academic skills (if not more). Project-based learning, design and intersession courses allow time and opportunities for students to develop content, skill, and knowledge with real world applications. **Community** – EBIA ensures that parents, teachers, school leaders and board

members assume collective responsibility for student success. Greater Good – EBIA intends to open student minds' to a sense of social justice and civic responsibility. The school believes compassion and kindness can be taught, primarily via service learning. Diversity – EBIA emphasizes diversity not just in the ethnic and socio-economic backgrounds of the students it serves, but also in the courses it teaches and the infrastructure it employs. The school also believes the long-term value of running high performing, diversity-focused schools within Oakland is significant.

The Head of School for EBIA is Devin Palmer Krugman. Ms. Krugman had previously spent nine years working for the New York City Department of Education, most recently as their Director of Performance-Based Assignment Design, where she led initiatives focused on project-based learning and designed and implemented a professional development program for 60 teachers across the five boroughs. Ms. Krugman has a Bachelor of Arts from University of Maryland, a Master of Science in Education from Long Island University, and a Master of Educational Leadership and Administration from Columbia University.

EBIA is governed by a nine-person board. For 2017-18, the members include: Rochelle (Shelley) Benning; Laurie Jacobson Jones; Kelly Garcia; Kim Smith; Ken Berrick; Gary Borden; Tom Pryor; Kate Doyle; and Julia Gitis. 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 EBIA.

**School Academic Performance:** The following tables represent the 2015-16 and 2016-17 academic performance of EBIA (EBIA), a local public charter school (Bay Area Technology School or Bay Area Tech) and Oakland Unified School District (District). The results are provided through CDE's CAASPP Smarter Balanced testing data.

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

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
EBIA	64%	High	1 out of 5
Bay Area Tech	15%	Lowest	4 out of 4
District	30%	Average	6 out of 11

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

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
EBIA	51%	Low	3 out of 5
Bay Area Tech	11%	Lowest	4 out of 4
District	25%	Average	4 out of 11

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

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
EBIA	58%	High	4 out of 7
Bay Area Tech	33%	Average	1 out of 4
District	32%	Low	9 out of 13

### Mathematics (2016-17) – Comparison

	Standard Met or Exceeded	All Student Performance	Student Groups w/ Below Avg. Performance
EBIA	48%	Average	4 out of 7
Bay Area Tech	34%	Average	0 out of 4
District	26%	Average	9 out of 13

**Enrollment Trends and Projections:** The tables below present enrollment information for EBIA from 2014-15 through 2022-23. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

#### School Student Enrollment and Average Daily Attendance

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Enrollment	216	344	419	501	607	722	772	786	823
ADA	95.6%	96.5%	97%	95%	94%	94%	94%	94%	94%

### **School Financial Analysis:**

**Financial Data Sources:** This financial analysis is based on the consideration and review of the following for EBIA, the financial obligor and Applicant: (1) audited financial statements for 2014-15 through 2016-17; (2) adopted budget for 2017-18; and (4) budget projections for 2019-20 through 2022-23 along with assumptions. Please note that staff's analysis of the school's financial performance, including the evaluation of its operating budget and liquidity, is based on the General Fund only.

**Assumptions:** EBIA's financial projections are based upon the following assumptions: (1) occupancy of the rehabilitation in 2020-21 and the new construction project in 2021-22; (2) EBIA's enrollment projections as provided above under "Enrollment Trends and Projections"; (3) ADA rates of at least 94%, which are consistent with historical performance; (4) Local Control Funding Formula (LCFF) per-ADA funding rate of \$8,144 for 2017-18, as included with EBIA's multi-year budget summary document for 2017-18, along with projected changes in LCFF funding level adjustments of 5.3% (2018-19), 3.8% (2019-20), 3.0% (2020-21), 2.5% (2021-22) and .06% (2022-23).

**Long Term Liabilities:** As provided by the 2016-17 audited financial statements, EBIA has a revolving loan of \$250,000. The loan requires annual payments of \$50,000. The loan originally had a term of five years, and three years of payments remain. The loan carries an interest rate of 0.24%. The loan is expected to be paid in full in 2019-20.

**Private Contributions:** EBIA will rely on private contributions to meet debt service coverage. Review of EBIA's audited financial statements show that they successfully raised \$128,278 in 2014-15, \$117,488 in 2015-16, and \$843,951 in 2016-17. In 2020-21, EBIA meets debt service coverage without their projected fundraising amount by over 149%. In 2021-22, EBIA needs 11% of their projected fundraising amount of \$80,600 or \$8,866 to meet debt service coverage. In 2022-23, EBIA needs 37%% of their projected fundraising amount of \$347,000 or \$128,390 to meet debt service coverage. Based on the school's actual fundraising totals from 2014-15 through 2016-17, the fundraising projections are considered reasonable by staff and consistent with the historical data.

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

	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
<b>OPERATIONAL &amp; FINANCIAL</b>									
Enrollment	215	332	419	501	607	722	772	786	823
Average Daily Attendance (ADA)	206	332	404	476	571	679	726	739	774
Average Daily Attendance (%)	96.0%	100.0%	96.4%	95.0%	94.0%	94.0%	94.0%	94.0%	94.0%
Retention Rate	94.3%	82.2%	80.8%	84.2%	86.1%	87.3%	90.5%	90.5%	90.5%
FTE Teachers	9	13	19	23	27	32	37	37	38
Pupil-Teacher Ratio	23.9	25.5	22.1	21.8	22.5	22.6	20.9	21.2	21.7
LCFF Sources/ADA	\$ 7,399	\$ 7,549	\$ 7,872	\$ 8,144	\$ 8,574	\$ 8,898	\$ 9,169	\$ 9,396	\$ 9,452
% Change		2.0%	4.3%	3.5%	5.3%	3.8%	3.0%	2.5%	0.6%
Operating Revenues/ADA	\$ 10,310	\$ 10,330	\$ 11,641	\$ 11,025	\$ 10,842	\$ 10,907	\$ 11,199	\$ 11,258	\$ 11,549
% Change		0.2%	12.7%	-5.3%	-1.7%	0.6%	2.7%	0.5%	2.6%
Operating Expenses plus CSFP Lease/ADA	\$ 10,252	\$ 9,105	\$ 11,582	\$ 11,005	\$ 10,508	\$ 10,298	\$ 10,698	\$ 11,206	\$ 11,412
% Change		-11.2%	27.2%	-5.0%	-4.5%	-2.0%	3.9%	4.7%	1.8%
Free Cash Flow/ADA	\$ 58	\$ 1,224	\$ 59	\$ 20	\$ 333	\$ 609	\$ 501	\$ 52	\$ 137

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	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
<b>DEBT SERVICE COVERAGE</b>									
Total Operating Revenues	\$ 2,128,727	\$ 3,427,989	\$ 4,701,945	\$ 5,247,201	\$ 6,186,140	\$ 7,402,276	\$ 8,126,786	\$ 8,317,643	\$ 8,934,742
Total Operating Expenses	2,116,764	3,021,730	4,678,067	5,237,640	5,995,935	6,989,081	7,763,543	7,896,654	8,445,846
Total Other Sources/Uses	-	-	-	-	-	-	-	-	-
Net Income Available for CSFP Lease Payment	11,963	406,259	23,878	9,561	190,205	413,195	363,243	420,989	488,896
Add Back Capital Outlay	-	-	-	-	-	-	-	-	-
Add Back Depreciation	-	-	-	-	-	-	-	-	-
Adjusted Net Income Available for CSFP Lease Pymt.	11,963	406,259	23,878	9,561	190,205	413,195	363,243	420,989	488,896
CSFP Lease Payments	-	-	-	-	-	-	-	382,644	382,644
Free Cash Flow	\$ 11,963	\$ 406,259	\$ 23,878	\$ 9,561	\$ 190,205	\$ 413,195	\$ 363,243	\$ 38,345	\$ 106,252
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	110.0%	127.8%
DSC from LCFF Sources subject to CSFA Intercept								1361.7%	1450.6%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.6%	4.3%
<b>FUNDRAISING</b>									
Fundraising for Operations	\$ 128,278	\$ 117,488	\$ 843,951	\$ 475,350	\$ 212,450	\$ 72,200	\$ 77,200	\$ 80,600	\$ 347,000
Fundraising/Oper. Revenues	6.0%	3.4%	17.9%	9.1%	3.4%	1.0%	0.9%	1.0%	3.9%
DSC without Fundraising	N/A	N/A	N/A	N/A	N/A	N/A	N/A	89.0%	37.1%
% of Fundraising Required for 100% DSC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	52.4%	69.4%
<b>LIQUIDITY</b>									
Current Assets	\$ 375,347	\$ 970,430	\$ 932,360						
Current Liabilities	340,970	529,794	367,847						
Net Working Capital	\$ 34,377	\$ 440,636	\$ 564,513						
Net Working Capital/Oper. Expenses	1.6%	14.6%	12.1%						
Unrestricted Cash & Cash Equivalents	\$ 133,206	\$ 391,575	\$ 399,539						
Unrest. Cash & CE/Oper. Expenses (Days)	23	47	31						
Unrest. Cash & CE/All Expenses (Days)	23	47	31						

**Benchmark Summary (Threshold):**

- Free Cash Flow/ADA – \$333 avg. (< \$0)
- Free Cash Flow – \$173,656 (< \$0)
- Net Working Capital as Portion of Operating Revenue – 9.4% (< 5%)
- Unrestricted Cash & Cash Equivalents as Portion of All Revenue – 34 days (< 90 days)

**Summary of Financial Findings and Special Considerations:** EBIA projects a positive operative revenue from 2017-18 through 2022-23. Major funding sources for EBIA include federal income sources (LCFF Revenue, Title I and Title II funds, Child Nutrition Program and other federal income), state income sources (Child Nutrition Program, Mandate Block Grant and other state income), and local income sources (Measure N and Measure G1 funds – Oakland Unified School District, food sales and other miscellaneous income). There is one long term liability that is expected to be paid in full in 2019-20. In addition and on average, EBIA's available net working capital averages 9.4% as a portion of the operating expenses.

EBIA 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, and a CSFP lease amount of \$7,500,000, EBIA's CSFP payment would be \$190,885 in 2020-21 and \$382,644 beginning in 2021-22. The \$382,243 annual repayment amount contemplates payments for both the rehabilitation and new construction projects. EBIA's adjusted net income of \$363,243 for 2020-21, \$420,989 for 2021-22, and \$488,896 for 2022-23 would provide debt service coverage of 190.3%, 110%, and 127.8% respectively, which is above the minimum requirement of 100%. The CSFP payments would represent 2.3%, 4.6% and 4.3% of projected operating revenues for each of these years, which is below the preferred maximum range of 10-15%. Please note that gross debt service coverage based on LCFF

sources subject to the CSFA intercept would be 2616.2% in 2020-21, 1361.7% in 2021-22 and 1450.6% in 2022-23.

**Strengths, Weaknesses and Mitigants:**

- + EBIA has outperformed their district counterparts on average in both English Language Arts and Mathematics assessment in the last two years.
- + EBIA is financially viable based on a review of audited financials for 2014-15, 2015-16, and 2016-17, and projected budgets for 2017-18 through 2022-23 which staff considers reasonable.
- +/- EBIA is somewhat dependent on fundraising contributions to meet its debt service coverage but based on historical fundraising data and the modest amounts needed, staff consider the projected fundraising need reasonable.
- + EBIA's projected debt service coverage ratios are 190.3%, 110%, and 127.8% from 2020-21 through 2022-23, respectively. This meets the Program's minimum debt service coverage requirement of 100%.

**Staff Recommendation:** Staff recommends that the California School Finance Authority ("Authority" or "CSFA") Board determine that East Bay Innovation Academy ("EBIA"), is financially sound for the purposes of Charter School Facilities Program ("Program" or "CSFP") Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is also contingent upon EBIA 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.