

**Charter School Facilities Program
Prop 51 2017 Funding Round
Staff Summary Report – January 2018**

Applicant/Obligor:	Gateway Community Charters
Project School:	Gateway International School
CDS (County – District – School) Code:	34-67447-0128124
Proposed Project Location:	900 Morse Ave, Sacramento, CA 95864
Project Type:	Rehabilitation
County:	Sacramento
District in which Project is Located:	San Juan Unified School District
Charter Authorizer:	San Juan Unified School District
Total OPSC Project Cost:	\$14,144,942**
State Apportionment (50% Project Cost):	\$7,057,471
Lump Sum Contribution:	N/A
Total CSFP Financed Amount:	\$7,057,471
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$360,832
First Year of Occupancy of New Project:	2019-20

***The amount provided for total project cost represents the maximum possible costs as provided by the Office of Public School Construction.*

Staff Recommendation: Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Gateway Community Charters (“GCC”) on behalf of Gateway International School (“GIS” or “Gateway”), is financially sound for the purposes of the Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionments. 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 GCC electing to have its CSFP payments for GIS 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 immediately notify the Office of Public School Construction (“OPSC”) and the State Allocation Board regarding this determination.

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

Criteria	Comments
District Information, Gateway Community Charters (GCC)	
Demographic Information	<ol style="list-style-type: none"> 1. GCC has shown consistent student enrollment growth over the past three years, with overall growth of 10% to 4,426 students. 2. GCC has demonstrated average daily attendance rates that average over 95% over the past three years.
Financial Results	<ol style="list-style-type: none"> 1. GCC's projects debt service coverage levels of 261.1%, 201.0%, and 133.6% for 2019-20 through 2021-22, respectively, and GCC does not rely on private contributions to meet the debt service coverage requirement. 2. GCC does not rely on contributions to meet the debt service coverage requirement. 3. GCC demonstrates having strong liquidity. As of June 30, 2017, GCC showed net working capital of \$48,513,109, representing 106.4% of expenditures, and \$50,168,814 in cash and cash equivalents.
School Information, Gateway International	
Eligibility Criteria	Gateway has met all Program eligibility criteria, including: (1) having a charter in place; (2) fulfilling the requirement for two academic years of operations; and (3) being in compliance with the terms of its charter and in good standing with its chartering authorizer.
Student Performance	Gateway International has underperformed in English Language Arts standards compared to both District and neighborhood schools. Though enrollment is impacted by majority English Language Learners, Gateway has maintained most students at average performance. Gateway has outperformed the District and neighborhood schools in mathematics per the "Smarter Balanced" assessment provided through CDE.
Demographic Information	<ol style="list-style-type: none"> 1. Over the past four years Gateway International has shown 25% enrollment growth and an average annual growth of 6.25% growing from 401 students in 2013-14 to 552 students in 2017-18. 2. Gateway international achieved ADA rates averaging 95% over the past three years and a year-to-year retention rate for 2017-18 of 90%. [confirm this] 3. Gateway is comprised of about 65% English-Language Learners, and about 73% of students qualify for free and reduced-price meals.

Program Eligibility: On September 6, 2017, the San Juan Unified School District verified Gateway is: 1) in compliance with the terms of its charter agreement, and 2) in good standing with its chartering authority. The school's initial charter was approved in 2013 and renewed in 2016. The current charter is valid through June 2021.

Legal Status Questionnaire: Staff reviewed the Applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead staff to question the financial or legal integrity of this applicant.

Project Description: Gateway International has requested a total Proposition 51 funding for anticipated renovation project costs of \$14,114,942. The school is seeking long-term lease option to repay 50% matching share of State grant to CSFA. Gateway is located at 900 Morse Ave, Sacramento, CA 95864 and facility is comprised of 32,985 sq. ft. building area on eight (8) acres of land. The 1950's era facility is the only location for Gateway International, within the boundaries of its chartering authority. Anticipated project scope will include the rehabilitation of 17 permanent classrooms and support facilities comprising 25,263 square feet of 'Other' area and 1,270 square feet of restroom facilities. ADA upgrades, restroom upgrades, complete HVAC replacement, new electrical service and distribution, new plumbing infrastructure, new interior finishes and flooring, new windows and doors, structural upgrades, new roofing/gutters, and exterior painting are anticipated to be constructed. No new classrooms will be constructed. The anticipated date of project occupancy is fall 2019. The students will not be occupying the buildings during the renovation. The projected enrollment capacity of the CSFP project facility is 525-542 pupils.

Educational Management Organization: Gateway Community Charters (GCC) is a 501(c)(3) not-for-profit, public-benefit Corporation incorporated in 2003, which currently operates seven charter schools in the Sacramento area serving grades K-12. GCC was created to support students, parents, and communities through the conception, development, administration, and governance for each of its charter schools. GCC reaches out to the greater Sacramento County and Yolo County areas to create schools to serve the disenfranchised, culturally diverse, economically disadvantaged, homeless, parenting teens, working young adults, English Language Learners and others.

GCC opened Community Outreach Academy in 2003, Futures High in 2004, Community Collaborative Charter in 2005, Sacramento Academic and Vocational Academy and Higher Learning Academy in 2007, California Aerospace Academy in 2007 (closed in 2012), Gateway International Charter in 2013, and Empowering Possibilities International Charter in 2015. Overall, GCC has closed one of its managed schools. The table below shows current enrollment for the seven schools that GCC is currently operating.

School	Opened	Grade	2017-18* Enrollment
Higher Learning Academy	2007-08	K-8	221
Gateway International School	2013-14	TK-8	552
Empowering Possibilities International Charter (EPIC)	2015-16	K-8	371
Community Collaborative Charter	2005-06	K-12	515
Community Outreach Academy	2003-04	K-8	1,568
Sacramento Academic and Vocational Academy	2007-08	7-12	800
Futures High	2004-05	7-12	399
Total			4,426

*Based on school CALPADS data, as reported to CDE.

EMO Management: Dr. Cindy Petersen has served as the Gateway Community Charters Superintendent and CEO for the last nine years. She is also concurrently the ACSA Region 3 President, ACSA State Board Member, FCMAT Board member, and EdSource Board member. She has more than 16 years of experience in charter schools, and over 28 years of experience in education. Dr. Petersen holds a Bachelor's in Mathematics from California State University, Stanislaus and completed her doctorate in Organizational Leadership from the University of La Verne in June 2009.

School Organizational Information: Gateway International is a TK-8 grade charter public school operated and overseen by Gateway Community Charters (GCC), a 501(c)(3) non-profit educational management organization (EMO). The school currently serves 552 students and projects enrollment to increase to 580 in 2019-20, the first year of project occupancy. ADA and enrollment have been increasing annually with ADA rates maintaining an average of 95% over the last three years. The school has been in operation since 2013, and its charter was renewed in 2016 and is effective through June 2021. Gateway International is leasing its facility at 900 Morse Ave, Sacramento, CA from San Juan Unified School District through a Proposition 39 agreement.

Gateway International describes its competitive advantages in marketing, recruitment and retention. Gateway markets the highly desired "International Baccalaureate Programme" (IB) rigorous academic standards and curriculum that require students to solve problems, think creatively, and collaborate with peers. In comparison to the average data from San Juan Unified schools, Gateway students face significant economic challenges with over 70% of students qualifying for free and reduced-price lunches. At-risk students benefit from structured and rigorous programs such as college-prep or IB. Gateway is focused on recruitment and employs the Director of Community Engagement and Development position whose only focus is to recruit and retain students. In addition, Gateway fosters student retention through parental participation and community partnerships, including partnerships with community colleges. Community partnerships contribute to student retention by providing facilities for sports, special events, and the Girl Scouts.

School Management: Ms. Joi Tikoi is the current school administrator with over 20 years of experience. Ms. Tikoi served as both a Vice Principal and Principal at other Gateway Community Charter schools. She worked as a classroom teacher, lead teacher, BTSA support provider, master teacher, and summer school administrator in both the public and charter school sectors for seven years prior to becoming a school administrator. Ms. Tikoi earned her Masters of Arts in Educational Leadership from California State University, Sacramento. Her staff expertise is in administration, instruction, English Learner programs, program development and professional development.

Ms. Irina Komarova, Vice Principal, has a Master's Degree in Mathematics and 19 years in education with 5 years as an administrator. Previous teaching experience includes Middle School and High School Math in Russia, Minnesota, and California. She holds a Masters in Mathematics from the Moscow Pedagogical Institute, Russia. Her staff expertise centers in program compliance and development, pedagogy, language acquisition, and administration.

School Academic Performance: Pursuant to SB X51 (2010), a designated California State Commission was given the authority to review the Common Core State Standards (Standards), as promulgated by the U.S. Department of Education, and make recommendations to the California Board of Education (Board). This resulted in the Board's adoption of the Standards for purposes of statewide accountability on academic performance. Although this adoption does not directly require all local educational agencies (LEAs) to adopt the standards, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through the Local Control Funding Formula (LCFF), school districts must submit "Local Control and Accountability Plans" (LCAPs) to their respective county offices of education that address State and local educational priorities. Furthermore, pursuant to Education Code, Section 52060(d)(2), these priorities must include Common Core State Standards. Within the State of California, the Standards are derived from a set of tests, entitled "Smarter Balanced Assessment System."

As a part of the Common Core State Standards, CDE reports upon aggregate data for "Smarter Balanced" testing relative to percentages of students within the following categories for mathematics and English language arts: "standard exceeded"; "standard met"; "standard nearly met"; and "standard not met." These reports are currently available for 2014-15, 2015-16, and 2016-17. For purposes of assessing academic performance via these reports, staff decided to compare the results of Gateway International with those of a nearby traditional public K-8 school (less than one mile away), Sierra Oaks K-8, as well as San Juan Unified School District, GIS's charter authorizer. The tables below depict the 2014-15, 2015-16, and 2016-17 results for each of Gateway International, Sierra Oaks K-8, and San Juan Unified School District (SJUSD).

English Language Arts (2016-17) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Gateway International	10%	28%	29%	33%
Sierra Oaks K-8	17%	28%	28%	28%
San Juan Unified	17%	27%	24%	32%

Mathematics (2016-17) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Gateway International	17%	27%	27%	29%
Sierra Oaks K-8	14%	18%	32%	36%
San Juan Unified	15%	19%	27%	39%

English Language Arts (2015-16) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Gateway International	8%	25%	29%	39%
Sierra Oaks K-8	19%	30%	26%	25%
San Juan Unified	18%	28%	23%	31%

Mathematics (2015-16) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Gateway International	14%	29%	35%	22%
Sierra Oaks K-8	15%	24%	30%	31%
San Juan Unified	16%	20%	28%	37%

English Language Arts (2014-15) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Gateway International	8%	25%	29%	39%
Sierra Oaks K-8	14%	29%	29%	29%
San Juan Unified	15%	27%	24%	33%

Mathematics (2014-15) – Comparison

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Gateway International	14%	27%	32%	27%
Sierra Oaks K-8	14%	23%	29%	33%
San Juan Unified	13%	19%	29%	39%

The comparison results show that Gateway is exceeding mathematics standards and lagging in English Language Arts when compared to overall SJUSD scores. Charter schools that historically outperform district schools typically have strong demand profiles. In 2016-17 Gateway International had 315 English Learners while Sierra Oaks K-8 had 87 English Learners enrolled in their school. Gateway's enrollment was made up of 71% English Learners, more than three times the number that Sierra Oaks K-8 served in 2016-17. Despite the challenge of being a majority English Learner school, Gateway continues to perform with the bulk of their students around the middle of the curve for English Language Arts standards. In addition, Gateway outperforms SJUSD and Sierra Oaks in Mathematics standards. Considering the demographics of the school, socioeconomically disadvantaged with 83% of Gateway's students qualifying for free and reduced price meals, Gateway shows consistent performance year over year. In 2016-17 only 41% of Sierra Oaks students qualify for free and reduced priced meals, further supporting the positive comparison to support Gateway's projected performance and demand from the community. Staff recognizes that much improvement is still needed in mathematics and English language arts.

Since CDE is currently testing a reliable accountability system and evidence provided shows consistent performance year over year, staff does not believe the academic performance should be an impediment to a determination of financial soundness. Staff further acknowledges Gateway's competitive International Baccalaureate (IB) Programme's rigorous academic standards and current impact of English Language Learner challenges to the overall performance of the school.

Enrollment Trends and Projections: The table on the following page presents school and enrollment information for GCC's schools open during 2016-17 and projections for 2017-18 through 2019-20. As of June 30, 2017, GCC operated seven charter schools.

Gateway Community Charters	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Gateway International School	401	446	480	485	552	570	580	574	580
Higher Learning Academy	223	246	235	257	221	290	349	349	358
Empowering Possibilities International Charter (EPIC)			322	319	371	387	410	413	427
Community Collaborative Charter	824	730	482	469	515	517	519	521	539
Community Outreach Academy	1,472	1,503	1,520	1,535	1,568	1,588	1,599	1,631	1,664
Sacramento Academic and Vocational Academy	760	698	701	787	800	816	833	850	867
Futures High	345	422	424	411	399	429	451	469	487
Total	4,025	4,045	4,167	4,263	4,426	4,597	4,741	4,807	4,922

Gateway started with 401 students and showed consistent growth to 552 students in 2017-18, a 25% increase from original enrollment and average annual growth of 6.3%. Gateway is projected to grow to 580 students in 2019-20, the first year of project occupancy, and remain stable thereafter. (Staff notes that, in addition to housing students in its permanent facility, Gateway rents space from an adjacent church, enabling the school to achieve enrollment beyond the capacity of the CSFP project.) Projected growth for Gateway of approximately 5% over four years, or about 1.25% annually, is conservative considering Gateway's historical performance. Since 2013-14, GCC's aggregate student enrollment has increased from 4,025 to 4,426 students, representing an increase of about 10% over four years, and GCC is projecting an increase of about 11.1% over the next four years to 4,922 students in 2021-22, which staff considers reasonable based on historical performance.

For 2014-15, 2015-16 and 2016-17, Gateway achieved average daily attendance rates of 95.7%, 94.6% and 94.7%, respectively, and GCC achieved ADA rates of 97.0%, 96.5% and 95.4%, respectively, which are supportive of the assumed rate of about 95.7% in GCC's multi-year budget projections. Gateway's year-to-year retention rate for 2017-18 was 90.0%.

Overall, based on its consideration of multiple factors, including retention rates, historical enrollment, and historical ADA, staff concludes that the Applicant's student enrollment projections, as incorporated into its financial projections, are reasonable. Staff also concludes that Gateway's enrollment growth, ADA, and retention rates, are supportive of a recommendation for financial soundness.

Financial Analysis:

Financial Data Sources: This financial analysis is based on the consideration and review of the following for GCC, the financial obligor, on behalf of Gateway: (1) audited financial statements for 2014-15, 2015-16, and 2016-17; (2) adopted budget for 2017-18; and (3) multi-year budget projections for 2018-19 through 2021-22, along with assumptions.

Assumptions: Staff's financial analysis of Gateway Community Charters, on behalf of Gateway International is based upon the following assumptions: (1) occupancy of the rehabilitation CSFP project in 2019-20; (2) increases in enrollment as described in the Enrollment trends and Projections section; (3) average Local Control Funding Formula (LCFF) per-ADA target rates for 2016-17 through 2019-20 for GIS of \$9,234, \$9,668, \$9,962, and \$10,254 respectively based on an unduplicated percentage of approximately 86.9% (FRPM/EL/FY) for all projected years; (4) projected ADA rates of 96%, which is reasonable considering GCC's historical performance; (5) assumed COLA growth for expenses of 1.02% in 2016-17; 1.56% in 2017-18; 2.40% in 2018-19; and 2.53% in 2019-20. Staff notes that the assumptions regarding LCFF per-ADA target rates for its multi-year budget projections are reasonable and conservative based on the rates promulgated by CDE on its website, and that its enrollment projections are reasonable based on historical performance. As such, the multi-year budget projections, overall, are also considered reasonable and conservative.

Long-Term Liabilities: Based on the audited financials for the GCC, neither GCC nor Gateway International is obligated to long-term debts other than those related to two CSFP projects: 1) Higher Learning Academy with a \$23,344,124 project cost, and 2) Futures High Schools with a \$9,609,142 project cost. GIS's current facility is leased from SJUSD.

Private Contributions: GCC does not rely on private contributions to support cash flow for the school or to meet the required debt service coverage requirement of at least 100.0%.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff's analysis regarding GCC'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. It is noteworthy that, in order to ensure that CSFP-related proceeds and outlays are not incorporated into revenues and expenses, adjustments to the GCC's multi-year projections have been made prior to incorporation into the financial model used for this analysis, as represented in the table below.

Gateway Community Charters:

OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS								
	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022
OPERATIONAL & FINANCIAL								
Enrollment	4,045	4,164	4,263	4,426	4,597	4,741	4,807	4,922
Average Daily Attendance (ADA)	3,924	4,020	4,068	4,239	4,399	4,535	4,599	4,709
Average Daily Attendance (%)	97.0%	96.5%	95.4%	95.8%	95.7%	95.7%	95.7%	95.7%
LCFF Sources/ADA	\$ 8,172	\$ 9,359	\$ 10,154	\$ 10,371	\$ 10,598	\$ 10,859	\$ 11,159	\$ 11,158
% Change		14.5%	8.5%	2.1%	2.2%	2.5%	2.8%	0.0%
Operating Revenues/ADA	\$ 9,457	\$ 10,689	\$ 11,658	\$ 12,152	\$ 11,963	\$ 12,207	\$ 12,503	\$ 12,491
% Change		13.0%	9.1%	4.2%	-1.6%	2.0%	2.4%	-0.1%
Operating Expenses plus CSFP Lease/ADA	\$ 8,922	\$ 10,316	\$ 11,203	\$ 12,062	\$ 12,053	\$ 11,855	\$ 12,186	\$ 12,343
% Change		15.6%	8.6%	7.7%	-0.1%	-1.6%	2.8%	1.3%
Free Cash Flow/ADA	\$ 536	\$ 373	\$ 455	\$ 90	\$ (90)	\$ 352	\$ 317	\$ 148

	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022
DEBT SERVICE COVERAGE								
Total Operating Revenues	\$ 37,111,141	\$ 42,968,718	\$ 47,425,895	\$ 51,513,683	\$ 52,627,120	\$55,360,095	\$57,501,021	\$58,821,920
Total Operating Expenses	35,008,167	41,471,055	45,575,391	51,131,521	53,021,594	52,921,267	54,841,762	56,922,298
Total Other Sources/Uses	-	-	-	-	5,000,000	(294,118)	(294,118)	(294,118)
Net Income Available for CSFP Lease Payment	2,102,974	1,497,663	1,850,504	382,162	4,605,526	2,144,710	2,365,141	1,605,505
Add Back Capital Outlay	-	-	-	-	-	50,000	50,000	-
Add Back Depreciation	-	-	-	-	-	-	-	-
Adjusted Net Income Available for CSFP Lease Pymt.	2,102,974	1,497,663	1,850,504	382,162	4,605,526	2,194,710	2,415,141	1,605,505
CSFP Lease Payments	-	-	-	-	-	840,626	1,201,458	1,201,458
Free Cash Flow	\$ 2,102,974	\$ 1,497,663	\$ 1,850,504	\$ 382,162	\$ 4,605,526	\$ 1,354,084	\$ 1,213,683	\$ 404,047
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	261.1%	201.0%	133.6%
DSC from LCFF Sources subject to CSFA Intercept	N/A	N/A	N/A	N/A	N/A	5098.4%	3732.9%	3822.1%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	1.5%	2.1%	2.0%
LIQUIDITY								
Current Assets	\$ 35,073,018	\$ 58,206,284	\$ 53,228,480					
Current Liabilities	1,814,838	3,196,758	4,715,371					
Net Working Capital	\$ 33,258,180	\$ 55,009,526	\$ 48,513,109					
Net Working Capital/Oper. Expenses	95.0%	132.6%	106.4%					
Unrestricted Cash & Cash Equivalents	\$ 32,613,071	\$ 54,211,478	\$ 50,168,814					
Unrest. Cash & CE/Oper. Expenses (Days)	340	477	402					
Unrest. Cash & CE/All Expenses (Days)	340	477	402					

- Free Cash Flow/ADA (average) – Met (average of \$273/ADA)
- Free Cash Flow (average) – Met (average of \$1.6 million)
- Net Working Capital and Net Working Capital as Portion of Operating Expenditures – \$55,009,526 (132.6%) and \$48,513,109 (106.4%) for 2015-16 and 2016-17, respectively – Met minimum threshold of 5%
- Unrestricted Cash & Cash Equivalents as Portion of Expenditures for 2014-15 through 2016-17 (average of days) – Met (406 days)
- Debt Service Coverage (DSC) – Met (261.1%, 201.0% and 133.6% for 2019-20, 2020-21, and 2021-22, respectively)
- CSFP Lease Payment as Portion of Operating Revenue – Met (average of 1.9% over three years)

Financial Performance: Based on audited financial statements, GCC showed net gains of \$2.1 million, \$1.5 million, and \$1.9 million for 2014-15 through 2016-17, respectively, resulting in unrestricted cash and investments of \$50.2 million as of June 30, 2017. Based on its adopted budget, GCC is anticipated a net gain of \$382,162 for the current 2017-18 fiscal year. Based on its multi-year budget projections, GCC is projecting net gains of \$4.6

million, \$2.1 million, \$2.4 million, and \$1.6 million, for 2018-19 through 2021-22, respectively.

Staff considers GCC's liquidity as strong, 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, 2016, GCC had net working capital of \$55.0 million, representing 132.6% of expenditures, and as of June 30, 2017, GCC had net working capital of \$48.5 million, representing 106.4% of expenditures, both exceeding the recommended minimum threshold of 5%. As of June 30, 2017, GCC had \$50.2 million in available cash and cash equivalents. GCC's average unrestricted cash and cash equivalents as portion of expenditures (over the past three years) is 406 days, which well exceeds the benchmark of 90 days.

Based on the multi-year budget projections GCC substantially exceeds the minimum required debt service coverage requirement with debt service coverage levels of 261.1%, 201.0%, and 133.6% for 2019-20 through 2021-22, respectively. The debt service coverage level for 2019-20 is for GCC's other CSFP projects -- Higher Learning Academy and Futures High -- and the debt service coverage levels for 2020-21 and 2021-22 represent those for GCC's combined CSFP projects for all three schools.

Overall, staff's review of GCC's financial performance finds that GCC has demonstrated the ability to meet its operating expenses, debt service coverage, and is continuing to maintain substantial reserves and liquidity, all supportive of a recommendation of financial soundness.

Strengths, Weaknesses and Mitigants:

- + As of June 30, 2016, GCC had net working capital of \$55.0 million, representing 132.6% of expenditures, and as of June 30, 2017, GCC had net working capital of \$48.5 million, representing 106.4% of expenditures. As of June 30, 2017, GCC had \$50.2 million in available cash and cash equivalents
- + GCC projects debt service coverage of 261.1%, 201.0%, and 133.6% for 2019-20 through 2021-22, respectively, and GCC does not rely on private contributions to meet the debt service coverage requirement.
- + For its seven schools currently in operation, over the past three years, Gateway Community Charters has shown consistent growth in student enrollment, with overall growth of about 10% and current total enrollment of 4,426 students. In addition, GIS's enrollment has grown 25% since its inception in 2013-14 and has achieved ADA rates averaging 95% over the past three years. Both measures support GCC's and GIS's ability to maintain adequate financial performance.
- +/- Based on the new "Smarter Balanced" testing results reported by CDE, Gateway showed quality academic results in spite of its demographic challenges. Gateway's enrollment was made up of 71% English Learners, four times the number that a neighboring traditional public school, Sierra Oaks K-8, served in

2015-16. Although Gateway underperformed in English Language Arts, it performed better than a neighboring comparable public school (non-charter) and the District in mathematics. Due to the limitation in the available reporting by CDE (not adjusted for demographics), staff concluded that the academic performance would not be an impediment towards a recommendation of financial soundness.

Staff Recommendation: Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Gateway Community Charters (“GCC”) on behalf of Gateway International School (“GIS” or “Gateway”), is financially sound for the purposes of the Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionments. 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 GCC electing to have its CSFP payments for GIS 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 immediately notify the Office of Public School Construction (“OPSC”) and the State Allocation Board regarding this determination