

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2012**

Applicant/Obligor:	Gateway Community Charters
Project School:	Higher Learning Academy (K-6 Grades Project)
CDS (County – District – School) Code:	34-76505-0113878
Project Location:	Sacramento, California 95838 (Parcel # 237-0081-001)
Type of Project:	New Construction
County:	Sacramento
District in which Project is Located:	Twin Rivers Unified School District
Charter Authorizer:	Twin Rivers Unified School District
Total OPSC Project Cost:	\$18,067,134
State Apportionment (50% Project Cost):	\$9,033,567
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$9,033,567
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$460,886
First Year of Occupancy of New Project:	2013-14

Applicant/Obligor:	Gateway Community Charters
Project School:	Higher Learning Academy (7-12 Grades Project)
CDS (County – District – School) Code:	34-76505-0113878
Project Location:	Sacramento, California 95838 (Parcel # 237-0081-001)
Type of Project:	New Construction
County:	Sacramento
District in which Project is Located:	Twin Rivers Unified School District
Charter Authorizer:	Twin Rivers Unified School District
Total OPSC Project Cost:	\$17,103,884
State Apportionment (50% Project Cost):	\$8,551,942
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$8,551,942
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$436,314
First Year of Occupancy of New Project:	2013-14

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Gateway Community Charters (GCC or Gateway), on behalf of Higher Learning Academy (HLA) is financially sound for the purposes of the Charter School Facilities Program (Program) Advance and Final Apportionments. This recommendation is contingent upon GCC 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. This determination as it relates to an Advance and Final Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Background: GCC, an educational management organization (EMO), applied for CSFP Proposition 1D financing for nine projects at five of its seven schools. In May 2008, GCC received preliminary apportionment for four projects at two schools (Futures High School and Higher Learning Academy, two projects at each). Gateway Community Charters, on behalf of Higher Learning Academy (HLA), is seeking Advance Apportionment for the HLA grades K-6 and 7-12 projects combined for design and site acquisition in the amounts of \$2,286,195.6 and \$10,757,500, respectively.

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

Criteria	Comments
<i>EMO Information</i>	
Demographic Information	1. GCC serves grades K-12 at six schools; for 2011-12, total enrollment is 3,663. 2. By 2013-14 when all CSFP Projects are occupied, GCC projects total enrollment at 4,038 for all six schools.
Debt Service Coverage	Based on Gateway’s financial projections, projected debt service coverage levels for all four CSFP projects are 418.8% and 582.9% for 2014-15 and 2015-16, respectively.
Other Financial Factors	No fundraising revenues (contributions) are included in the projections.

Student Performance	<p>GCC's overall academic performance was mixed over the past four years, as follows:</p> <ol style="list-style-type: none"> 1. All six schools met API growth in one of the two past years, and at least 50% of the schools met their API growth target in each of the past two years. 2. For the past two years, three of the five schools for which data was available had statewide rankings of "1" and similar schools rankings of "1" or "2". Two of these schools are Alternative Schools Accountability Model (ASAM) schools. 3. Within the past four years, the six schools have met all AYP criteria on only five of 21 occasions, with four of the six schools currently on "Program Improvement" status, and only one school, Futures High School, having met all AYP criteria during the past year.
School Information	
Eligibility Criteria	<p>HLA has met all eligibility criteria: (1) HLA commenced operations in 2007-08, and GCC has been in operation since 2003-04; (2) HLA's charter is in place through June 2017; (3) HLA is in good standing with its chartering authority, and in compliance with the terms of its charter.</p>
Student Performance	<p>Commencing operations in 2007-08, limited student performance data is available for HLA. HLA did not meet all AYP criteria in 2007-08, 2008-09, and 2010-11, but met all criteria in 2009-10. For 2008-09 through 2010-11, HLA achieved API growth scores of 532, 673, and 676, respectively, and met its API growth target in 2009-10 but not in 2010-11.</p>
Demographic Information	<ol style="list-style-type: none"> 1. HLA currently serves 218 students in grades K-7 and anticipates expanding to 417 students in grades K-10 by project occupancy in 2013-14, to 558 students in grades K-11 by 2015-16, and to 640 students in grades K-12 by 2016-17. 2. HLA's year-to-year retention rates were low with rates of 77.2% and 75.1% for 2010-11 and 2011-12, respectively.

Program Eligibility: On January 30, 2012, verification was received from the Superintendent's Office of Twin River Unified School District (TRUSD), confirming that HLA is (1) in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority. HLA's charter is effective through June 30, 2017.

Legal Status Questionnaire: Staff reviewed HLA's responses to the questions contained in the Legal Status portion of the application. HLA answered "No" to all LSQ questions.

Project Description: Overall, GCC has requested funding for four projects within Sacramento County, including; two projects for the HLA, grades K-6 project and 7-12

projects, which are anticipated to cost \$18,067,134 and \$17,103,884, respectively; and two projects for Futures High School, a new construction project anticipated to cost \$10,205,824 and a rehabilitation project anticipated to cost \$970,420.

With respect to the HLA grades K-6 project, the facility will consist of 14 new classrooms with a capacity of approximately 350 students. With respect to the HLA grades 7-12 project, the facility will consist of 12 classrooms and a library, with a capacity of approximately 300 students. Both project facilities are to be located at the same 23.6 acre site between Rio Linda Blvd. and May Street (nearest cross street Grace Avenue), Sacramento, California 95838 (Parcel # 237-0081-001).

GCC anticipates project occupancy for both HLA facilities, as well as both FHS facilities, in 2013-14, and the commencement of CSFP payments in 2014-15. For all CSFP projects, GCC anticipates funding its 50% local matching share through a 30-year agreement with the State.

Organizational Information: HLA received its first 5-year charter from TRUSD, formerly known as Grant Joint Union High School District on March 7, 2007. The Core Knowledge Sequence is a detailed outline of specific content, including language arts, history, geography, mathematics, science, music, and the visual arts. For Grades 9-12, HLA utilizes an Early College High School (ECHS) model. The ECHS model is intended to provide high school students the opportunity to master rigorous academic content, earn college credit, and gain life and career skills necessary for success in the 21st century workplace.

HLA has grown from 45 students in grades K-3 in 2007-08 to 218 students in grades K-7 for the current 2011-12 academic year, and anticipates expanding to 417 students in grades K-10 by occupancy of both CSFP projects by 2013-14.

Educational Management Organization: Gateway is a 501(c)(3) non-profit public benefit corporation, governed by a board of directors that creates, controls and operates its schools. The board consists of five members whose backgrounds include business, education, and governmental affairs. GCC operates six charter schools with different grade combinations and two of the six schools being non-site based, as depicted in the table below.

School	Opened	Site-Based	Grades Served	2011-12 Enrollment*
Community Outreach Academy	2003-04	Yes	K – 8	1,242
Futures High School	2004-05	Yes	9 - 12	294
Higher Learning Academy	2007-08	Yes	K - 7	215
California Aerospace Academy	2007-08	Yes	7 - 12	149
Community Collaborative Charter	2005-06	No	K - 12	1,120
Sacramento Academic and Vocational Academy	2007-08	No	7 - 12	819
Total				3,839

* Enrollment data provided by GCC as of April 19, 2012

GCC was established with the intent to provide quality schools of choice in Sacramento. Gateway was originally established with the intent of providing vocational and academic

skills as an option for students in the area, however, at the request of the community, GCC expanded to incorporate a school for a number of under-served English language learners. GCC expanded significantly in 2004-05, when it incorporated several students from a failed charter school, thus increasing its enrollment from just under 200 students to nearly 1,300.

GCC was created with a mission and vision to serve underserved students within the greater Sacramento County, in collaboration and partnership of TRUSD. The geographic areas where most of the students reside are economically disadvantaged with significant challenges such as high crime rates, rampant substance abuse, high ethnic and racial diversity and substandard housing. Approximately 65% to 70% of Gateway's students qualify for free and reduced-price lunches with some schools having free and reduced-price lunch percentages as high as 89%..

The schools managed by Gateway include the following key components in the students' education: (1) learning standards that meet and exceed California State Standards; (2) an outstanding curriculum, based on the nationally acclaimed Core Knowledge of Curriculum Sequence (HLA only); (3) rigorous and frequent assessments; (4) instructional excellence and ongoing professional development; (5) significantly more instructional and learning time; and (6) additional support for students who need it and partnership with parents. Additionally, certain schools operated by GCC specialize in English Language Learners instruction and aerospace.

Management Experience for Schools Open Less than Two Years: GCC and HLA began operations in 2003-04 and 2007-08, respectively, thus exceeding the two years of instruction requirement.

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: Toolie Younger has served as Principal of HLA since January 2011, and served as Vice Principal of HLA from August 2010 to January 2011. Prior to this position, Ms. Younger served as a teacher at HLA (2008-10) and as a teacher at Rodeo Hills Elementary (2004-08). Ms. Younger holds a B.A. in Liberal Studies from San Diego State University, and holds a California Multiple Subjects Credential.

EMO Management: Dr. Cindy Petersen, the Superintendent/CEO for GCC, oversees and manages all GCC's charter schools. She holds a Masters of Educational Leadership and Ed,D, in Organizational Leadership from the University of La Verne and holds a California Administrative Credential. Dr. Petersen has held a variety of positions in the charter school industry since 2003. Sonia Lasyone was appointed as Chief Business Officer for GCC in February 2012. Prior to this position, Ms. Lasyone served as Chief Business Official for Robia School District (2007-2012), Coordinator for Accounting for Grant Joint Union High School District (2006-07), Business Manager for Pleasant Ridge Union School District (2003-06), and Accounting Supervisor for Center Unified School District (2001-03).

Board Experience: The five members of the Governing Board have a broad variety of educational experience. The following table depicts the current Board’s membership.

Gateway Community Charters Governing Board

Name	Occupation	Title	County of Residence	Term
Harry Block	Retired City of Sacramento Director of Utilities Billing	Director	Sacramento	2010-16
Lillie Campbell	Retired Assistant Superintendent – Del Paso School District	Vice President	Placer	2010-14
Mark Anderson	Retired Philanthropy Finance/Operations Manager Hewlett-Packard presently Executive Director of RAFT (Resource Area for Teachers)	Treasurer	Placer	2010-16
Bruce Mangerich	Retired Deputy Superintendent– Grant Joint Union High School District	President	Sacramento	2010-16
Jack Turner	Retired Dean of Instruction, Cabrillo College	Secretary	Santa Cruz	2010-14

The primary roles and responsibilities of the Board include the following: overseeing implementation of the charter components; adopting, implementing, and interpreting school-wide policy; overseeing the CEO’s/Superintendent’s performance; adopting the charter school budget; approval of charter amendments; approval of contractual agreements; and advocating on behalf of the school for purposes of fundraising.

Academic 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 favorably, 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 the 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.

Staff reviewed four years of reported API scores for HLA, allowing a review of progress and comparison to similar schools. The following table summarizes the school’s trend in student performance.

Higher Learning Academy	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	No	Yes	No
Criteria Met / Required Criteria	4 / 5	2 / 5	5 / 5	11 / 13
Met API Indicator for AYP?	No	No	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	N/A	N/A	Yes	No
Met Comparable Improvement Growth Target?	N/A	N/A	Yes	No
Met Both Schoolwide & CI Growth Targets?	N/A	N/A	Yes	No
API Base Statewide Rank (10 = best)	N/A	N/A	N/A	N/A
API Base Similar Schools Rank (10 = best)	N/A	N/A	N/A	N/A
School's Actual Growth	N/A	N/A	141	3
Similar Schools Median of Actual Growth	N/A	N/A	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A	N/A	N/A

HLA met all AYP criteria in only one of the past four years, in 2009-10, and met its API growth target in one of the past two years, also in 2009-10. For 2008-09 through 2010-11, HLA achieved API growth scores of 532, 673, and 676, respectively, and met its API growth target in 2009-10 but not in 2010-11. Due to the low number of students included in the API scoring (28 in 2009 and 74 in 2010), similar schools and statewide rankings are largely unavailable or unreliable. The following tables depict GCC's academic performance over the past four years.

API Base Rank (10=Best): Similar Schools Rank/Statewide Rank

School	2007-08	2008-09	2009-10	2010-11
Community Outreach Academy	3 / 4	2 / 4	8 / 5	8 / 5
Futures High School	2 / 6	1 / 6	10 / 8	10 / 8
Higher Learning Academy	N/A	N/A	N/A	N/A
California Aerospace Academy	N/A	N/A	1 / 2	1 / 2
Community Collaborative Charter*	6 / 1	5 / 1	1 / 1	N/A
Sacramento Academic and Vocational Academy*	N/A	1 / 1	1 / 1	N/A

*ASAM Schools

Met Schoolwide API Growth Target

School	2007-08	2008-09	2009-10	2010-11
Community Outreach Academy	N/A	Yes	Yes	Yes
Futures High School	N/A	Yes	Yes	No
Higher Learning Academy	N/A	N/A	Yes	No
California Aerospace Academy	N/A	No	Yes	No
Community Collaborative Charter*	N/A	No	N/A	Yes
Sacramento Academic and Vocational Academy*	N/A	Yes	N/A	Yes

*ASAM Schools

AYP Performance: Met AYP Targets

School	2007-08	2008-09	2009-10	2010-11
Community Outreach Academy	N/A	Yes	No	No
Futures High School	No	Yes	Yes	Yes
Higher Learning Academy	No	No	Yes	No

California Aerospace Academy	N/A	No	No	No
Community Collaborative Charter*	No	No	No	No
Sacramento Academic and Vocational Academy*	N/A	No	No	No

*ASAM Schools

The 2010-11 API growth scores for GCC schools were: 809 for Community Outreach Academy, 796 for FHS, 676 for HLA, 626 for California Aerospace Academy, 643 for Community Collaborative Charter, and 594 at Sacramento Academic and Vocational Academy. As shown in the table above relating to API rankings, for 2009-10 and 2010-11, the overall performance on rankings was low with three of the five schools for which data was available having statewide rankings of “1” and similar schools rankings of “1” or “2”.

With respect to API growth, four of the six GCC schools met their respective API growth targets in 2009-10, and the two schools that did not meet their target, Community Collaborative Charter and Sacramento Academic and Vocational Academy, did not have growth target information available for that year and met their respective growth targets in the following year, 2010-11. In addition, three of the six GCC schools, Community Outreach Academy, Community Collaborative Charter, and Sacramento Academic and Vocational Academy met their respective API growth targets in 2010-11. While FHS did not meet its API growth target in 2010-11, it is still considered a high performing school, given that the API growth score only declined by seven points to 798, and given its overall high statewide and similar schools ranking. Two of the six schools, Higher Learning Academy and California Aerospace Academy, did not meet their API growth targets in 2010-11.

With respect to meeting AYP criteria, GCC’s performance has been relatively poor. As indicated in the table above relating to AYP performance, within the past four years, the six schools have met all AYP criteria on only five of 21 occasions, with four of the six schools currently on “Program Improvement” status, and only one school, Futures High School, having met all AYP criteria during the past year.

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, and 78.4% for 2011-12. This specific requirement will increase up until 2014 with the following percent-proficient thresholds: 89.2% for 2012-13; and 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 are faced with increasing difficulty in making AYP¹.

Overall, Staff considers GCC's academic performance to be mixed, with more favorable performance with API growth, and less favorable performance for API rankings and meeting AYP criteria, as well as more favorable performance for Community Outreach Academy, Futures High School, and Sacramento Academic and Vocational Academy, and less favorable performance for Higher Learning Academy, California Aerospace Academy, and Community Collaborative Charter.

Staff notes that GCC's CEO/Superintendent has indicated that California Aerospace Academy and Higher Learning Academy have added a grade each year since operating and that Community Collaborative Charter and Sacramento Academic and Vocational Academy have experienced the most growth among schools in the District in the 2010-11 year, and that both these factors have likely impacted academic outcomes.

While staff has concerns regarding GCC's and HLA's inconsistency in meeting academic performance standards, especially with respect to AYP, staff acknowledges the ever-increasing difficulty in making AYP and also acknowledges that GCC has demonstrated a moderate level of success with its API growth over the past two years. Staff recommends ongoing monitoring of GCC's and HLA's academic performance to verify improvement in meeting API and AYP threshold requirements.

Enrollment Trends and Projections GCC has shown substantial growth since 2007-08, growing from 2,388 students in 2007-08 to 3,663 students for the current 2011-12 academic year, representing growth of 53% over four years, or an average of approximately 13.25% per year. Based on an assumed average projected enrollment growth of 5% per year, GCC anticipates further growth to 4,038 students by 2013-14, to 4,240 by 2014-15, and to 4,452 by 2015-16.

GCC's ADA as a percent of enrollment averaged 96% from 2007-08 through 2010-11 for all schools, which is above the preferred minimum of 94%. The financial projections for GCC assume an ADA rate between at 95% and 97%, which is reasonable in relation to GCC's historical performance.

With the addition of a new grade each year, HLA has shown consistent enrollment growth since its inception in 2007-08 with 45 students in grades K-3 to its current enrollment of 218 students in grades K-7. With the additional capacity provided by the grades K-6 and 7-12 projects and the addition of grades 8 through 12 between 2012-13 and 2016-17, GCC anticipates that HLA will grow from its current enrollment of 218 students in grades K-7 to 293 students in grades K-8 in 2012-13 to 417 students in grades K-10 in 2013-14, the first year of project occupancy, to 481 students in grades K-10 in 2014-15, to 558 students in grades K-11 in 2015-16, and to 640 students in grades K-12 in 2016-17, representing overall average growth of approximately 24.5% per year. With project occupancy beginning in 2013-14, GCC projects the addition of 107 students in grades 9-11 by 2015-16 and 157 students in grades 9-12 by 2016-17. Overall, by 2015-16, the second year of CSFP

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

payments, HLA is anticipated to add 152 students in grades K-6 and 187 students in grades 7-11. HLA's enrollment for the current and projected years of 2011-12 through 2015-16 represents on average approximately 9.5% of GCC's total enrollment for these years.

HLA's year-to-year retention rates for 2010-11 and 2011-12 were 77.2% and 75.1%, respectively, and HLA's average daily attendance (ADA) for 2010-11 was 90%. HLA has five students on its current wait list.

In response to Staff's inquiry with GCC regarding the reason and action plan for HLA's low retention rates, GCC's CEO/Superintendent provided the following statements:

Reason for Low Retention Rates: "The demographics of the neighborhood are such that there is a high rate of mobility of families. As reported by Twin Rivers Unified School District, a comparable school in this area, El Paso Elementary School, has a 65% retention rate. Due to socio-economic environment and culture of the area, it is normal to have multiple families living in one residence sharing expenses with relatives and/or friends. The area has been identified as one of the highest communities in the Sacramento County area for home rentals and sub-standard housing. This site has an 80% FRPL population which further highlights the economic status of the overall community.

Action Plan to Address Low Retention Rates: "The Higher Learning Academy will continue to build relationships with community partners, social service organizations, city and county departments serving the community. These relationships include referrals for food, clothing, housing and transportation. The School Counselor supports the retention of students through family engagement strategies such as regular meetings, referrals to outside services and identifying family support needs. HLA staff will conduct annual surveys addressing the continuing socio-economic needs of students and families. The GCC is exploring options for future school transportation to better serve our community.

While Staff acknowledges that both GCC as a whole, and HLA, have grown substantially over the past four years, staff has serious concerns regarding HLA's low retention rates and HLA's ability to reach its anticipated capacity for the CSFP projects. Staff recommends reassessment of HLA's retention rates for improvement at the time of Final Apportionment.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate GCC's ability to meet its CSFP obligations. The following table highlights key aspects of GCC's past and projected financial performance.

Staff's review of Gateway's financial performance is based on four years of audited financial statements (2007-08 through 2010-11), the 2011-12 second interim budget and financial projections from 2012-13 through 2015-16, as provided by GCC.

Staff's evaluation of GCC's financial status is based on the following assumptions: (1) enrollment growth at 5% per year as described above under "Enrollment Trends and Projections"; (2) projected ADA rates of between 95% and 97% for 2011-12 through 2015-16; (3) a general purpose block grant rates of \$5,306 for grades 7-8 and \$6,148 for grades 9-12; (4) cost of living adjustments (COLAs) to the general purpose block grant rate of 0.0% for each of 2012-13 through 2014-15 and 2.5% for 2015-16; and (5) COLA to certificated salaries of 2.5% for each of the projected years.

It is noteworthy that GCC's assumptions regarding the COLAs to the general purpose block grant rates are considered very conservative and are based on anticipation of continued constraints with the State budget.

Fundraising and Grant Revenue: In 2003-04 and 2004-05, Gateway received a \$450,000 federal start-up grant (administered by CDE) for its new schools. Gateway also received three such grants in 2006-07. While GCC hopes to receive additional start-up grants in the future for new schools, GCC does not include such revenue in its projections.

Long Term Debt: As of June 30, 2011, GCC's only long-term debt was a California Department of Education Revolving Loan with a balance of \$120,000 associated with California Aerospace Academy and Higher Learning Academy for which GCC is scheduled to make annual \$40,000 payments through 2014-15 with an interest rate of 0.53%. The current portion of GCC's balance is \$40,000 for which GCC is scheduled to make a payment during the current fiscal year, 2011-12.

Gateway Community Charters	Actual FY 2008-09	Actual FY 2009-10	Actual FY 2010-11	Budgeted FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16
ENROLLMENT PROJECTIONS								
Enrollment	2,833	3,176	3,459	3,663	3,846	4,038	4,240	4,452
Average Daily Attendance	2,787	3,024	3,306	3,488	3,680	3,882	4,096	4,300
Average Daily Attendance (%)	98%	95%	96%	95%	96%	96%	97%	97%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Lease Payment	\$ 23,326,486	\$ 21,769,931	\$ 25,232,631	\$ 27,258,961	\$ 28,397,620	\$ 29,915,007	\$ 31,174,111	\$32,640,904
Total Expenses Paid Before CSFP Lease Payment	19,652,820	19,540,536	20,868,249	28,395,909	24,601,383	25,430,646	26,272,805	25,799,497
Accounting Adjustments	-	-	-	211,253	50,000	50,000	50,000	50,000
Net Revenues Available for CSFP Lease Payment	\$ 3,673,666	\$ 2,229,395	\$ 4,364,382	\$ (925,695)	\$ 3,846,237	\$ 4,534,361	\$ 4,951,306	\$ 6,891,407
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,182,301	\$ 1,182,301
Net Revenues After CSFP Lease Payment	\$ 3,673,666	\$ 2,229,395	\$ 4,364,382	\$ (925,695)	\$ 3,846,237	\$ 4,534,361	\$ 3,769,005	\$ 5,709,106
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Lease Payment	\$ 3,673,666	\$ 2,229,395	\$ 4,364,382	\$ (925,695)	\$ 3,846,237	\$ 4,534,361	\$ 4,951,306	\$ 6,891,407
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	418.8%	582.9%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	418.8%	582.9%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	3.8%	3.6%
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Lease Payment / Revenues	15.7%	10.2%	17.3%	-3.4%	13.5%	15.2%	12.1%	17.5%
Revenues / ADA	\$ 8,369	\$ 7,198	\$ 7,632	\$ 7,815	\$ 7,717	\$ 7,706	\$ 7,611	\$ 7,591
Expenses / ADA	\$ 7,051	\$ 6,461	\$ 6,312	\$ 8,141	\$ 6,685	\$ 6,551	\$ 6,414	\$ 6,000
Surplus (Deficit) / ADA	\$ 1,318	\$ 737	\$ 1,320	\$ (326)	\$ 1,032	\$ 1,155	\$ 1,197	\$ 1,591
Net Working Capital	\$ 8,978,389	\$ 11,565,269	\$ 16,472,700	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	45.7%	59.2%	78.9%					

Financial Performance – Staff's analysis of financial performance for CSFP applicants includes expenses for capital outlay and loan repayment; therefore, our results may differ from Gateway's audited and internal financial figures.

For 2007-08, GCC recorded increases to net assets of \$2.52 million on revenues of \$19.56 million and expenses of \$17.04 million. For 2008-09, as total enrollment grew to 2,833 students (18.6% growth), Gateway recorded an increase to net assets of \$3.69 million on revenues of \$23.33 million and expenses of \$19.65 million. GCC's financial performance for 2009-10 reflected total enrollment growth to 3,176 students (12.1% growth), and for that year, GCC achieved an increase in net assets of \$2.46 million on revenues and expenditures of \$21.77 million and \$19.54 million, respectively. GCC's performance for 2010-11 reflected total enrollment of 3,459 (8.9% growth), and for that year, GCC recorded an increase to net assets of \$4.98 million on revenues of \$25.23 million and expenses of

\$20.87 million. For the current budget year, 2011-12, GCC anticipates an operating deficit of \$1,096,948 on \$27.26 million in revenues and \$28.36 million in expenses. With enrollment increases to 3,846 students in 2012-13, 4,038 students in 2013-14, 4,240 students in 2014-15, and 4,452 students in 2015-16, GCC projects gains in net assets of \$3.80 million, \$4.48 million, \$4.90 million, and \$6.84 million for these years, respectively.

Projected Debt Service Coverage: GCC’s financial projections, with staff’s modifications, indicate it will be able to afford the projected annual CSFP payments. Debt service coverage ratios on the CSFP payments are calculated using net revenues available after payment of debt service on any existing and projected indebtedness. Assuming a 3.00% interest rate and 30-year repayment period, GCC’s annual CSFP payments would total to \$1,182,302 for all four CSFP Projects. (The table below presents detail on the CSFP payments for each of the three projects.) The CSFP payments would commence in 2014-15 which is approximately one year following expected occupancy of the all the projects in 2013-14, and in this year, GCC’s projected available net revenues of \$4,991,306 for CSFP payments would provide debt service coverage of 418.8%. For the following year, 2015-16, projected debt service coverage is 582.9% based on available net revenues of \$6,891,407.

School (Project)	CSFP Facility Occupancy Date	Project Cost	50% of Project Cost	Annual Payment
Futures High School (7-8)	2013-14	\$ 970,420	\$ 485,210	\$ 24,755
Futures High School (9-12)	2013-14	10,205,824	5,102,912	260,347
Higher Learning Academy (K-6)	2013-14	18,067,134	9,033,567	460,886
Higher Learning Academy (7-12)	2013-14	17,103,884	8,551,942	436,314
Total		46,347,262	23,173,631	1,182,302

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. For 2009-10, GCC’s NWC was \$11.57 million or 55.1% of total expenses, and in 2010-11, GCC’s NWC was \$16,472,700 or 78.9% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. GCC maintained cash at June 30, 2011 of \$5.46 million, with approximately \$13.77 million in investments and accounts receivable.

Strengths, Weaknesses and Mitigants

- + For 2014-15 and 2015-16, the first two years of CSFP payments, GCC projects debt service coverage of 418.8% and 582.9%, well in excess of the minimum 100% requirement.
- + For 2009-10, GCC’s NWC was \$11.57 million or 55.1% of total expenses, and in 2010-11, GCC’s NWC was \$16,472,700 or 78.9% of total expenses.
- + GCC does not rely on fundraising from private sources or federal funding in financial projections
- + Overall GCC has shown strong student enrollment growth over the past four years with average annual growth of approximately 13.25%, and HLA has grown from 45

students in grades K-3 in 2007-08 to 218 students in grades K-7 for the current 2011-12 academic year.

- +/- GCC's academic performance for the past four years has been mixed. All six schools met API growth in one of the two past years, and at least 50% of the schools met their API growth target in each of the past two years. However, GCC's performance with AYP has been relatively poor with schools meeting all AYP criteria in only five of 21 occasions over the past four years and only one school meeting AYP in the last year. HLA met all AYP criteria in only one of the past four years, in 2009-10, and met its API growth target in one of the past two years, also in 2009-10.
- HLA has met its API growth target in only one of the past two years for which data has been available, and has met all AYP criteria in only one of the past four years.
- HLA's year-to-year retention rates for 2010-11 and 2011-12 were 77.2% and 75.1%, respectively, which is considered significantly low.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Gateway Community Charters (GCC or Gateway), on behalf of Higher Learning Academy (HLA) is financially sound for the purposes of the Charter School Facilities Program (Program) Advance and Final Apportionments. This recommendation is contingent upon GCC 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. This determination as it relates to an Advance and Final Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.