

**CHARTER SCHOOL FACILITIES PROGRAM  
PROPOSITION 1D FUNDING ROUND  
STAFF SUMMARY REPORT – MAY 2015**

<b>Applicant/Obligor:</b>	Gateway Community Charters
<b>Project School:</b>	Higher Learning Academy (7-12 Grades Project)
<b>CDS (County – District – School) Code:</b>	34-76505-0113878
<b>Project Location:</b>	Sacramento, California 95838 (Parcel # 237-0081-001)
<b>Type of Project:</b>	New Construction
<b>County:</b>	Sacramento
<b>District in which Project is Located:</b>	Twin Rivers Unified School District
<b>Charter Authorizer:</b>	Twin Rivers Unified School District
<b>Total OPSC Project Cost:</b>	\$11,750,594
<b>State Apportionment (50% Project Cost):</b>	\$5,875,297
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$5,875,297
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$299,753
<b>First Year of Occupancy of New Project:</b>	2016-17

<b>Applicant/Obligor:</b>	Gateway Community Charters
<b>Project School:</b>	Higher Learning Academy (K-6 Grades Project)
<b>CDS (County – District – School) Code:</b>	34-76505-0113878
<b>Project Location:</b>	Sacramento, California 95838 (Parcel # 237-0081-001)
<b>Type of Project:</b>	New Construction
<b>County:</b>	Sacramento
<b>District in which Project is Located:</b>	Twin Rivers Unified School District
<b>Charter Authorizer:</b>	Twin Rivers Unified School District
<b>Total OPSC Project Cost:</b>	\$11,780,110
<b>State Apportionment (50% Project Cost):</b>	\$5,890,055
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$5,890,055
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$300,506
<b>First Year of Occupancy of New Project:</b>	2016-17

Item #5 – Gateway Community Charters  
Higher Learning Academy and Futures High

<b>Applicant/Obligor:</b>	Gateway Community Charters
<b>Project School:</b>	Futures High School
<b>CDS (County – District – School) Code:</b>	34-76505-0113878
<b>Project Location:</b>	Rio Linda Blvd. and Grace Avenue, Sacramento, California 95838 (Parcel # 237-0081-001)
<b>Type of Project:</b>	New Construction
<b>County:</b>	Sacramento
<b>District in which Project is Located:</b>	Twin Rivers Unified School District
<b>Charter Authorizer:</b>	Twin Rivers Unified School District
<b>Total OPSC Project Cost:</b>	\$9,609,142
<b>State Apportionment (50% Project Cost):</b>	\$4,804,571
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$4,804,571
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$245,126
<b>First Year of Occupancy of New Project:</b>	2016-17

**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) and Futures High (Futures) is financially sound for the purposes of the Charter School Facilities Program (Program) Final Apportionments. This recommendation is contingent upon GCC electing to have its CSFP payments for both HLA and Futures 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 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). Futures rescinded the CSFP application for one of the projects, leaving three CSFP projects outstanding for GCC. Gateway Community Charters, on behalf of Higher Learning Academy (HLA), received Advance Apportionments for the HLA grades K-6 and 7-12 projects combined for design and site acquisition in the amounts of \$6,889,164.60 and \$6,154,531, respectively, and in 2014, Futures High received an Advance Apportionment for design in the amount of \$1,020,582.40. GCC, on behalf of HLA and Futures High, is now seeking Final Apportionments for the two projects at HLA and the remaining project at Futures High.

**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.

<b>Criteria</b>	<b>Comments</b>
<b>EMO Information</b>	
Demographic Information	<ol style="list-style-type: none"> <li>1. For the current 2014-15 year, GCC is serving grades K-12 at six schools, with total enrollment of 4,035.</li> <li>2. By 2016-17 when all CSFP Projects are occupied, GCC projects total enrollment at 4,315 for all six schools.</li> </ol>
Debt Service Coverage	Based on Gateway's financial projections, projected debt service coverage levels for all three CSFP projects are 241.9% and 127.3% for 2017-18 and 2018-19, respectively.
Other Financial Factors	No fundraising revenues (contributions) are included in the projections.
Student Performance	<p>Notwithstanding the limitation with current performance data due to the implementation of Common Core Standards, GCC's overall academic performance was mixed over the four most recent years reported, 2009-10 through 2012-13, as follows:</p> <ol style="list-style-type: none"> <li>1. For the four most recent years for which data has been reported, GCC schools met API growth targets in 12 of 19 possible occasions across six schools. Three of GCC's six schools, Futures, California Aerospace Academy, and Community Outreach Academy, met their API growth targets in 2011-12, and two of GCC's three schools that had reported API information for 2012-13, Community Outreach Academy and HLA, met their API growth targets for that year.</li> <li>2. Among the five schools that had reportable AYP information during each of the most recent two years reported, only one school, Community Outreach Academy, met its all of AYP criteria during 2011-12, and none met all of its AYP criteria during 2012-13.</li> </ol>
<b>School Information</b>	
Eligibility Criteria	<ol style="list-style-type: none"> <li>1. HLA has met all eligibility criteria: (1) HLA commenced operations in 2007-08; (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 it charter.</li> <li>2. Futures has met all eligibility criteria: (1) Futures commenced operations in 2004-05; (2) Futures' charter is in place through June 2017; (3) Futures is in good standing with its chartering authority, and in compliance with the terms of it charter.</li> </ol>

Student Performance	<p>Notwithstanding the limitation with current performance data due to the implementation of Common Core Standards, Futures and HLA showed the following results:</p> <ol style="list-style-type: none"> <li>1. Futures met its API growth target in two of the most recent four years reported, 2009-10 and 2011-12, with growth scores of 804, 796, 819 and 788 for 2009-10 through 2012-13, respectively. Futures met all AYP criteria in two of the four most recent years reported, 2009-10 and 2010-11.</li> <li>2. HLA met all AYP criteria in one of the most recent four years reported, 2009-10, and met its API growth target in two of the four most recent years reported, 2009-10 and 2012-13.</li> </ol>
Demographic Information	<ol style="list-style-type: none"> <li>1. Both HLA and Futures have shown consistent enrollment growth over the past 6-7 years, with HLA growing from 45 students in grades K-3 in 2007-08 to current enrollment of 244 students in grades K-8, and Futures growing from 233 students in 2008-09 to current enrollment of 379 students.</li> <li>2. After project occupancy, the aggregate enrollment between HLA and Futures is anticipated to grow from 610 in 2015-16 to 650 in 2016-17</li> </ol>

**Program Eligibility:** On February 19, 2015, verification was received from the Superintendent’s Office of Twin River Unified School District (TRUSD), confirming that both HLA and Futures are (1) in compliance with the terms of their charter agreements, and (2) in good standing with their chartering authorities. Both charters are effective through June 30, 2017.

**Legal Status Questionnaire:** Staff reviewed Gateway’s responses on behalf of HLA and Futures to the questions contained in the Legal Status portion of the application. Gateway answered “No” to all LSQ questions for each of HLA and Futures.

**Project Description:** GCC has purchased a 19.2 acre parcel of land located at Rio Linda Blvd. and Grace Avenue, Sacramento, California 95838 (Parcel # 237-0081-001) for purposes of constructing shared facilities for both HLA and Futures in order to serve grades K-12. GCC is planning to construct a two-story classroom facility that includes 10 dedicated classrooms for Futures and 18 dedicated classrooms for HLA. In addition, GCC is planning to construct a two-story administration/library building and a two-story multi-purpose building, both to be shared by HLA and Futures. In addition to the 18 dedicated physical classrooms, HLA has designated space in the multi-purpose building and other facilities for an additional 9 classes, providing HLA with a total of 27 classes within the CSFP project. GCC anticipates occupancy of the project in 2016-17 at which time Futures will be moving from its current site at 3702 Stephens Drive, North Highlands, California 95660. The student capacity for all CSFP projects is 670 students.

Overall, GCC is requesting funding for three projects within Sacramento County, including; two new construction projects for HLA, one for grades K-6 and one for grades 7-12, which

are anticipated to cost \$11,780,110 and \$11,750,594, respectively; and one new construction project for Futures High School anticipated to cost \$9,609,142. Although GCC previously requested a rehabilitation project for Futures, that project was rescinded in 2012.

GCC anticipates project occupancy for all CSFP projects beginning with the 2016-17 academic year.

**Organizational Information:** HLA received its first 5-year charter from TRUSD, formerly known as Grant Joint Union High School District on March 7, 2007.

HLA has grown from 45 students in grades K-3 in 2007-08 to 244 students in grades K-8 for the current 2014-15 academic year, and anticipates expanding to 264 students by 2016-17.

HLA is currently a grades K-12 charter based on the charter approved in 2012. For grades K-8, HLA replicates a program, Core Knowledge Sequence, established by Rocklin Academy, an existing model charter school in Rocklin, California that has excelled academically as a result of the program. For its forthcoming high school program (grades 9-12), HLA will utilize 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.

Futures received its first 5-year charter from Grant Joint Union High School District (GJUHSD) in 2003 and began instructional operations in 2004-05. Subsequently, as GJUHSD unified with several other districts to become TRUSD in 2008-09, Futures' charter was renewed under TRUSD, and in 2012, Futures had its charter renewed through June 30, 2017 wherein Futures is chartered to serve grades 7-12 but primarily serves grades 9-12.

Futures offers standards-based instruction to prepare students for entrance into a career or college of their choice upon graduation. Much of the student base is of Russian-Ukrainian/Eastern European descent. Futures' overall English learner population is 42.8%, with 49.3% of English learners speaking Russian, 43.9% speaking Ukrainian, 1.7% speaking Romanian, and 1.7% speaking other non-English languages. Eighty-five percent of students at Futures are eligible for free or reduced price lunch. For students who have recently entered the country, the school has adopted the High Point reading program that takes students from the absolute basics to the 6<sup>th</sup> grade reading level in the span of two years, with the goal being that all students pass the California High School Exit Examination.

**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 following table.

Item #5 – Gateway Community Charters  
Higher Learning Academy and Futures High

School	Opened	Site-Based	Grades Served	2014-15 Enrollment*
Community Outreach Academy	2003-04	Yes	K – 8	1,504
Futures High School	2004-05	Yes	9 - 12	379
Higher Learning Academy	2007-08	Yes	K - 8	244
Gateway International School	2013-14	Yes	K - 8	446
Community Collaborative Charter	2005-06	No	K - 12	759
Sacramento Academic and Vocational Academy	2007-08	No	7 - 12	703
<b>Total</b>				<b>4,035</b>

\* Enrollment data provided by GCC as of March 2015

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, increasing its enrollment from just under 200 students to over 4,000 today.

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 90%.

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, Futures, and HLA began operations in 2003-04, 2004-05, 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:** Nataliya Burko has served as Principal of Futures since 2009. Prior to this position, Ms. Burko served as an English teacher and Lead Teacher within the GCC

schools, and Assistant Principal at Futures (2004-09). Ms. Burko holds a Bachelor’s degree in secondary education, a Master’s degree in English and foreign literature, and California Multiple Subjects, CTEL, and Administrative Credentials.

David Patterson has served as Principal of HLA since 2013. Prior to this position Mr. Patterson served as Executive Director of Athlos Academy (2012-13), superintendent of Rocklin Academy Schools (1998-2012), as well as consulting positions with the California Charter School Association and the California Department of Education. Mr. Patterson holds a Doctorate in Education from the University of Southern California.

**EMO Management:** Dr. Cindy Petersen, the Superintendent/CEO for GCC, oversees and manages of 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, and has served as Superintendent/CEO since 2004-05.

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	2010-18
Lillie Campbell	Retired Assistant Superintendent – Del Paso School District	Vice President	Placer	2010-16
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	2014-18

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:** 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 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, and pursuant to Education Code, Section 52060(d)(2), these priorities must include Common Core State Standards.

Assessments based on the Standards are derived from the "Smarter Balanced Assessment System," a test that is planned for initial implementation in spring 2015 for purposes of establishing a baseline for comparing academic performance between schools, and subsequent improvement. As such, the standards do not currently provide metrics for comparing academic performance between schools.

It is noteworthy that as a result of the change to Common Core Standards, CDE's Accountability Progress Reporting has significantly changed. Among the changes are that Growth Academic Performance Index (API) reporting has been temporarily suspended, API rankings will no longer be reported, and Adequate Yearly Progress (AYP) reporting pursuant the No Child Left Behind Act of 2001 is currently limited to public high schools receiving Title 1 funding when they meet specific enrollment criteria. As such, student performance information for purposes of determination financial soundness is limited to API and AYP up until 2012-13 with the exception of specific high schools receiving Title 1 funding. Nonetheless, because of its implications for student enrollment stability and growth, and because staff views student performance as a leading indicator of a charter school's financial position, staff continues to evaluate student performance for purposes of financial soundness, with the limitation of reporting only through 2012-13 at this time.

The following tables summarize HLA's and Future's student performance for the four most recent years reported by CDE, 2009-10 through 2012-13.

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Higher Learning Academy and Futures High

Higher Learning Academy	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>				
Met All AYP Criteria?	Yes	No	No	No
Criteria Met / Required Criteria	5 / 5	11 / 13	6 / 13	12 / 13
Met API Indicator for AYP?	Yes	Yes	No	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
<b>ACADEMIC PERFORMANCE INDEX (API)</b>				
Met Schoolwide Growth Target?	Yes	No	No	Yes
Met Comparable Improvement Growth Target?	Yes	No	No	Yes
Met Both Schoolwide & CI Growth Targets?	Yes	No	No	Yes
API Base Statewide Rank (10 = best)	1	1	1	1
API Base Similar Schools Rank (10 = best)	N/A	N/A	N/A	1
School's Actual Growth	141	3	-8	55
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

Futures High School	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>				
Met All AYP Criteria?	Yes	Yes	No	No
Criteria Met / Required Criteria	5 / 5	5 / 5	4 / 5	3 / 6
Met API Indicator for AYP?	Yes	Yes	Yes	No
Met Graduation Rate?	N/A	N/A	N/A	No
<b>ACADEMIC PERFORMANCE INDEX (API)</b>				
Met Schoolwide Growth Target?	Yes	No	Yes	No
Met Comparable Improvement Growth Target?	Yes	No	Yes	No
Met Both Schoolwide & CI Growth Targets?	Yes	No	Yes	No
API Base Statewide Rank (10 = best)	8	8	9	8
API Base Similar Schools Rank (10 = best)	10	10	10	9
School's Actual Growth	26	-7	22	-31
Similar Schools Median of Actual Growth	16	-3	7	3
Did School's Growth Exceed Median?	Yes	No	Yes	No

HLA met all AYP criteria in only one of the most recent four years reported, 2009-10, and met its API growth target in only two of the four most recent years reported, 2009-10 and 2012-13. For 2009-10 through 2012-13, HLA achieved API growth scores of 673, 676, 668, and 724, respectively. HLA maintained low Statewide and Similar Schools rankings of “1” and “1”, respectively for 2012-13 (“10” = best). Due to the low number of students included in the API scoring, similar schools and statewide rankings are largely unavailable.

For 2009-10 through 2012-13, Futures achieved API growth scores of 804, 796, 819 and 788, respectively. In addition, Futures met its API growth target in two of the most recent four years reported, 2009-10 and 2011-12. For 2009-10 through 2012-13, respectively, Futures achieved the following Statewide and Similar Schools rankings, respectively, based on API base scores: “8” and “10” for 2009-10; “8” and “10” for 2010-11; “9” and “10” for 2011-12; and “8” and “9” for 2012-13. Notwithstanding Futures’ relatively high performance with API, Futures showed a net loss of 31 points for its 2012-13 API growth. Futures met all AYP criteria in two of the four most recent years reported, 2009-10 and 2010-11.

The following tables depict GCC’s academic performance over the four most recent years reported by CDE, 2009-10 through 2012-13. Please note that GCC’s newest school, Gateway International Academy, is not listed, as this school opened in August 2013, and no

reported information from CDE is available regarding its academic performance. Please also note that two of GCC's schools have limited data available, as they are under the "Alternative Schools Accountability Model."

**Met Schoolwide API Growth Target**

School	2009-10	2010-11	2011-12	2012-13
Community Outreach Academy	Yes	Yes	Yes	Yes
Futures High School	Yes	No	Yes	No
Higher Learning Academy	Yes	No	No	Yes
California Aerospace Academy*	Yes	No	Yes	
Community Collaborative Charter**	N/A	Yes	No	N/A
Sacramento Academic and Vocational Academy**	N/A	Yes	No	N/A

\*School closed in 2012

\*\*Alternative Schools Accountability Model School

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

School	2009-10	2010-11	2011-12	2012-13
Community Outreach Academy	5 / 8	5 / 8	5 / 8	7 / 10
Futures High School	8 / 10	8 / 10	9 / 10	8 / 9
Higher Learning Academy	1 / N/A	1 / N/A	1 / 1	1 / 1
California Aerospace Academy*	2 / 1	2 / 1	1 / 1	
Community Collaborative Charter**	1 / 1	N/A	N/A	N/A
Sacramento Academic and Vocational Academy**	1 / 1	N/A	N/A	N/A

\*School closed in 2012

\*\*Alternative Schools Accountability Model School

**AYP Performance: Met AYP Targets**

School	2009-10	2010-11	2011-12	2012-13
Community Outreach Academy	No	No	Yes	No
Futures High School	Yes	Yes	No	No
Higher Learning Academy	Yes	No	No	No
California Aerospace Academy*	No	No	N/A	
Community Collaborative Charter**	No	No	No	No
Sacramento Academic and Vocational Academy**	No	No	No	No

\*School closed in 2012

\*\*Alternative Schools Accountability Model School

For the four most recent years for which data has been reported, GCC schools met API growth targets in 12 of 19 possible occasions across six schools. Three of GCC's six schools, Futures, California Aerospace Academy, and Community Outreach Academy, met their API growth targets in 2011-12, and two of GCC's three schools that had reported API information for 2012-13, Community Outreach Academy and HLA, met their API growth

targets for that year, with HLA showing a growth of 55 points. The 2012-13 API growth scores for Community Outreach Academy, Futures, and Higher Learning Academy were 838, 788, and 724, respectively. Community Outreach Academy met its API growth target in each of the past five years.

For the four most recent years for which data has been reported, based on API base scores, GCC schools had Statewide and Similar Schools rankings of “5” or more in eight of 17 possible occasions, with only two of the schools, Community Outreach Academy and Futures, meeting this threshold. For 2012-13, California Outreach Academy had Statewide and Similar Schools rankings of “7” and “10”, respectively, Futures had Statewide and Similar Schools rankings of “8” and “9”, respectively.

Among the five schools that had reportable AYP information during each of the most recent two years reported, only one school, Community Outreach Academy, met its all of AYP criteria during 2011-12, and none met all of its AYP criteria during 2012-13. Notwithstanding the limitations described below regarding AYP-reported results, GCC’s overall AYP performance is low, given that, over the most recent three years reported, GCC schools have only met AYP in two of 16 possible occasions across six schools.

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), has reflected increases each year up to 2012-13 when the percent-proficient requirement in both mathematics and English-language arts reached approximately 89%.<sup>[1]</sup> Therefore, with each successive year, charter schools have been 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.

Overall, Staff considers GCC’s academic performance to be mixed, with more favorable performance with API growth, and less favorable performance in meeting AYP criteria, as well as more favorable performance for Community Outreach Academy and Futures, and less favorable performance for HLA and California Aerospace Academy, which has closed. Notwithstanding HLA’s historically low performance, especially with respect to its API rankings, staff acknowledges HLA’s API growth of 55 points for the most recent reported year.

Upon staff’s inquiry with GCC’s Superintendent in 2013 regarding HLA’s relative low academic performance, the Superintendent provided the following statement and action plan:

*“Over the past 5 years, Higher Learning Academy’s (HLA) Academic Performance Index (API) has risen 192 points. During the 2012-13 school year, a seasoned administrator within Gateway Community Charters was transferred there to strengthen the instructional program even further and increase community engagement. Higher Learning Academy is especially proud of the academic gains*

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<sup>[1]</sup> Information regarding AYP requirements are derived from the California Department of Education’s “2013 Adequate Yearly Progress Report Information Guide.”

*made during the 2012-2013 school year with its API gain of 55 points - one of the 5 largest gains in Sacramento County. In addition to HLA's school-wide API increase, both Significant Subgroups (Black/African American and Socioeconomically Disadvantaged) rose 61 and 42 points respectively. HLA's API growth looks even better when comparing it to Similar Schools Median API for 2012-2013. While Similar Schools API dropped 18 points on average, HLA gained 55. We are anticipating a significant increase in the similar schools rank once the updated 2012-2013 ranking is released in May 2014.*

*During the 2012-13 school year and continuing through the 2013-14, HLA has had an ongoing focus of providing students an excellent standards-based education using research-based instructional practices. HLA continues to gather multiple forms of data (STAR, CELDT, benchmarks) to determine classroom and individual student academic needs. HLA has instituted a Response to Intervention (RtI) system where each student is given different levels of intervention depending on their academic progress. Perhaps the most significant addition to HLA has been the implementation of Pearson's Successmaker, a computer-based language arts and mathematics intervention program that has proven to be tremendously effective with our academically at-risk students. In addition, each Friday afternoon is dedicated to staff collaboration, professional development, and data analysis. Areas of professional growth include Common Core State Standards, Core Knowledge, and student writing. With the focus on specific low achieving students and how to meet their needs HLA's principal, support staff and teachers believe all students can learn with adequate instruction, resources, and support."*

While staff has concerns regarding GCC's mixed performance across its schools, especially the lower performance for HLA, staff acknowledges the overall good performance of Futures and Community Outreach Academy as well as the limitation due to the lack of current academic reporting by CDE as a result of the transition to Common Core Standards. In addition, staff acknowledges GCC's efforts to address academic performance for HLA as well as HLA's improvement up to 2012-13, and does not believe that its performance is an impediment to finding GCC financially sound for purposes of the CSFP projects.

**Enrollment Trends and Projections** GCC has shown substantial and consistent growth since 2007-08, growing from 2,306 students to 4,035 students for the current 2014-15 academic year, representing growth of 57% over eight years, or an average of approximately 7% per year. GCC is projecting enrollment growth to 4,315 in 2016-17, the first year of project occupancy, and 4,416 students in 2017-18, representing conservative average annual growth of approximately 2.3%.

Both HLA and Futures have shown consistent enrollment growth over the past 6-7 years, with HLA growing from 45 students in grades K-3 in 2007-08 to current enrollment of 244 students in grades K-8, and Futures growing from 233 students in 2008-09 to current enrollment of 379 students. After project occupancy, the aggregate enrollment between HLA and Futures is anticipated to grow from 610 in 2015-16 to 650 in 2016-17.

GCC's average daily attendance for 2012-13 and 2013-14 was 98% and 95%, respectively, which are supportive of the 95% ADA rate assumption included in the multi-year budget

projections. Based on the P-2 reports, HLA and Futures had ADA rates for 2013-14 of 94.6% and 96.5%, respectively.

Futures' year-to-year retention rates for 2012-13, 2013-14 and 2014-15 are approximately 67%, 77% and 89%, respectively. HLA's year-to-year retention rate for 2014-15 was 71.5%.

Based on Futures' low retention rates for 2012-13 and 2013-14, Staff raised concerns and inquired further with GCC regarding GCC's explanation and action plan. However, based on the improvement to 89% for 2014-15, staff considers Futures' retention reasonable and consistent with performance expectations (90% or greater). Based on HLA's low retention rates for 2010-11 and 2011-12, staff previously requested GCC to provide an explanation and action plan, which is set forth below.

*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."*

In acknowledging the limitations that GCC faces with HLA serving an at-risk population, staff does not believe that HLA's low retention rate is an impediment to the recommendation that GCC is financially sound, on behalf of HLA and Futures. Furthermore, staff acknowledges GCC's consistent enrollment growth and the improvement in Futures' retention rate as supportive of a recommendation for financial soundness.

**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 three years of audited financial statements (2011-12 through 2013-14), the 2014-15 estimates and financial projections from 2015-16 through 2018-19, as provided by GCC.

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Staff's evaluation of GCC's financial status is based on the following assumptions: (1) enrollment described above under "Enrollment Trends and Projections"; (2) projected ADA rates of between 94.0% for 2015-16 through 2018-19; (3) 2014-15 LCFF Entitlement funding rates of \$7,268 for grades K-12; (4) average LCFF per ADA rates of \$8,245, \$8,718, \$9,302, \$9,534 and \$9,776 for 2015-16 through 2018-19, incorporating COLA's of 2.19%, 2.14%, 2.50%, 2.60% in these years, respectively. The projections conservatively assume GAP funding only in the 2015-16 year. (5) Expense categories including salaries and benefits show annual increases between 2-3%. (6) 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: GCC currently does not have any outstanding long-term debt not associated with the CSFP obligation.

Gateway Community Charter Schools	Actual FY 2011/12	Actual FY 2012/13	Actual FY 2013/14	Budget FY 2014/15	Projected FY 2015/16	Projected FY 2016/17	Projected FY 2017/18	Projected FY 2018/19
<b>ENROLLMENT PROJECTIONS</b>								
Enrollment	3,521	3,787	4,020	4,035	4,218	4,315	4,416	4,599
Average Daily Attendance	3,450	3,711	3,835	3,859	4,104	4,214	4,303	4,383
Average Daily Attendance (%)	98%	98%	95%	96%	97%	98%	97%	95%
<b>FINANCIAL PROJECTIONS</b>								
Total Revenues Available for CSFP Payment	\$ 26,971,948	\$ 30,614,688	\$ 32,818,048	\$ 36,476,942	\$ 39,732,251	\$ 43,220,496	\$ 45,108,411	\$ 46,966,295
Total Expenses Paid Before CSFP Payment	24,859,309	26,603,533	29,482,046	55,247,330	55,426,440	42,252,793	44,351,487	46,478,174
Accounting Adjustments	-	-	-	19,142,323	17,244,402	1,676,784	1,287,853	587,853
Net Revenues Available for CSFP Payment	\$ 2,112,639	\$ 4,011,155	\$ 3,336,002	\$ 371,935	\$ 1,550,213	\$ 2,644,487	\$ 2,044,777	\$ 1,075,974
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 845,385	\$ 845,385
Net Revenues After CSFP Payment	\$ 2,112,639	\$ 4,011,155	\$ 3,336,002	\$ 371,935	\$ 1,550,213	\$ 2,644,487	\$ 1,199,392	\$ 230,589
<b>FINANCIAL INDICATORS</b>								
Net Revenues Available for CSFP Payment	\$ 2,112,639	\$ 4,011,155	\$ 3,336,002	\$ 371,935	\$ 1,550,213	\$ 2,644,487	\$ 2,044,777	\$ 1,075,974
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	241.9%	127.3%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	241.9%	127.3%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	1.9%	1.8%
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Payment / Revenues	7.8%	13.1%	10.2%	1.0%	3.9%	6.1%	2.7%	0.5%
Revenues / ADA	\$ 7,818	\$ 8,250	\$ 8,558	\$ 9,453	\$ 9,682	\$ 10,257	\$ 10,482	\$ 10,715
Expenses / ADA	\$ 7,206	\$ 7,169	\$ 7,688	\$ 14,317	\$ 13,507	\$ 10,028	\$ 10,503	\$ 10,797
Surplus (Deficit) / ADA	\$ 612	\$ 1,081	\$ 870	\$ (4,864)	\$ (3,824)	\$ 230	\$ (21)	\$ (82)
Net Working Capital	\$ 29,056,322	\$ 33,005,547	\$ 34,516,049					
Net Working Capital / Expenses	116.9%	124.1%	117.1%					

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 2011-12, GCC recorded increases to net assets of \$2.11 million on revenues of \$26.97 million and expenses of \$24.86 million. For 2012-13, as total enrollment grew to 3,787 students, Gateway recorded net revenue of \$4.01 million on revenues of \$30.61 million and expenses of \$26.60 million. GCC's financial performance for 2013-14 reflected total enrollment of 4,020 students, and for that year, GCC achieved net revenue of \$3.34 million on revenues and expenditures of \$32.82 million and \$29.48 million, respectively. For the current year, 2014-15, GCC anticipates an operating surplus of \$371,935 on \$36.48 million in revenues and \$36.12 million in expenses (which excludes capital outlays of \$19.14 million). With projected enrollment of 4,218 students in 2015-16, 4,315 students in 2016-17, 4,416 students in 2017-18, and 4,599 students in 2018-19, GCC projects net revenue prior to CSFP payments of \$1.55 million, \$2.64 million, \$2.04 million, and \$1.08 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 \$845,385 for all three CSFP Projects. The following table presents detail on the CSFP payments for each of the three projects. The CSFP payments would commence in 2017-18, which is one year following expected occupancy of all the projects in 2016-17. GCC's projected available net revenues of \$2,044,777 for CSFP payments would provide debt service coverage of 241.9% in 2017-18. For the following year, 2018-19, projected debt service coverage is 127.3% based on available net revenues of \$1,075,974.

School (Project)	CSFP Facility Occupancy Date	Project Cost	50% of Project Cost	Annual Payment
Higher Learning Academy (7-12)	2016-17	\$11,750,594	\$5,875,297	\$299,753
Higher Learning Academy (K-6)	2016-17	11,780,110	5,890,055	300,506
Futures High School (9-12)	2016-17	9,609,142	4,804,571	245,126
<b>Total</b>		\$33,139,846	\$16,569,923	\$845,385

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. For 2012-13, GCC's NWC was \$33.01 million or 124.1% of total expenses, and in 2013-14, GCC's NWC was \$34.52 million or 117.1% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. GCC maintained cash at June 30, 2014 of \$24.86 million, with approximately \$11.63 million in investments and accounts receivable.

### Strengths, Weaknesses and Mitigants

- + For 2017-18 and 2018-19, the first two years of CSFP payments, GCC projects debt service coverage of 241.9% and 127.3%, in excess of the minimum 100% requirement.
- + For 2012-13, GCC's NWC was \$33.01 million or 124.1% of total expenses, and in 2013-14, GCC's NWC was \$34.52 million or 117.1% of total expenses. Liquidity remains exceptionally strong
- + GCC does not rely on fundraising from private sources in financial projections
- + Overall GCC has shown consistent student enrollment growth over the past four years with average annual growth of approximately 7%, and HLA has grown from 45 students in grades K-3 in 2007-08 to 244 students in grades K-8 for the current 2014-15 year. Futures currently services 379 students.
- +/- GCC's overall academic performance was mixed over the four most recent years reported, 2009-10 through 2012-13

- HLA and Futures' year-to-year retention rates for 2014-15 were 72% and 89%, respectively, which is considered low for HLA

**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) and Futures High (Futures) is financially sound for the purposes of the Charter School Facilities Program (Program) Final Apportionments. This recommendation is contingent upon GCC electing to have its CSFP payments for both HLA and Futures 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 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.