

**CHARTER SCHOOL FACILITIES PROGRAM
STAFF SUMMARY REPORT
DATED JUNE 28, 2007**

Applicant:	Ánimo Venice Charter High School
Project School:	Ánimo Venice Charter High School
Educational Management Organization:	Green Dot Public Schools
Guarantor/Co-Borrower:	Green Dot Public Schools
Proposed Project Location:	841 California Avenue, Venice
County:	Los Angeles County
School District Where Located:	Los Angeles Unified School District
Chartering Entity:	Los Angeles Unified School District
OPSC Project Cost:	\$12,328,892
OPSC Project Cost (Adjusted):	\$8,309,572*
Total State Apportionment:	\$4,154,786
Lump Sum Contribution:	\$0
Total CSFP Lease Amount:	\$4,154,786
Length Of CSFP Lease Payments:	30 years
Assumed Interest Rate On Obligation:	5.50%
Estimated Annual CSFP Lease Payment:	\$285,872
First Year Of Occupancy Of New Project:	2008-09

Background: California Code of Regulations, title 4, section 10164, authorizes and directs staff to conduct a review of the charter school's financial status at the time of the application for an advance and final apportionment to determine whether the charter school has maintained a financially sound status. Staff has conducted the following analysis of Ánimo Venice Charter High School (Animo Venice) pursuant to the school's request for funding through the Charter School Facilities Program (Program).

In December 2004, the CSFA determined that Animo Venice Charter High School was financially sound for purposes of the CSFP's Preliminary Apportionment. In February 2005, Animo Venice received Preliminary Apportionment of \$12,328,892 from the State Allocation Board through the CSFP. Animo Venice's educational management organization, Green Dot Public Schools (Green Dot) will serve as guarantor/co-borrower.

In January 2006, Animo Venice requested and received an advance apportionment of \$830,957 for design costs. At this time, Animo Venice is requesting its final apportionment of approximately \$7,478,615 through the Program. Final project costs will be calculated by the Office of Public School Construction – the actual final apportionment amount may be less than the preliminary apportionment. Staff notes that the release of final apportionment funds is contingent on the execution of all program agreements – the Memorandum of Understanding, the Funding Agreement, and a Facility Use Agreement. Staff notes that discussions are still underway with the Los Angeles Unified School District regarding the Program agreements.

Project Description: Animo Venice commenced instruction in FY 2004-05, with the enrollment of 141 ninth graders, and currently enrolls 410 students in grades nine through twelve at a temporary facility located at the future site of the new facility. The school projects an enrollment of 525 students in its first year of occupancy in FY 2008-09.

Animo Venice is currently waiting for DSA's approval for the design and architectural package submitted for the 43,317 square foot, 20 classroom permanent school facility. Since 2004, Green Dot has leased two acres from Los Angeles Unified School District (LAUSD) on the Broadway Elementary School campus. Green Dot, Animo Venice and LAUSD are currently negotiating a 30-year ground lease at an annual cost equal to 2.0% of the school's revenues. Pending DSA approval, Green Dot plans to break ground in June 2007 and complete construction by August 2008.

Organizational Information: Animo Venice's charter was approved by the Los Angeles Unified School District in May 2003. The charter expires June 30, 2008.

Animo Venice added the 11th grade level in FY 2006-07 and has a current enrollment of 410 students.

Educational Management Organization: Green Dot Public Schools' mission statement is "Transforming public education in Los Angeles so that all young adults receive the education they need to be prepared for college, leadership and life". Created in 1999, Green Dot Public Schools is organized as a 501c3 non-profit organization whose work is centered around influencing the Los Angeles Unified School District to turn around its failing high schools. Green Dot's method for turning these schools around includes developing clusters of small schools, and helping the district reinvent itself as the best school district in the country. Green Dot's focus is in the highest need areas of Los Angeles, where it is working to improve the district's worst high schools.

Management: Green Dot management team reported four new members to its board: Joanne Weiss, Noah Mamet, Abigail Garcia and Mike Garcia.

Management Experience for Schools Open Less than Two Years: Not applicable.

Student Performance: Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school's financial position. Schools with improving student performance trends are viewed 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 I funds.

Animo Venice has two years of reported API scores, allowing a review of progress and comparison to similar schools. Animo Venice received a base API score of 691 for 2004-05 and a growth score of 700 for 2005-06. The increase of 9 points exceeds the growth target of 5 points, and the growth base of 700 exceeds the 610 median score for similar schools (as defined by the California Department of Education). Animo Venice also met 13 of 14 AYP criteria for 2005-06.

Financial Analysis: Below we have highlighted selected financial data and credit indicators to evaluate the ability of Animo Venice to meet its CSFP obligation.

Financial Performance: Staff's review of Animo Venice's financial performance is based on the audited financial statements for fiscal years 2004-05 and 2005-06, and financial projections from 2007-08 through 2009-10, as provided by Animo Venice. The school plans to occupy the project by August 2008 of the 2008-09 academic year. The projected enrollment at occupancy is projected to be 525 students, which would be 115 students higher than the current level.

As of June 30, 2006, Animo Venice carried a \$200,000 balance on a \$250,000 Charter School Revolving Loan from the CDE; the final annual payment of \$50,000 is scheduled for February 1, 2010. The school's projections do not indicate that any additional long-term debt will be incurred except for the Program lease.

In FY 2005-06, the school increased enrollment from 141 to 275 students as the second class of ninth graders matriculated and the first class of tenth graders was served. Total revenues increased from \$1.68 million to \$2.37 million (\$8,992 per ADA) while total expenses, net of the principal payment on the revolving loan and before depreciation expense, grew from \$1.26 million to \$2.26 million (\$8,543 per ADA) for a recorded operating gain of \$118,286. After accounting for a net transfer out of \$70,078 to its parent organization, Green Dot, Animo Venice increased net assets by \$48,208 to an ending balance of \$123,331. As of June 30, 2006, \$50,000 of this ending fund balance was held in cash, which represented 2.2% of the school's operating expenses for FY 2005-06.

The expected gain for FY 2006-07 is \$140,820 on total revenues and expenses of \$3.38 million (\$8,583 per ADA) and \$3.24 million (\$8,225 per ADA), respectively. In FY 2006-07, enrollment is growing to 410 students as the school begins to educate an eleventh grade class. Absent an unanticipated net transfer out to Green Dot, Animo Venice is expected to add to its ending fund balance by June 30, 2007.

Based on an enrollment growing to 525 students in FY 2007-08, the school anticipates receiving \$4.15 million in total revenue (\$8,236 per ADA) and incurring \$3.71 million in total expenditures (\$7,363 per ADA), for an increase to net assets of \$440,108. This large projected surplus is due to Green Dot's reduced management fees of 2.0% of ADA subsequently increasing to 6.0% of ADA in following years. After incorporating an annual CSFP lease payment projected at \$285,542 into the financial projections, the school is projecting increases in net assets of \$119,755 and \$102,780 in FY 2008-09 and FY 2009-10. Total revenues and total expenses per ADA are forecast at \$8,401 and \$8,164 for FY 2008-09, and at \$8,569 and \$8,365 for FY 2009-10.

Based on our review of FY 2007 year-to-date actual financial information through April 30, 2007, and the projected budget for FY 2008, we expect Animo Venice to finish FY 2007 with positive contributions to net assets. Enrollment growth and financial performance projected for FY 2007 and FY 2008 are consistent with the information provided to CSFA staff in February 2007.

Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, Animo Venice's annual CSFP lease payment will be \$285,872 beginning August 2008. This

payment would represent, on average, 6.8% of projected revenues. Animo Venice's projected FY 2008-09 net revenues of \$381,502 would provide debt service coverage of 146% in its first year of occupancy. For FY 2009-10, Animo Venice's projected debt service coverage is projected at 136%. Accounting for Green Dot's subordination of its management fee to payment of the CSFP lease, the projected debt service coverage levels for FY 2008-09 and FY 2009-10 would increase to 211% and 197%.

Co-Borrower: Green Dot Public Schools is a 501(c)(3) nonprofit public benefit California Corporation, incorporated in 1999. Green Dot currently operates ten charter high schools in the Los Angeles area, including five schools which just began operations in Fall 2006. Green Dot currently operates the following schools:

1. Animo Leadership Charter High School (opened Fall 2000)
2. Animo Inglewood Charter High School (opened Fall 2002)
3. Animo De La Hoya Charter High School (opened Fall 2003)
4. Animo South Los Angeles Charter High School (opened Fall 2004)
5. Animo Venice Charter High School (opened Fall 2004)
6. Animo Film & Theater Arts (opened Fall 2006)
7. Animo Jackie Robinson (opened Fall 2006)
8. Animo Jefferson Charter High School (opened Fall 2006)
9. Animo Pat Brown (opened Fall 2006)
10. Animo Ralph Bunche (opened Fall 2006)

Green Dot's audited financial statements for FY 2005-06 are a consolidation of activities of five charter schools: Animo Leadership, Animo Inglewood, Animo De La Hoya, Animo South Los Angeles and Animo Venice. Past performance indicates that the organization uses net revenues generated by its older high schools as well as general revenues to subsidize the operations of its newer high schools until student enrollment has expanded to cover all four grade levels. Green Dot's dominant source of revenue for FY 2004-05 (\$16.4 million) and FY 2005-06 (\$21.7 million) were the per-ADA State apportionments received by its schools, with private contributions and government grants also representing significant levels of funding. The organization's primary expenses are teacher salaries and benefits, facility costs, and supplies. Over the last three fiscal years, Green Dot has increased its accrual based net assets by \$0.4 million, \$2.4 million, and \$1.7 million, respectively. On a cash basis, the organization recorded a \$48,352 net increase in FY 2004-05 and a (\$290,188) net decrease in FY 2005-06. The resultant cash and cash equivalents of \$813,963 at June 30, 2006 represent 4.3% of Green Dot's operating expenses for FY 2005-06. The organization expects to record approximately \$750,000 in cash and cash equivalents as of June 30, 2007.

As of June 30, 2006, Green Dot had aggregate long-term liabilities of \$7.1 million in the forms of four unsecured charter school revolving loans (\$545,833), two secured loans for computers (\$224,030) and a construction loan in the amount of \$6.3 million with a large bullet payment due in January 2011. Green Dot's future minimum payments under non-cancelable operating leases for classroom and administrative space are approximately \$1.0 million per year through FY 2010-11.

Staff notes that including Animo Venice, five Green Dot schools have received Preliminary Apportionment under Propositions 47 and 55. Each school intends to fund its 50% match through a 30-year lease from the CSFP. Although lease payments will be made from the

revenues of each school, Green Dot would serve as co-borrower on each of these leases in the event of a default.

The table below presents a summary of Green Dot's total project cost information and estimated lease payments assuming 30-year terms and interest rates of 5.50%. The lease payment for the Animo Venice project is expected to commence in FY 2008-09.

Green Dot School	Funding Source	Project Cost	CSFP Lease Amount	Annual Lease Payment
Animo Downtown	Prop. 55	\$12,142,552	\$6,071,276	\$417,737
Animo South LA	Prop. 55	12,457,476	6,228,738	428,571
Animo Venice	Prop. 55	8,309,572	4,154,786	285,872
Animo De La Hoya	Prop. 55	11,816,346	5,908,173	406,514
Animo Leadership	Prop. 47	10,023,014	5,011,507	344,819
		\$54,748,960	\$27,374,480	\$1,883,513

Strengths, Weaknesses and Mitigants

- + Debt service coverage met
- + Strong management and leadership; local district support
- + Total project cost reduced as site provided by LAUSD
- + Support of Green Dot as co-borrower/guarantor
- With five CSFP projects, CSFP-debt burden for Green Dot (guarantor) could be significant
- Release of final apportionment contingent on the execution of Program Agreements (between State, charter, EMO, and LAUSD)
- Historical financial performance has been weak, however projections (which staff deems reasonable) provided by Green Dot staff indicate ability to maintain financial soundness in future years

Staff Recommendation: Staff recommends that the Authority members determine that Animo Venice is financially sound for purposes of final apportionment as authorized under the Charter School Facilities Program. Staff recommends that the Members direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.