

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2008**

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| Applicant/Obligor: | Green Dot Public Schools |
| Project School: | Ánimo Venice Charter High School |
| CDS (County – District – School) Code: | 19-64733-0106831 |
| Proposed Project Location: | 841 California Ave., Los Angeles, 90291 |
| Type of Project: | New Construction |
| County: | Los Angeles County |
| District in which Project is Located: | Los Angeles Unified School District |
| Charter Authorizer: | Los Angeles Unified School District |
| | Proposition 55: \$15,639,480 |
| | <u>Proposition 1D: \$9,631,176</u> |
| Total OPSC Project Cost: | Total: \$25,270,656 |
| State Apportionment (50% Project Cost): | \$12,635,328 |
| Lump Sum Contribution: | \$0 |
| | Proposition 55: \$7,819,740 |
| | <u>Proposition 1D: \$4,815,588</u> |
| Total CSFP Financed Amount: | Total: \$12,635,328 |
| Length of CSFP Funding Agreement: | 30 years |
| | 4.75% (Proposition 55) |
| Assumed Interest Rate: | 5.50% (Proposition 1D) |
| | \$494,281 (Proposition 55, 4.75%) |
| | <u>331,338 (Proposition 1D, 5.50%)</u> |
| Estimated Annual CSFP Payment: | \$825,619 (Combined) |
| First Year of Occupancy of New Project: | 2009-10 |

Staff Recommendation: Green Dot Public Schools (Green Dot), on behalf of Animo Venice Charter High School (Animo Venice) is seeking an additional \$9.63 million of Proposition 1D financing to supplement \$15.64 million of Proposition 55 financing for which Animo Venice received Final Apportionment in February 2008. Staff recommends that the California School Finance Authority (CSFA) Board determine that Animo Venice is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Preliminary and Advance Apportionment, but not for purposes of Final Apportionment. This determination as it relates to an Advance 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 notify the Office of Public School Construction and the State Allocation Board regarding this determination.

In December 2004, the CSFA determined that Animo Venice Charter High School was financially sound for purposes of a preliminary apportionment under Proposition 55. In February 2008, Animo Venice requested its final apportionment of approximately \$15,639,480 under Proposition 55, release of funds being contingent on the execution of all program agreements – the Memorandum of Understanding, the Funding Agreement, and a

Facility Use Agreement. The State, Green Dot, and the Los Angeles Unified School District are close to executing these agreements.

Animo Venice is seeking an additional \$9.63 million under Proposition 1D to supplement the amounts apportioned to date under Proposition 55.

Green Dot, as education management organization (EMO) and co-borrower, has applied for CSFP Preliminary Apportionment under Proposition 1D for a total of eighteen schools (including additional funding for four schools which previously received Preliminary Apportionment under Proposition 47 and 55). Green Dot has received funding under Proposition 55 for a further school, for a total of nineteen potential CSFP-financed facilities. With this in mind, staff has reviewed Green Dot as an organization and guarantor under separate cover.

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

| Criteria | Comments |
|--------------------------------|---|
| Eligibility Criteria | Animo Venice met all eligibility criteria. The school has been open since September 2000, meeting the Program’s requirement for two years of charter school experience in California. Animo Venice’s current charter will expire in July 2009. |
| Demographic Information | Animo Venice serves 9 th through 12 th grade students in Los Angeles. At 498 students in 2007-08, Animo Venice is near its maximum targeted capacity of approximately 525 students. Enrollment is not expected to grow above 525 as a result of CSFP facilities occupation. |
| Debt Service Coverage | Debt Service Coverage from school revenues is projected to be 80.7% in 2009-10, the first year of CSFP lease payment, assuming a 3% of revenue ground lease, and 87.7% in 2010-11 (see “Project Description” below). Removing the school’s management fee to Green Dot, which would be subordinate to lease payment, coverage rises to 114.3% in 2009-10. |
| Other Financial Factors | <ol style="list-style-type: none"> 1. Lease as % of Projected Revenues: 17.7% in 2009-10. 2. Projected Contributions as % of Revenues: Less than 1%. 3. CSFP lease would be supported by Green Dot, as EMO and co-borrower. |
| Student Performance | Animo Venice met AYP in one of the last three years. The school met API growth targets in the last two years. The school’s API statewide rank has been 5 (out of 10) for the last two years; its similar schools rank was 10 in 2005, and 9 in 2006. |

Program Eligibility: Animo Venice received its initial charter in April 2004, with an expiration date in July 2009. In February 2008, verification was received from the Superintendent’s Office of Los Angeles Unified School District, confirming that Animo Venice is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Animo Venice opened in September 2004 and is currently in its fourth year of operations. Green Dot's management team has more than two years of experience in charter school management and operations in California.

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

Project Description: Green Dot, on behalf of Animo Venice, received Preliminary Apportionment of \$12.3 million for permanent facilities under Proposition 55 in February 2005. In February 2008, Animo Venice requested final apportionment of approximately \$15,639,480 under Proposition 55. Green Dot has applied for \$9.6 million of additional funding under Proposition 1D, based on additional project costs. The Animo Venice project has final Department of State Architect and California Department of Education approval for the design and architectural package submitted for a 41,263 square foot, 26 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. Animo Venice intends to replace its temporary facility at this location with permanent CSFP facilities. Green Dot, Animo Venice and LAUSD are currently negotiating a 40-year ground lease at an annual cost equal to 3.0% of the school's revenues. As of February 2008, Green Dot planned to break ground in April 2008 and complete construction by September 2009.

Animo Venice is Green Dot's fifth school, following Green Dot's basic high school model in which each school opens with a ninth grade of approximately 140 students, adds a new grade in each year, and reaches a maximum of approximately 525 students in grades 9-12 in the fourth year of operations. Green Dot targets individual school self-sufficiency from State revenues by the fifth year, requiring an estimated \$1 million per school of fundraising revenue through that point. Green Dot identifies the following as key sensitivities in this unit model: a) State apportionment revenues per average daily attendance (ADA); b) ADA as a percent of total enrollment; c) teacher salaries; and d) facility costs.

Educational Management Organization: Green Dot (legal name Green Dot Educational Project, Inc.) is a 501(c)(3) nonprofit public benefit California Corporation, incorporated in 1999. Green Dot currently operates twelve charter high schools in the Los Angeles area, including two schools which began operations in fall 2007. Green Dot anticipates rapid growth to 31 high schools by 2010-11.

Although Green Dot has listed itself as guarantor on all its schools' applications, Green Dot is formally a co-borrower rather than guarantor, since the organization is not legally separated from the school. In the event of lease default, the CSFA would have recourse first to the school assets, and then recourse on parity with other creditors to Green Dot as an EMO. Other creditors would have first recourse to schools with associated obligations under the Green Dot umbrella.

Green Dot's management has over two years of charter school management experience. Green Dot's management is discussed in staff's review of Green Dot as an EMO, under separate cover.

School Management: Tommy Chang has been Principal of Animo Venice since 2004. Prior to his current position, Mr. Chang served as teacher and trainer at Compton High School in Los Angeles and as a teacher at Animo Inglewood. Mr. Chang holds bachelors degrees from the University of Pennsylvania and has continued his education through the UCLA Teacher Education Masters Program and Principal's Leadership Institute.

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 three 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). In 2006-07, Animo Venice achieved an API score of 703, and met 14 of 14 AYP criteria.

| Animo Venice Charter High School | FY 2003-04 | FY 2004-05 | FY 2005-06 | FY 2006-07 |
|---|------------|------------|------------|------------|
| ADEQUATE YEARLY PROGRESS (AYP) | | | | |
| Met All AYP Criteria? | | No | No | Yes |
| Criteria Met / Required Criteria | | 13 / 17 | 13 / 14 | 14 / 14 |
| Met API Indicator for AYP? | | Yes | Yes | Yes |
| Met Graduation Rate? | | N/A | Yes | Yes |
| ACADEMIC PERFORMANCE INDEX (API) | | | | |
| Met Schoolwide Growth Target? | | N/A | Yes | Yes |
| Met Comparable Improvement Growth Target? | | N/A | No | Yes |
| Met Both Schoolwide & CI Growth Targets? | | N/A | No | Yes |
| API Base Statewide Rank (10 = best) | | | 5 | 5 |
| API Base Similar Schools Rank (10 = best) | | | 10 | 9 |
| School's Actual Growth | | | 9 | 18 |
| Similar Schools Median of Actual Growth | | | 9 | 2 |
| Did School's Growth Exceed Median? | | | No | Yes |

School Enrollment: Animo Venice began operations in 2004-05, with an initial class of 141 ninth graders. Animo Venice added successive grades in each following year, reaching near-full enrollment of 498 students in grades nine through twelve in 2007-08. Animo Venice does not intend to increase enrollment beyond 525 students.

Green Dot reports that Animo Venice retained 92% of its original students from October 2006 through April 2007. Green Dot also reports that Animo Venice's ADA as a percent of total enrollment was 94-97% for the last three years, which supports the school's 95% ADA assumption in its financial forecasts. Animo Venice had a 9th grade waitlist of 60 students in 2006-07 and 44 students for 2007-08 as of mid-2007, indicating reasonably strong ongoing student demand for the school.

Financial Performance: Below we have highlighted selected financial data and credit indicators to evaluate Animo Venice’s ability to meet its CSFP obligation.

| Animo Venice Charter High School | Actual FY 2005-06 | Actual FY 2006-07 | Budgeted FY 2007-08 | Projected FY 2008-09 | Projected FY 2009-10 | Projected FY 2010-11 |
|---|----------------------|----------------------|------------------------|-------------------------|-------------------------|-------------------------|
| ENROLLMENT PROJECTIONS | | | | | | |
| Enrollment | 274 | 405 | 498 | 525 | 525 | 525 |
| Average Daily Attendance | 261 | 388 | 476 | 499 | 499 | 499 |
| Average Daily Attendance (%) | 95% | 96% | 96% | 95% | 95% | 95% |
| FINANCIAL PROJECTIONS | | | | | | |
| Total Revenues Available for CSFP Lease Payment | \$ 2,373,764 | \$ 4,174,578 | \$ 4,400,513 | \$ 4,529,976 | \$ 4,665,880 | \$ 4,805,855 |
| Total Expenses Paid Before CSFP Lease Payment | 2,536,690 | 4,120,128 | 4,600,514 | 4,037,017 | 3,949,804 | 4,081,473 |
| Accounting Adjustments | 261,134 | 461,164 | (50,000) | (50,000) | (50,000) | - |
| Net Revenues Available for CSFP Lease Payment | \$ 98,208 | \$ 515,614 | \$ (250,001) | \$ 442,959 | \$ 666,076 | \$ 724,382 |
| CSFP Lease Payment | \$ - | \$ - | \$ - | \$ - | \$ 825,619 | \$ 825,619 |
| Net Revenues After CSFP Lease Payment | \$ 98,208 | \$ 515,614 | \$ (250,001) | \$ 442,959 | \$ (159,543) | \$ (101,237) |
| FINANCIAL INDICATORS | | | | | | |
| Net Revenues Available for CSFP Lease Payment | \$ 98,208 | \$ 515,614 | \$ (250,001) | \$ 442,959 | \$ 666,076 | \$ 724,382 |
| Debt Service Coverage by Net Revenues | N/A | N/A | N/A | N/A | 80.7% | 87.7% |
| Contributions | \$ - | \$ - | \$ 42,473 | \$ 41,200 | \$ 42,436 | \$ 43,709 |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A | N/A | N/A | N/A | 75.5% | 82.4% |
| Management Fee to EMO | \$ - | \$ 316,506 | \$ 261,482 | \$ 269,327 | \$ 277,407 | \$ 285,729 |
| Debt Service Coverage by Net Revenues (w/out Mgmt Fee) | N/A | N/A | N/A | N/A | 114.3% | 122.3% |
| CSFP Lease Payment / Revenues | N/A | N/A | N/A | N/A | 17.7% | 17.2% |
| Contributions / Revenues | N/A | N/A | 1.0% | 0.9% | 0.9% | 0.9% |
| Net Revenues After CSFP Lease Payment / Revenues | 4.1% | 12.4% | -5.7% | 9.8% | -3.4% | -2.1% |
| Revenues / ADA | \$ 9,096 | \$ 10,757 | \$ 9,245 | \$ 9,083 | \$ 9,355 | \$ 9,636 |
| Adjusted Expenses / ADA | \$ 9,720 | \$ 9,428 | \$ 9,770 | \$ 8,195 | \$ 9,675 | \$ 9,839 |
| Net Revenues After CSFP Lease Payment / ADA | \$ (624) | \$ 1,329 | \$ (525) | \$ 888 | \$ (320) | \$ (203) |
| Net Working Capital | \$ (617,248) | \$ (652,001) | | | | |
| Net Working Capital / Expenses | N/A | N/A | | | | |

The school plans to occupy the CSFP-financed facilities in 2009-10. The projected enrollment at occupancy is projected to be 525 students, an increase of 27 students over 2007-08 levels as reported in March 2008.

As of June 30, 2007, Animo Venice’s audited financial statements showed \$150,000 of debt outstanding, representing a State revolving fund loan due over the next three years. The school’s projections do not indicate that any additional long-term debt will be incurred except for the Program lease.

Performance/Change in Net Assets: Staff’s review of Animo Venice’s financial performance is based on audited financial statements for fiscal years 2004-05 through 2006-07, mid-year financial reports as of 2/29/2008, and financial projections from 2007-08 through 2010-11, as provided by Animo Venice. The school plans to occupy the project by August 2009. Enrollment at occupancy is projected to be 525 students, a 5% increase over reported 2007-08 levels.

In 2005-06, the school increased enrollment from 141 to 280 students as the first 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 (\$9,096 per ADA) while total expenses grew from \$1.34 million to \$2.47 million (\$9,720 per ADA) for a recorded operating loss of \$92,848. After accounting for a net transfer out of \$70,078, Animo Venice decreased its net assets by \$162,926 to an ending balance of \$123,331. In the following fiscal year, Animo Venice added its first class of eleventh graders, for enrollment of 405. The school’s

revenues increased to \$4.04 million before transfers in (\$4.17 million including transfers in, or \$10,757 per ADA), and expenditures increased to \$3.80 million before transfers out and Green Dot management fee (\$4.12 million after these transfers, or \$10,617 per ADA). Animo Venice increased net assets by \$54,450 to \$177,781 as of 6/30/2007. 2006-07 marks the first year in which Animo Venice paid a significant management fee to Green Dot.

Based on the addition of its first class of twelfth graders in 2007-08, reaching a mid-year ADA of 476 students, Animo Venice anticipates receiving \$4.40 million in total revenue and incurring \$4.65 million in total expenditures, for decrease in net assets of (\$250,000). In the following three fiscal years, based on (1) ADA of approximately 500 students, (2) projected annual revenue and expenditure growth of 3%, and (3) CSFP facility occupancy in August 2009, the school is projecting increases in net assets of \$554,938, (\$44,205), and \$17,562 in FY 2008-09, FY 2009-10, and FY 2010-11, respectively. The surplus in 2008-09 is based on temporary facility costs of \$233,000. This facility cost is significantly lower than budgeted 2007-08 facility costs; Green Dot's history of start-up fund-raising and net asset position mitigates staff concerns that higher-than-expected temporary facility costs will significantly impact school operations.

Staff notes that Animo Venice's projected annual financial performance includes approximately \$275,000 per year in annual management fees to Green Dot, as EMO. Green Dot has stated that this fee would be subordinate to any CSFP facility lease payment.

Debt Service Coverage: For purposes of debt service coverage, staff is assuming a rate of 4.75% on the \$7,819,740 Proposition 55 lease (per the final apportionment review in February 2008), and a rate of 5.50% on the \$4,815,588 Proposition 1D lease. The Proposition 55 lease terms are anticipated to be finalized in the near future, whereas the Proposition 1D funds are currently seeking preliminary apportionment only. For this reason, staff assumes a realistic near-term interest rate for the Proposition 55 lease, and a longer-term projection for the Proposition 1D lease.

With the above interest rate assumptions and 30-year repayment period, Animo Venice's total annual CSFP lease payment will be \$825,619 beginning August 2009. This payment would represent, on average, a relatively high 17.7% of projected revenues in the first two years of project occupancy. Animo Venice's projected FY 2009-10 net revenues of \$666,076 (after LAUSD ground lease payment) would provide debt service coverage of 80.7% in its first year of occupancy. For FY 2010-11, Animo Venice's projected debt service coverage increases to 87.7%. Accounting for Green Dot's subordination of its management fee to payment of the CSFP lease, the projected debt service coverage levels for FY 2009-10 and FY 2010-11 would increase to 114.3% and 122.3%, respectively.

Asset Position and Liquidity: As of June 30, 2007, Animo Venice had net assets of \$177,781, including \$50,000 in cash. The school's current assets of \$971,838 were substantially lower than current liabilities of \$1,629,082 – however, \$1.1 million of this current liability is comprised of funds owed to the school's EMO. Green Dot as co-borrower also provides an additional source of liquidity.

Strengths, Weaknesses and Mitigants

- Debt service coverage is significantly lower than 1x before subordinating EMO management fee; lease is a relatively high 18% of projected revenues.
- + Support of Green Dot as co-borrower/guarantor.
- + Reasonably strong student demand; minimal additional school growth required for CSFP payment.
- With nineteen prospective CSFP projects, CSFP-debt burden for Green Dot (co-borrower/guarantor) could be significant.
- As of 6/30/2007, current liabilities were significantly higher than current assets; offset by Green Dot as co-borrower/guarantor.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Animo Venice is financially sound for the purposes of the Charter School Facilities Program Preliminary and Advance Apportionment, but not for purposes of Final Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.