

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

Applicant/Obligor:	Alliance College Ready Public Schools
Project School:	College Ready Academy High 10
CDS (County – District – School) Code:	Not yet established
[Proposed] Project Location:	1218 Imperial Highway, Los Angeles
Type of Project:	New Construction
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$33,050,312
State Apportionment (50% Project Cost):	\$16,525,156
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$16,525,156
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	5.50%
Estimated Annual CSFP Payment:	\$1,137,020
First Year of Occupancy of New Project:	2010-11

Staff Recommendation: Alliance College Ready Public Schools (Alliance), on behalf of College Ready Academy High 10 (CRAH10), is seeking \$33,050,312 in Proposition 1D financing. Staff recommends that the California School Finance Authority (CSFA) Board determine that College Ready Academy High 10 is financially sound for the purposes of the Charter School Facilities Program (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.

Alliance, as educational management organization (EMO), has applied for CSFP Proposition 1D Preliminary Apportionment on behalf of five schools that it operates. With this in mind, staff has reviewed Alliance as an organization and co-borrower / guarantor under separate cover.

Application Highlights: Below staff has highlighted key criteria that were evaluated when conducting our financial soundness review of CRAH10. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	CRAH10 has met all Program eligibility criteria: 1) The Alliance has been in operations since 2003-04, thus meeting the 2-year eligibility requirement; 2) CRAH10's charter is in place through 2012; and 3)

	CRAH10 is in good standing with its chartering authority, and in compliance with the terms of its charter.
Demographic Information	CRAH10 will serve grades 9-12. The school expects to open in 2008-09. By occupancy of the Project in 2010-11, total enrollment is projected at 375 students.
Debt Service Coverage	Projected debt service coverage levels are 102.6% and 113.3% for 2011-12 and 2012-13, respectively. The debt service coverage levels for all schools supported by the Alliance are 282.9% and 158.6% for 2010-11 and 2011-12, respectively.
Other Financial Factors	<ol style="list-style-type: none"> 1. The projections for CRAH10 include contributions from private sources for 2008-09, but none are included thereafter when the CSFP payment is required to be met. 2. Projected ratios of CSFP payments to total revenues are high at 24.1% in 2011-12, and 23.5% in 2012-13. 3. CSFP payment would be supported by Alliance as co-borrower.
Student Performance	CRAH10 does not have any AYP or API data available as the school is in its first year of operation.

Program Eligibility: In September 2007, and again in March 2008, verification was received from the Charter School Division of Los Angeles Unified School District (LAUSD), confirming that CRAH10 is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Legal Status Questionnaire: Staff reviewed the Alliance's responses to the questions contained in the Legal Status Questionnaire (LSQ). The Alliance answered "No" to all LSQ questions.

Project Description: CRAH10 has requested funding for a new school facility (grades 9-12) to accommodate 500 high school students, of which approximately 90% are expected to qualify for free and reduced lunch. CRAH10, has identified a four-acre parcel located at 1218 Imperial Highway, Los Angeles, CA 90044 in which to locate its facility together with College-Ready Academy High School 8 and College-Ready Academy High School 9. The site is adjacent to Southwest Community College with whom the school intends to collaborate with both in-college courses and recreational facilities. The new facility would be a two story structure with plenty of parking on site. CRAH10 intends to occupy the facility in August of 2010. Annual operating and maintenance (excluding custodial) costs of the new facility are projected at \$30,000 and \$20,000, respectively. Such costs will rise with the age of the building to \$40,000 and \$50,000 respectively.

CRAH10 anticipates funding their 50% local matching share of the OPSC calculated Project Cost of \$33.0 million through a 30-year commitment with the State. Additionally, the Alliance will serve as guarantor. CSFP payments are assumed to commence in 2011-12.

CRAH10 Organizational Information: CRAH10 operates as an independent charter school developed by the Alliance for College-Ready Public Schools, a non-profit corporation governed by a board of parents, educators and other community members. CRAH10 received its first charter from LAUSD on May 22, 2007 which expires on June 30, 2012.

CRAH10's' application presents a curriculum that is challenging, coherent, developmentally appropriate, culturally relevant, and one that adheres to California's standard. The core curriculum offered at CRAH10 is reading, writing, mathematics, science and history/social

science. In addition, the school emphasizes foreign language, visual and performing arts, technology, and college and career preparation. The curriculum is aligned with the State's A-G requirements.

CRAH10 expects to enroll its first group of students, 125 in the 9th grade in 2008-09. Enrollment is expected to grow to 375 by occupancy of the Project in 2010-11. The average class size is expected to be 25 students. CRAH10's average daily attendance (ADA) rate is projected to be 95%. For fiscal year 2006-07, the schools operated by ACRPS had an average daily attendance rate of 96%. The retention ratio for the same schools and year was 92%.

The Alliance Organizational Information: The Alliance is a 501(c)(3) non-profit public benefit corporation, governed by a board of directors that creates, controls, and operates its schools. A 501(c)(3) non-profit public benefit corporation is formed for each ACRPS school. The Board of Directors of ACRPS serves as the governing board and policy-making body for the organization. The ACRPS schools commonly share three ACRPS directors that also represent the entire ACRPS organization. The Board of Directors of each school includes the three ACRPS directors, the ACRPS President/CEO, the Principal, a parent, a teacher, and a representative of LAUSD as ex-officio members. Each ACRPS school maintains a local advisory council with presentation from the community it serves. The local advisory council works with each school Principal in elements of curriculum, parental involvement, and day-to-day school operations.

School Management: As CRAH10 has not opened, a Director of the school has not been retained.

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

Management Experience for Schools Open Less than Two Years: CRAH10 has not yet opened; therefore, CRAH10 is meeting this requirement by being managed by the Alliance.

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.

CRAH10 does not have any API or AYP scores reported. Other schools already operating under ACRPS, the guarantor, do have scores available.

Marc & Eva Stern Math and Science met 13 of 18 AYP criteria in its first year of operations. All other criteria for this school are not yet available.

Gertz-Ressler Academy High recorded a base API score of 696 and a growth API score of 766, representing a 70 point increase which exceeded the 5 point growth target for the 2006-07 school year. The growth score of 766 is much higher than the median score of 600 for similar schools. This school met 14 of 14 AYP criteria and is ranked 8 out of 10 statewide and 10 out of 10 among similar schools, based on its 2005-06 base API score. For 2006-07, its growth score was 741, down from a base score of 749 which resulted in the school not meeting its growth target of 5, though its growth score still remains above the median of 606 for similar schools. For 2007, this school again met 14 of 14 AYP criteria.

For 2006-07 *Heritage College-Ready High* recorded a base API score of 612 and a growth score of 674, representing a 62 point increase which exceeded the 5 point growth target. Its growth score exceeds the similar schools median of 564. For 2005-06 this school was ranked 2 out of 10 statewide and 8 out of 10 among similar schools. This school has not met all 18 of its AYP criteria for the last 2 years: 13 of 18 and 17 of 18 for 2005-06 and 2006-07, respectively.

Huntington Park College Ready Academy met 14 of 14 of its AYP criteria for 2006-07 however, for the previous year this school only met 10 of 18. For 2005-06, this school was ranked 1 out of 10 and 2 out of 10 among similar schools. For 2006-07, this school exceeded its growth target of 11 by recording a growth API score of 662 while its base score was 578. Its growth score is above the similar schools median of 635.

Richard Merkin Middle Academy has not met its AYP criteria for the last 2 years, meeting 11 out of 15 criteria and 18 out of 21 criteria for 2005-06 and 2006-07, respectively. For 2005-06, this school is ranked 3 out of 10 statewide and 8 out of 10 among similar schools. This schools growth API score in 2006-07 was 663 while its base score was 653, representing a 10 point increase, a few points higher than its growth target of 7.

Both *College Ready Academy High 4 and 6* did not meet all AYP criteria for 2006-07. *College Ready Academy High 4* met 13 out of 18 and *College Ready Academy High 6* met 11 out of 13. The API growth score for CRAH4 for 2006-07 is 691 and the API growth score for CRAH6 for 2006-07 is 709.

In summary, only one Alliance-run school has consistently met its AYP criteria over the last two years and only one more met all of its AYP criteria this past year, thus the schools' statewide rankings have been low. On a similar school basis, however, most of the Alliance schools' have high similar school rankings. All but one school has met its target API growth score for the past year.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the applicant's ability to meet its CSFP obligations. The table on page 6 and the discussion below summarize key aspects of the school's financial performance.

Staff's financial review of CRAH10 is based on its 2007-08 budget and projections from 2008-09 through 2012-13 as provided by CRAH10. The school expects to occupy the Project in FY 2010-11, by which time their enrollment will have increased to 375 students (grades 9-12) from an anticipated 125 students (grades 9-12) in the FY 2008-09.

Financial Performance - No long-term debt is indicated by the school's financial projections other than the anticipated lease obligation for the CSFP.

The school's financial projections below assume an ADA rate of 95% for 2008-09 through 2012-13. CRAH10 utilizes a general purpose block grant per ADA of \$6,600 for FY 2007-08 and is increased using a COLA of 2.0% per year. For the categorical block grant, the school utilizes \$468 per ADA in FY 2007-08 with annual increases assumed. For expenses, the salaries and benefits of teachers as well as support staff are increased using a COLA of 2.0% per year and based on the increase of employees each year. Books and supplies were increased by enrollment plus \$10,000 of replacement costs per year. Most other expenses, with exception of rentals and business services that were increased based on the increase of employees or students as well as an inflation factor, were increased by 2% each year through 2012-2013. Additionally, staff notes that the school will begin operations with 6 teachers on staff and the number of teacher is projected to increase to 17 by FY 2010-11, which represents an 183% increase relative to the 200% increase in enrollment (125 to 375) for the same time period, and a slight increase in class size from 21 students to 22 students.

For 2008-09, net revenues available on a cash basis (excludes depreciation) are negative, \$(8,000) which calculates to a deficit per ADA of \$(67). For the following 4 years, net revenues are projected to be \$41,000, \$647,000, \$1.2 million and \$1.3 million. As a result, the surplus per ADA is estimated to be \$172, \$1,816, \$61 and \$317, respectively. During this same time, enrollment increased from 250 students to 375 or 50.0% from 2009-10 to 2010-11 and increased from 375 to 500 students or 33.3% by 2011-12 and remained constant thereafter.

Projected Debt Service Coverage of CSFP Payments – The financial projections indicate that CRAH10 can afford the projected annual payment as can the Alliance if necessary. 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 5.5% interest rate and 30-year repayment period, CRAH10's annual CSFP payments will be \$1,137,020 beginning FY 2011-12, which is approximately one year following expected occupancy of the Project in FY 2010-11. CRAH10's projected net revenues of \$1.2 million and \$1.3 million for 2010-11 and 2011-12 respectively provide debt service coverage of 102.6% and 113.3%. The Alliance, the co-borrower / guarantor, shows debt service coverage of 282.9% for 2010-11 and 158.6% for 2011-12, and thus could cover any shortfall if necessary. Given no donations are included in the projections once the CSFP payments are required to be made, staff expects these are conservative estimates. For CRAH10, the CSFP payments represent a high 24.1% and 23.5% of projected annual revenues in 2011-12 and 2012-13.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. CRAH10 has not yet opened, thus NWC cannot be calculated. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

College Ready Academy High 8	Actual FY 2005-06	Estimated FY 2006-07	Projected FY 2007-08	Projected FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13
ENROLLMENT PROJECTIONS								
Enrollment	-	-	-	125	250	375	500	500
Average Daily Attendance	-	-	-	119	238	356	475	475
Average Daily Attendance (%)	N/A	N/A	N/A	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Lease Payment	\$ -	\$ -	\$ -	\$ 1,137,419	\$ 1,938,035	\$ 3,453,725	\$ 4,709,013	\$ 4,848,058
Total Expenses Paid Before CSFP Lease Payment	-	-	48,313	1,145,375	1,897,200	2,807,110	3,542,915	3,560,281
Accounting Adjustments	-	-	-	-	-	-	-	-
Net Revenues Available for CSFP Lease Payment	\$ -	\$ -	\$ (48,313)	\$ (7,956)	\$ 40,835	\$ 646,615	\$ 1,166,098	\$ 1,287,777
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,137,020	\$ 1,137,020
Net Revenues After CSFP Lease Payment	\$ -	\$ -	\$ (48,313)	\$ (7,956)	\$ 40,835	\$ 646,615	\$ 29,078	\$ 150,757
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Lease Payment	\$ -	\$ -	\$ (48,313)	\$ (7,956)	\$ 40,835	\$ 646,615	\$ 1,166,098	\$ 1,287,777
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	102.6%	113.3%
Contributions	\$ -	\$ -	\$ -	\$ 230,000	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	102.6%	113.3%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	24.1%	23.5%
Contributions / Revenues	N/A	N/A	N/A	20.2%	N/A	N/A	N/A	N/A
Net Revenues After CSFP Lease Payment / Revenues	N/A	N/A	N/A	-0.7%	2.1%	18.7%	0.6%	3.1%
Revenues / ADA	N/A	N/A	N/A	\$ 9,558	\$ 8,143	\$ 9,701	\$ 9,914	\$ 10,206
Expenses / ADA	N/A	N/A	N/A	\$ 9,625	\$ 7,971	\$ 7,885	\$ 9,852	\$ 9,889
Surplus (Deficit) / ADA	N/A	N/A	N/A	\$ (67)	\$ 172	\$ 1,816	\$ 61	\$ 317
Net Working Capital								
Net Working Capital / Expenses								

Strengths, Weaknesses and Mitigants

- + Support of Alliance as co-borrower / guarantor.
- + No reliance on private donations in projections for CRAH10 at the time the CSFP payment must be made.
- + CRAH10 projected revenues cover projected CSFP payments.
- /+ The Alliance projections include 20 schools of which only 10 are open, however the Alliance has implemented a growth model that appears feasible.
- Many of the Alliance schools have failed to fulfill AYP and API requirements in most years. Please see comments on Alliance EMO summary.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that College Ready Academy High 10 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.