

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D 2009 FUNDING ROUND
STAFF SUMMARY REPORT – MAY 2010**

Applicant/Obligor:	Para Los Ninos
Project School(s):	Para Los Ninos Middle School
CDS (County – District – School) Code:	19-64733-0117846
Proposed Project Location:	820 Towne Ave. Los Angeles, CA 90021
Type of Project:	New Construction and Rehabilitation
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:	\$8,333,780
State Apportionment (50% Project Cost):	\$4,166,890
Lump Sum Contribution:	\$4,000,000
Total CSFP Financed Amount:	\$166,890
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$8,515
First Year of Occupancy of New Project:	2013-14

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board members determine that the Para Los Ninos (PLN) on behalf of Para Los Ninos Middle School (PLNMS) 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.

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

Criteria	Comments
Eligibility Criteria	PLNMS met all Program eligibility criteria, including 1) having a charter in place, and 2) being in compliance and in good standing with its chartering authority. The school has been in operation for less than 24 months. However, key personnel will meet the requirement by documenting prior charter school management experience in California.
Demographic Information	PLNMS currently serves 150 students in grades 6-7 and projects enrollment to increase to 375 students during its first year of occupancy in FY 2013-2014.

<p>Debt Service Coverage</p>	<p>PLNMS projects debt service coverage of 4,178.6% and 4,886.2% during 2014-15 and 2015-16, which is well above the minimum Program requirement of 100%. PLNMS is reliant upon contributions from PLN to meet its debt service coverage requirement.</p>
<p>Other Financial Factors</p>	<ul style="list-style-type: none"> • Between 2009-10 and 2013-14, contributions are projected to account for between 30.8% and 41.1% of revenues, and for 2014-15, the first year of CSFP payments, contributions are projected to account for 16.1% of revenues. Despite PLNMS's substantial reliance on contributions, the audited financial statements of the parent company, PLN, demonstrate a consistent trend of achieving contributions in excess of the amount set forth in PLNMS's multi-year budget projections. • CSFP payments are projected to account for 0.3% of the revenues in 2014-15 and 2015-16.
<p>Student Performance</p>	<ul style="list-style-type: none"> • PLNMS is in its second year and does not yet have the two years of API scores needed to identify a performance trend. PLNMS did not make AYP during 2008-09, having met only 3 of the 5 criteria. The two criteria that PLNMS did not satisfy are meeting the thresholds for percent proficient in English and mathematics. • Para Los Ninos Elementary School (PLNES), the other school under PLN, has made AYP in two of the past four years, and has met its API growth target in three of the past four years.

Program Eligibility: On May 5, 2010, staff received notification from the Los Angeles Unified School District ("District" or "LAUSD"), that PLNMS is: 1) in compliance with the terms of its charter agreement, and 2) in good standing with its chartering authority.

The school commenced instructional operations less than 24 months ago; therefore prior management experience by key personnel is being used to meet the two year requirement, and is described in the management section below. PLNMS's charter was authorized by the District on May 13, 2008, and is valid through June 30, 2013.

Legal Status Questionnaire: Staff reviewed PLNMS's responses to the questions contained in the Legal Status Questionnaire (LSQ). PLNMS responded that it does not have any civil or criminal matters to report and answered "No" to the questions.

Project Description: PLNMS is proposing to rehabilitate the 9th Street Elementary School Facility located at 820 Towne Ave. in Los Angeles. The project includes the replacement of portable buildings with new permanent facilities. The redevelopment will replace an elementary school that will continue to be operated by LAUSD and build a new middle school facility to be operated by PLNMS. PLNMS will share the project with 9th Street Elementary School. The project will provide PLNMS with 15 classrooms and administrative space, as well as a shared library, combined multi-purpose room and gymnasium, food service and lunch shelter, playfields, and parking. The current site encompasses 2.86 acres and LAUSD intends to acquire 0.37 acres to expand the site for this project. PLNMS has been allocated 1.47 acres and 18,945 square feet of the site to rehabilitate, which will accommodate 375 students. PLNMS and LAUSD estimate that instructional operations will commence at the new facility in 2013-14.

Organizational Information: PLNMS began operations as an independent charter middle school in September 2008 with 51 sixth graders under the umbrella organization, Para Los

Ninos (PLN), a broad-based social services organization that serves some of the most impoverished neighborhoods in Los Angeles, including Skid Row, also a 501(c)(3) non-profit organization since 1978. PLN has also been administering an elementary charter school, Para Los Ninos Elementary School (PLNES), since 2002, which is located in and serves the same community as PLNMS. In exchange for providing an administrative support services, both schools pay a direct support fee of about 1.5% of the charter school block grant revenue.

PLNMS primarily serves children from low-income families in the urban community in which the school is located, the vast majority of which are on free and reduced lunches, and is committed to a recruitment strategy that continues to reach out to such families, especially those not represented by progressive educational institutions. The majority of PLNMS students matriculate from PLN Elementary School. PLNMS's mission is to provide a rigorous, supportive and interdisciplinary arts and sciences curriculum in a nurturing and safe environment. PLNMS's curriculum stresses rigorous academic standards in a cooperative learning environment and gives priority to individual student needs. The school aims to inspire critical thinking, imagination, self-reliance and respect for others. PLNMS's educational plan includes five key elements: (1) Teams of highly qualified teachers "looping" with students so that a cohort of students have the same teachers; (2) assignment of each student to an advisor throughout his/her attendance in order that no student shall be anonymous and to address students' individual needs; (3) grade-level teams of teachers working together to develop interdisciplinary and project-based units of study; (4) health, wellness, and safety of all students; and (5) the use of community partnerships so that students and teachers actively participate in the community. It is noteworthy that students and families associated with PLNMS benefit from the vital services available through PLN,

Educational Management Organization: PLNMS is not managed by an Educational Management Organization.

Management Experience for Schools Open Less than Two Years: PLNMS commenced instructional operations less than 24 months ago, and does not meet the required two-year operational eligibility requirement (Education Code section 17078.52 (c) (4)). However, as allowed by statute and regulation (California Code Regulations, Title 4, Section 10154), charter schools with less than 24 months of operating experience may meet this requirement if the school is managed by key personnel who have at least two academic years of prior management experience at another California charter school.

Ms. Judy Perlmutter has served as Principal of PLNMS since September 2008. Previous to this position, Ms. Perlmutter served as several educational positions, including teacher, school coach, and literacy coach. Although Ms. Perlmutter is still completing her second year of charter school experience, she served as an English teacher at Holmes Humanities Magnet School (LAUSD) for seven years, including one year as a mentor teacher. Hence, she has extensive experience with public alternative progressive educational institutions in addition to her charter school experience. Ms. Perlmutter holds a B.S. in Humanities from University of California at Berkeley, as well as an M.A. in English from Stanford University and a California Single Subject Life Teaching Credential in English from San Francisco State University.

Ms. Giselle Acevedo, serving as Executive Director for PLN, has been responsible for charter school oversight since she joined the Agency in 2006, overseeing the instructional operations at PLN Elementary School. Ms. Acevedo, holds a Master's Degree in Education

and credentials in three areas of special education. She also holds a Juris Doctorate, specializing in education law.

Staff notes that, as Ms. Perlmutter does not have two years of direct instructional experience with California charter schools, in order to satisfy Title 4, Section 10154 of the California Code of Regulations, the Authority is using Ms. Acevedo's 2+ years of California charter school experience.

Board Experience: PLNMS is governed by the PLN Board of Directors. The Board consists of 16 members who are each elected for a 3-year term. The Board Chair, Zac Guevara is a retired Senior Vice President of Capital International Research, Inc. He has served on the Board since 2004, and his current term ends in 2010 (June 30, 2010). According to the PLNMS's charter petition, the key criterion for selection of Board members is a clear commitment to children and their success. Consideration to prospective members is normally given on the basis of having experience in addressing the populations served by PLN/PLNMS, a parental relationship, community collaboration, and/or collaboration and capacity to promote the school with the philanthropic community.

Student Performance: Because of its implications for student enrollment stability and growth, student performance is considered a leading indicator of a charter school's sustainability. 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.

PLNMS is in its second year and does not yet have the two years of API scores needed to identify a performance trend. PLNMS did not make AYP during 2008-09, having met only 3 of the 5 criteria. The two criteria that PLNMS did not satisfy are meeting the thresholds for percent proficient in English and mathematics. Given the limitation that PLNMN is a relatively new charter school and the fact that key management at PLN has overseen school operations at PLNES since 2002, staff evaluated student performance at PLNES as a proxy for student performance at PLNMS. The highlights for PLNES's academic performance are set forth in the table below. PLNES made AYP in two of the past four years, 2005-06 and 2007-08. The primary reason that PLNES did not make AYP during 2006-07 and 2008-09 was failure to meet percent proficient in English school wide and for three numerically significant subgroups among which include "Hispanic/Latino," "English Learners," and "Socio-economically disadvantaged." PLNES met its growth target in three of the past four years, not meeting the growth target for 2008-09, with API growth scores of 653, 676, 734, and 702 for 2005-06, 2006-07, 2007-08, and 2008-09, respectively. PLNES's statewide ranking, where "10" is best, was "1", "1", "2", and "3" for 2005-06, 2006-07, 2007-08, and 2008-09, respectively, while the similar school ranking was "6" and "7" for 2007-08 and 2008-09, respectively. Due to the lack of numerically significant sub-groups for 2005-06 and 2006-07, similar schools rankings for these years are not available.

Para Los Ninos Elementary School	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	No	Yes	No
Criteria Met / Required Criteria	5 / 5	13 / 17	17 / 17	13 / 17
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	Yes	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)	1	1	2	3
API Base Similar Schools Rank (10 = best)	N/A	N/A	6	7
School's Actual Growth	99	25	60	-33
Similar Schools Median of Actual Growth	N/A	N/A	29	12
Did School's Growth Exceed Median?	N/A	N/A	Yes	No

The CSFP application includes documentation of LAUSD’s audit of PLNMS conducted on November 4, 2008 and the results of the audit show mixed results. The audit results identified areas recommended for improvement that included the following: publishing of a comprehensive parent handbook; and greater direction and coaching of the core teachers in order to promote more effective classroom instruction.

The combination of PLNES’s inconsistent academic performance results, PLNMS’s not making AYP for 2008-09, and LAUSD’s audit results raise concern regarding PLNMS’s sustainability as a financially sound entity. Although staff does not believe that these results raise concern regarding the financial soundness determination for preliminary apportionment, staff recommends that, prior to the Authority’s awarding of advance or final apportionment, PLNMS provide evidence of improvement relative to its academic performance on AYP and API as well as improvement relative to the LAUSD audit results.

Student Enrollment: PLNMS began operations in 2008-09 with 51 students in grade 6. PLNMS currently has 150 students for the current 2009-10 academic year. However, due to facility constraints, PLNMS will only serve grade 6 through 2012-13 until PLNMS’ CSFP facility is occupied. PLNMS projects serving 50 students from 2010-11 through 2012-13. During the first year of occupancy in 2013-14, PLNMS projects serving grades 6-8 and 375 students in all projected years thereafter. Although staff has noted PLNMS’ projected growth from 50 students to 375 in 2013-14 as aggressive, enrollment growth history for PLNES supports strong demand for PLN schools. For purposes of historical perspective, staff reviewed the enrollment growth of PLNES, which showed the following consistent growth pattern since inception: 59 students in 2002-03; 123 students in 2003-04; 194 students in 2004-05; 196 students in 2005-06; 253 students in 2006-07; 330 students in 2007-08; 359 students in 2008-09; and 366 students for the current 2009-10 academic year. PLNES’s consistent growth has continued to occur even after completing the addition of all grades in 2006-07.

Based on the 2009-10 P-2 Report, PLNMS’ average daily attendance (ADA) rate was 93%. Including the 2009-10 P-2 Report, PLNES’ average ADA since 2006-07 was 96%. Based on these ADA results, PLNMS has assumed an ADA rate of 95% for its financial projections. PLNMS does not have a current wait list, as it was able to accommodate all students on the list at the beginning of this academic year. PLNMS achieved year-to-year

retention rates of 93% for 2009-10, and PLNES achieved year-to-year retention rates of 94% and 93% for 2008-09 and 2009-10, respectively.

Financial Analysis: Highlighted below are selected financial data and credit indicators used to evaluate PLNMS's ability to meet its CSFP obligation.

Staff's evaluation of PLNMS' financial performance is based on the review of the following documents: (1) PLNMS' audited financial statements for 2008-09 (the first year of operations); (2) PLN's audited financial statements for 2006-07, 2007-08, and 2008-09. (3) PLNMS' 2nd Interim Report; and (4) Financial projections from 2010-11 through 2015-16 for PLNMS and PLN.

Staff notes that PLNMS's financial projections are based upon the following assumptions: (1) 3.0% interest rate on CSFP local matching share loan obligation; (2) project occupancy in 2013-14; (3) projected enrollment as described above; (4) funding rates for general purpose block grants of \$5,521 and \$5,679 for grades 4-6 and grades 7-8, respectively, beginning in 2008-09; (5) projected ADA rates of 95%, which is reasonable given historical ADA rates for PLNMS and PLNES; (6) revenue growth (cost of living adjustments on General Purpose Block Grant) of 0.7% for 2010-11, 2.3% for 2011-12, 2.5% for 2012-13, and 3.0% for 2014-15; and (7) anticipated annual contributions in the amount of \$640,285 for 2009-10, \$300,000 from 2010-11 through 2012-13, and \$500,000 in every year thereafter. In addition, based on a commitment letter from the LAUSD Board of Education to contribute \$4,000,000 towards the local matching share for PLNMS's CSFP project, staff is assuming that PLNMS will be making a lump-sum payment in this amount towards its local matching share, leaving a total CSFP obligation of \$166,890.

Contributions: PLN's audited financial statements show documentation of contribution-related revenues in the amounts of \$3.99 million, \$3.74 million, \$4.79 million, and \$3.65 million from 2005-06 to 2008-09, respectively. Because of this record, staff is accepting PLNMS's anticipated revenue-related contributions of \$300,000 to \$500,000 per year that it included in its multi-year budget projections.

Para Los Ninos Middle School	Actual FY 2008-09	2nd Interim FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16
ENROLLMENT PROJECTIONS								
Enrollment	53	150	50	50	50	375	375	375
Average Daily Attendance	53	140	48	48	48	356	356	356
Average Daily Attendance (%)	100%	93%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 935,889	\$ 2,081,503	\$ 717,781	\$ 723,122	\$ 729,061	\$ 3,098,664	\$ 3,221,365	\$ 3,285,473
Total Expenses Paid Before CSFP Payment	942,199	2,062,906	601,873	608,534	617,852	2,742,852	2,805,306	2,835,403
Accounting Adjustments	-	30,000	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ (6,310)	\$ 48,597	\$ 115,908	\$ 114,588	\$ 111,209	\$ 355,812	\$ 416,059	\$ 450,070
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,515	\$ 8,515
Net Revenues After CSFP Payment	\$ (6,310)	\$ 48,597	\$ 115,908	\$ 114,588	\$ 111,209	\$ 355,812	\$ 407,544	\$ 441,555
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ (6,310)	\$ 48,597	\$ 115,908	\$ 114,588	\$ 111,209	\$ 355,812	\$ 416,059	\$ 450,070
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	4886.2%	5285.6%
Contributions	\$ 375,836	\$ 640,285	\$ 300,000	\$ 300,000	\$ 300,000	\$ 500,000	\$ 500,000	\$ 500,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	-985.8%	-586.4%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	0.3%	0.3%
Contributions / Revenues	40.2%	30.8%	41.8%	41.5%	41.1%	16.1%	15.5%	15.2%
Net Revenues After CSFP Payment / Revenues	-0.7%	2.3%	16.1%	15.8%	15.3%	11.5%	12.7%	13.4%
Revenues / ADA	\$ 17,658	\$ 14,868	\$ 15,111	\$ 15,224	\$ 15,349	\$ 8,698	\$ 9,042	\$ 9,222
Expenses / ADA	\$ 17,777	\$ 14,735	\$ 12,671	\$ 12,811	\$ 13,007	\$ 7,699	\$ 7,898	\$ 7,983
Surplus (Deficit) / ADA	\$ (119)	\$ 133	\$ 2,440	\$ 2,412	\$ 2,341	\$ 999	\$ 1,144	\$ 1,239

Financial Performance: Based on the 2008-09 audited financial statement for PLNMS, PLNMS had no liabilities. In 2008-09, PLN had notes payable in the amount of \$8.19 million. PLN has been current in its payments on these long term debts, and staff does not

consider such debts to have a material impact on its financial soundness determination for PLNMS.

Because PLNMS is a newly operating charter school effective 2008-09, staff reviewed the historical performance of PLN and PLNES in addition to the PLNMS' performance for 2008-09. PLN recorded an increase in net assets of \$1.24 million and \$77,983, while PLNES's recorded a decrease in net assets of \$229,591 and an increase in net assets of \$79,911 for 2006-07 and 2007-08, respectively. In 2008-09, PLNMS recorded a decrease in net revenues of \$6,310 on revenues of \$935,889 and expenses of \$942,199.

Based on the 2nd Interim reports and multi-year budget projections, PLNMS anticipates operating surpluses of \$18,597, \$115,908, \$114,588, and \$111,209 for 2009-10 through 2012-13, respectively, on revenues of \$2.08 million, \$717,781, \$723,122, and \$729,061 for these years. Revenues and expenses are expected to sharply decline from 2009-10 to 2010-11 because of PLNMS reduction in students from 150 to 50. For the year of project occupancy, 2013-14, enrollment is expected to increase to 375 students. PLNMS projects an operating surplus of \$355,812 on revenues of \$3.10 million and expenses of \$2.74 million. In 2014-15 and 2015-16, PLNMS projects an operating surplus of \$416,059 and 450,070 prior to the projected CSFP payment. PLNMS assumes that it will receive contribution-related revenues of \$500,000 in all years after CSFP project occupancy.

Projected Debt Service Coverage of CSFP Payments: Assuming a 3.0% interest rate and 30-year repayment period, as well as a lump-sum payment of \$4.00 million, PLNMS's annual CSFP payment will be \$8,515 beginning in 2014-15. PLNMS's projected net revenues of \$355,812 and \$416,059 for this year would provide debt service coverage of 4,886.2% and 5,285.6%, which is well over the minimum requirement. The CSFP payment would represent 0.3% of projected revenues in 2014-15 and 2015-16, which is within the preferred maximum range of 10-15%.

Based on a stress test on PLNMS's reliance on contributions, PLNMS could withstand a 75% loss of contributions and still meet the minimum debt service coverage requirement of 100%. Given PLN's historical record in achieving contributions along with PLN's status as obligor to the CSFP payment, staff considers the reliance on contributions to be reasonable.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. PLN's NWC as of June 30, 2009 was \$4.88 million, or 18.1% of total expenses wherein PLNMS had no liabilities that that time. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. At June 30, 2009, PLN reported holding \$526,895 in cash.

Strengths, Weaknesses and Mitigants

- + In 2014-15 and 2015-16, PLNMS projects debt service coverage of 4,178.6% and 4,886.2% along with the CSFP payment representing of 0.3% of revenues.
- + PLNES, the elementary school under PLN, has shown consistent student enrollment growth since its inception from 2002, growing from 59 kindergarten students in 2002-03 to 366 students in grades K-5 for the current 2009-10 academic year. In addition, the majority of elementary school students will matriculate into the middle school; hence, substantiating the middle schools projected enrollment growth, which is expected to reach 375 students by 2013-14.

- + PLNMS has achieved a year-to-year retention rate of 93% for 2009-10, and PLNES has achieved year-to-year retention rates of 94% and 93% for 2008-09 and 2009-10, respectively.
- + PLN, the parent company, has a well-established reputation in the community in which the schools are located, and has successfully implemented a broad base of social programs since its incorporation as a 501(c)(3) non-profit organization in 1978.
- +/- PLNMS is reliant on contributions to meet its financial soundness requirements and expects contributions between \$300,000 and \$500,000 per year from 2010-11 through 2015-16. PLN achieved contributions in excess of \$2.5 million per year for four consecutive years (2005-06 through 2008-09) and therefore staff considers such projections to be a reasonable assumption.
- PLNMS did not meet AYP during its first year of operational instructions due to failing to meet the required percent proficiency in English language arts and mathematics. In addition, PLNES did not meet AYP in two of the past four years due to not meeting the required percent proficiency in English language arts.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board members determine that Para Los Ninos (PLN) on behalf of Para Los Ninos Middle School (PLNMS) is/is not 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.