

MEMORANDUM

Date: July 15, 2008

Staff Summary No. 10

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 08-18 Financially Sound Status of Oscar De La Hoya Ánimo

Consideration of Resolution No. 08-18, approving that Oscar De La Hoya Ánimo has maintained a financially sound status for purposes of a Final Apportionment Under the Proposition 55 Funding Round of the Charter School Facilities Program (Program).

Background:

At its February 23, 2005 meeting, the State Allocation Board awarded Oscar De La Hoya Ánimo (ODLH) a preliminary apportionment of \$11,816,346 through the Proposition 55 funding round of the Charter School Facilities Program.

Since its award in 2005 through the Proposition 55 funding round, ODLH recently applied for approximately \$11 million in funding through the Proposition 1D funding round. Accordingly, staff of the California School Finance Authority conducted an analysis of the ODLH's financial soundness for purposes of a preliminary apportionment through Proposition 1D.

Staff's analysis took into account ODLH's ability to support not only its Proposition 1D apportionment, but also ODLH's Proposition 55 obligation. Staff's most recent analysis found that ODLH could support its Proposition 55 obligation of approximately \$19.3 million as well as its Proposition 1D application for funding of approximately \$11 million. Staff found that ODLH could support the combined obligation of \$30 million. *ODLH received an apportionment of \$10,817,756 through the Proposition 1D funding round.*

Relevant Statutory Changes to the Project Costs:

Assembly Bill (AB) 127, Chapter 35, Statutes of 2006 (Perata/Nunez) increased the New Construction Grant by seven percent for elementary and middle school projects and four percent for high school projects beginning July 1, 2006. AB 127 authorizes the SAB, beginning January 1, 2008, to annually increase or decrease the new construction per pupil base grant amount based on an analysis of the current costs to build a school. An increase can be up to six percent; a decrease is unlimited. It is important to note that the grant amounts are adjusted each January for the Construction Cost Index (CCI). The 2008 CCI adjustment resulted in a 3.19 percent increase to the new construction grant.

Recent Request for Final Apportionment:

ODLH is now requesting its final apportionment under Proposition 55 of approximately \$20,133,688 (up from \$19,255,392) – this revised Proposition 55 project cost figure is generated by OPSC, and reflects a 4.5% cost escalator (pursuant to AB 127 – see discussion above). Staff’s recent review in April 2008 found that ODLH is able to support its existing Proposition 55 award of \$19.3 million and a Proposition 1D award of approximately \$11 million, for a total of over \$30 million.

The slight increase in its Proposition 55 award from \$19 to \$20 million, combined with its Proposition 1D award of approximately \$11 million, results in a total CSFP obligation attributable to ODLH of \$30,951,434. Staff evaluated ODLH’s ability to support this increased obligation using the following assumption: a total project cost of \$30,951,434; as ODLH is likely to request its 1D final apportionment within the next 2-3 months, a 4% interest rate was assumed on the entire obligation (55 and 1D combined); and a 30-year repayment term. Given these assumptions, staff found that ODLH is projected to have debt service coverage of 113.4% in 2009-10 and 116.8% in 2010-11 (without the need to subordinate its Green Dot management fee).

Oscar de la Hoya Animo Charter H.S.	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	411	518	525	525	525	525
Average Daily Attendance	383	490	498	499	499	499
Average Daily Attendance (%)	93%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS						
Total Revenues Available for CSFP Lease Payment	\$ 4,177,267	\$ 5,240,652	\$ 4,452,443	\$ 4,585,983	\$ 4,723,565	\$ 4,865,271
Total Expenses Paid Before CSFP Lease Payment	3,750,580	5,192,265	4,246,290	4,373,681	3,905,116	4,022,263
Accounting Adjustments	2,627	6,148	3,503	3,608	285,538	294,105
Net Revenues Available for CSFP Lease Payment	\$ 429,314	\$ 54,535	\$ 209,656	\$ 215,910	\$ 1,103,987	\$ 1,137,113
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ 950,078	\$ 950,078
Net Revenues After CSFP Lease Payment	\$ 429,314	\$ 54,535	\$ 209,656	\$ 215,910	\$ 153,909	\$ 187,035
FINANCIAL INDICATORS						
Net Revenues Available for CSFP Lease Payment	\$ 429,314	\$ 54,535	\$ 209,656	\$ 215,910	\$ 1,103,987	\$ 1,137,113
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	116.2%	119.7%
Contributions	\$ -	\$ -	\$ 25,000	\$ 25,750	\$ 26,523	\$ 27,318
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	113.4%	116.8%
Management Fee to EMO	\$ -	\$ 357,032	\$ 265,645	\$ 273,614	\$ 281,822	\$ 290,277
Debt Service Coverage by Net Revenues (w/out Mgmt Fee)	N/A	N/A	N/A	N/A	145.9%	150.2%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	20.1%	19.5%
Contributions / Revenues	N/A	N/A	0.6%	0.6%	0.6%	0.6%
Net Revenues After CSFP Lease Payment / Revenues	10.3%	1.0%	4.7%	4.7%	3.3%	3.8%
Revenues / ADA	\$ 10,893	\$ 10,695	\$ 8,941	\$ 9,195	\$ 9,471	\$ 9,755
Adjusted Expenses / ADA	\$ 9,774	\$ 10,584	\$ 8,520	\$ 8,762	\$ 9,162	\$ 9,380
Net Revenues After CSFP Lease Payment / ADA	\$ 1,120	\$ 111	\$ 421	\$ 433	\$ 309	\$ 375
Net Working Capital	\$ 89,175	\$ 131,805				
Net Working Capital / Expenses	2.4%	2.5%				

Given the short time frame between the Authority’s findings regarding the financial soundness of ODLH in April 2008 and July 2008, Authority staff contacted ODLH seeking information about any material financial and/or operational changes at the school since Program applicants were reviewed in early to mid-2008. Pursuant to

staff's request, representatives of ODLH reported that there have not been any material changes from staff's most recent evaluation of ODLH in April 2008.

Such findings, and issues that were highlighted to Authority members at the time of the financially sound determinations in April 2008, have been highlighted below.

Criteria	Comments
Eligibility Criteria	ODLH met all eligibility criteria. The school has been open since September 2003, meeting the Program's requirement for two years of charter school experience in California. ODLH's five-year charter renewal was approved by the Los Angeles Unified School District Board on May 27, 2008.
Demographic Information	ODLH serves 9 th through 12 th grade students in Los Angeles. At 520 students in 2007-08, ODLH is approximately at 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 113.4% in 2009-10, the first year of CSFP lease payment, and 116.8% in 2010-11.
Other Financial Factors	<ol style="list-style-type: none"> 1. Lease as % of Projected Revenues: 20% 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	ODLH met AYP in two of the last three years. The school met API growth targets in two of the last three years. The school's API statewide rank increased from 3 (out of 10) to 5 in the last two years; its similar schools rank was 9 in 2005, and 10 in 2006.
Student Retention	Student retention rates for 2006-07 and 2007-08 are 96% and 91%, respectively.

Recommendation:

Staff recommends that the California School Finance Authority Board determine that Oscar De La Hoya Ánimo is financially sound for the purposes of the Charter School Facilities Program Final Apportionment, and approve Resolution 08-18. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction regarding this determination.