

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

Applicant/Obligor:	Granada Hills Charter High School
Project School:	Granada Hills Charter High School
CDS (County – District – School) Code:	19-64733-1933746
[Proposed] Project Location:	10535 Zelzah Avenue, Granada Hills
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:	\$11,567,256
State Apportionment (50% Project Cost):	\$5,783,628
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$5,783,628
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$295,076
First Year of Occupancy of New Project:	2012-13

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Granada Hills Charter High School (GHCHS) is financially sound for the purposes of Charter School Facilities Program (Program) Preliminary and Advance Apportionment, but not for 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 Authority 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 our financial soundness review of GHCHS. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	GHCHS meets all eligibility criteria including two years of operations, a charter in place through 2013-14 and good standing with its chartering authority, and is in compliance with the terms of its charter.
Demographic Information	For 2009-10, GHCHS currently serves 4,133 students in grades 9-12 and has a wait list of approximately 2,000 students.
Debt Service Coverage	GHCHS projects debt service coverage ratios of 138.8% and 204.7% during 2013-14 and 2014-15, the first two years of CSFP payments.
Other Financial Factors	<ol style="list-style-type: none"> 1. GHCHS does not rely on contributions from private sources. 2. Projected ratios of CSFP payments to total revenues are, on average, 0.9% in 2013-14 and 2014-15, which is within the preferred maximum range of 10%-15%. 3. Net working capital for 2008-09 of \$11.37 million represented 33.4% of total expenses, which well exceeds the preferred minimum of 5.0%.
Student Performance	GHCHS met all AYP criteria and all API growth targets in each of 2005-06 through 2008-09. Based on its base API scores, GHCHS ranked "9" statewide and "7", "8", "7", and "4" against similar schools for 2005-06, 2006-07, 2007-08, and 2008-09, respectively.

Program Eligibility: On December 7, 2009, the Authority received verification from Los Angeles Unified School District (LAUSD) confirming that GHCHS 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 GHCHS' responses to the questions contained in the Legal Status Questionnaire (LSQ). GHCHS answered "None" to all LSQ questions, indicating no disclosures to provide regarding material information relating to legal or regulatory proceedings, or legal action in which it or any of its affiliates is a named party.

Project Description: GHCHS has requested funding for new construction of a 4,200 square foot sustainable design educational facility functioning as a small school to accommodate 400 students in an alternative learning environment. The Academy will be built on existing school property along the west side of the facility. The site for the facility will be located at 10535 Zelzah Avenue, Granada Hills, CA 91344. GHCHS anticipates instructional operation in the new facility to begin in 2012-13.

Organizational Information: GHCHS opened in 1960 as a district high school and became a charter school in 2003-04. GHCHS is an unincorporated independent public agency acting as a separate legal entity from its authorizer, LAUSD. During LAUSD's comprehensive site review, they found GHCHS to be accomplished in 3 areas (Student achievement and Educational Performance, Fiscal Operations and Fulfillment of Charter). LAUSD has renewed GHCHS' charter to June 30, 2014.

GHCHS is committed to enabling students to become self-motivated, competent, lifelong learners by providing a multicultural, student-centered environment in which all students are held to high academic and behavioral standards. The goal is to continuously improve not only achievement but also the learning experience for all students and adhere to the standards-based, equity-driven education system. The core curriculum offered at GHCHS is language arts, mathematics, science and social studies. In addition, the school emphasizes technology, critical thinking skills, visual and performing arts, college and career

preparation, and study skills. Since GHCHS has a current wait list of approximately 2,000 students, there are presently no specific admission and recruiting plans and policies.

The educational goals of GHCHS are as follows: (a) the program is aligned with the state's A-G requirements; (b) adapting the thinking curriculum to create competent, self-motivated, lifelong learners; and (c) to offer real world experiences for students to learn about higher education and career options through curricular pathways.

Management Experience: The GHCHS staff demonstrates many years of education, management, and bicultural experiences. Mr. Brian Bauer, Executive Director of GHCHS since 2003, has a Ph.D. in Education from the University of California, Los Angeles. Additionally, Mr. Bauer is currently the Executive Coach for the California Charter Schools Association. Mr. Walter Wallace, Chief Business Officer of GHCHS since 2003 has 30 years of experience in all areas of school district, charter school, and county office of education business operation.

Board Experience: The nine members of the Board have a variety of experience ranging from careers in education to investment banking to healthcare. Mr. James Salin, the Board's president has extensive experience in the banking business. The names and occupations of the other eight Board members are as follows: Janet Jackson (at-large member); Leila Vickers (at-large member); Kenneth Horwitz (retired teacher); Steve Bourgouin (certificated teacher); Pat Mitchell (nurse); Joan Lewis (administrator); Ely Jamarillo (classified); and Gary Conley (parent member).

Management Experience for Schools Open Less than Two Years: Not applicable. GHCHS began instructional operations in 2003-04 and exceeds the minimum instructional requirement of two years.

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.

GHCHS has at least four years of reported API scores, allowing a review of progress and comparison to similar schools. The following table summarizes the school's trends in student performance.

Granada Hills Charter High School	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	Yes	Yes	Yes
Criteria Met / Required Criteria	22 / 22	22 / 22	26 / 26	22 / 22
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	No	Yes	No	No
Met Both Schoolwide & CI Growth Targets?	No	Yes	No	No
API Base Statewide Rank (10 = best)	9	9	9	9
API Base Similar Schools Rank (10 = best)	7	8	7	4
School's Actual Growth	14	20	-3	30
Similar Schools Median of Actual Growth	3	6	7	12
Did School's Growth Exceed Median?	Yes	Yes	No	Yes

GHCHS achieved API growth scores of 809, 816, 813 and 843 for 2005-06, 2006-07, 2007-08, and 2008-09 respectively, and met all AYP criteria as well as all API school wide growth targets for each of these years. Also, based in its API base score, GHCHS ranked "9" statewide ("10"=best) for each of these years.

Enrollment and Retention Rates: For the current 2009-10 academic year, student enrollment totaled 4,133 students (based on CBEDS information), with 2,000 students currently on the waiting list. GHCHS anticipates reduction in enrollment to 4,100 in 2010-11 with 4,000 students projected in all years thereafter. Based on the 2008-09 audited financial statement and GHCHS' CBEDS-reported enrollment (reported October 2008), GHCHS achieved an average daily attendance (ADA) of 94.3% for that year. Staff notes that, due to attrition during the year, the average enrollment is likely to be smaller than the CBEDS-reported enrollment, resulting in a slightly higher ADA, which is more consistent with GHCHS' assumption of 96% in its multi-year budget projections.

GHCHS achieved year-to-year student retention rates of 91.7% and 88.1% for 2008-09 and 2009-10, respectively. Although GHCHS' has not achieved high retention rates, GHCHS' sizable wait list indicates strong student demand.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the GHCHS' ability to meet its CSFP obligations. The table below summarizes key aspects of the school's past, current and projected financial performance.

Granada Hills Charter High School

Granada Hills Charter High School	Actual FY 2007/08	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
ENROLLMENT PROJECTIONS								
Enrollment	4,135	4,157	4,133	4,100	4,000	4,000	4,000	4,000
Average Daily Attendance	3,831	3,923	3,963	3,931	3,835	3,835	3,835	3,835
Average Daily Attendance (%)	93%	94%	96%	96%	96%	96%	96%	96%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 34,667,811	\$ 36,079,353	\$ 34,769,065	\$ 32,669,700	\$ 31,890,206	\$ 32,596,678	\$ 34,287,838	\$ 35,270,147
Total Expenses Paid Before CSFP Payment	31,900,483	34,024,294	33,151,752	33,237,116	32,733,987	33,383,845	34,393,393	35,181,246
Accounting Adjustments	-	-	445,000	515,000	515,000	515,000	515,000	515,000
Net Revenues Available for CSFP Payment	\$ 2,767,328	\$ 2,055,059	\$ 2,062,313	\$ (52,416)	\$ (328,781)	\$ (272,167)	\$ 409,445	\$ 603,901
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 295,076	\$ 295,076
Net Revenues After CSFP Payment	\$ 2,767,328	\$ 2,055,059	\$ 2,062,313	\$ (52,416)	\$ (328,781)	\$ (272,167)	\$ 114,369	\$ 308,825
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ 2,767,328	\$ 2,055,059	\$ 2,062,313	\$ (52,416)	\$ (328,781)	\$ (272,167)	\$ 409,445	\$ 603,901
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	138.8%	204.7%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	138.8%	204.7%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	0.9%	0.8%
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Payment / Revenues	8.0%	5.7%	5.9%	-0.2%	-1.0%	-0.8%	0.3%	0.9%
Revenues / ADA	\$ 9,049	\$ 9,197	\$ 8,773	\$ 8,311	\$ 8,316	\$ 8,500	\$ 8,941	\$ 9,197
Expenses / ADA	\$ 8,327	\$ 8,673	\$ 8,365	\$ 8,455	\$ 8,536	\$ 8,705	\$ 9,045	\$ 9,251
Surplus (Deficit) / ADA	\$ 722	\$ 524	\$ 408	\$ (144)	\$ (220)	\$ (205)	\$ (104)	\$ (54)
Net Working Capital	\$ 9,025,861	\$ 11,367,627						
Net Working Capital / Expenses	28.3%	33.4%						

Staff's financial analysis of GHCHS is based upon review of the following documents: (1) audited financial statements for 2006-07 through 2008-09; (2) Second Interim budget report; and (3) multi-year budget projections for 2010-11 through 2014-15. Please note that the revenue, expenditure and changes to net assets recorded in financial audits and provided in GHCHS' financial projections have been modified by staff, where necessary, to include capital outlays, operating leases and repayment of debt and other significant obligations, and to exclude non-cash items such as depreciation.

GHCHS' financial projections are based upon the following assumptions: (1) expected project occupancy to begin in 2012-13 for the new construction project; (2) estimated project cost of \$11,567,256; (3) enrollment projections as described under "Enrollment and Retention"; (4) ADA of 96% for 2009-10 through 2014-15; (5) 2009-10 general purpose block grant funding rate of \$5,856 (grades 9-12); (6) cost of living adjustments (COLAs) to the general purpose block grant of -0.38%, 1.8%, 2.4%, 2.8%, and 3.1% for 2010-11 through 2014-15, respectively; and (7) COLAs to certificated staff salaries of 1% for 2010-11 and 2% for each subsequent year.

Financial Performance: Based on GHCHS' audited financial statements as June 30, 2009, GHCHS had long-term debt obligations of \$263,553, including \$136,483 for compensated absences and \$127,070 for capital leases, of which \$163,251 is due within one year and the remaining \$100,302 paid annually through 2014.

Based on the current year's budget and multi-year budget projections, GHCHS anticipates an operating surplus of \$1.62 million in 2009-10. From 2010-11 to 2013-14, GHCHS expects operating losses of \$567,416, \$843,781, \$787,167 and \$105,555, respectively. GHCHS projects its first operating surplus since 2009-10 in 2014-15 with \$88,901. Between 2010-11 and 2013-14, GHCHS projects deficits due to current reductions in the general purpose block growth along with the consistent inflation adjusted growth of expenses. As the per-ADA funding block grant increases in upcoming years, revenues reach comparable levels of expenses. GHCHS' staff noted the use of conservative expense assumptions as GHCHS will make reductions to expenses in any given year to balance the year's budget.

As an example, the school maintains the ability to not fill certain vacant extra-period teacher positions from the previous school year in order to reduce salary expenses.

Projected Debt Service Coverage of CSFP Payments: Assuming a 3.0% interest rate and 30-year repayment period, as well as an estimated project cost of \$11,567,256, GHCHS' annual CSFP payment would be \$295,076, beginning in 2013-14. GHCHS' projected available net revenues of \$409,445 for 2013-14 and \$603,901 for 2014-15 (after adjusting for capital outlay) would provide debt service coverage of 138.8% and 204.7%, respectively. These ratios meet the minimum debt service coverage ratio requirement. The CSFP payments would represent, on average, 0.9% of projected revenues for each of these years, which is well within the preferred maximum range of 10%-15%. GHCHS does not rely on contributions to meet the debt service coverage requirement and also does not depend on additional student enrollment growth to afford the CSFP lease payment.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. GHCHS' NWC for 2008-09 was \$11.37 million or 33.4% of total expenses. This was up from 2007-08, which had NWC of \$9.03 million or 28.3% of expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. As of June 30, 2009, GHCHS maintained a cash balance of \$3.79 million.

Strengths, Weaknesses and Mitigants

- + GHCHS maintains sizable and stable enrollment of over 4,000 high school students. The school does not depend on aggressive growth in order to afford CSFP lease payment. GHCHS has a waiting list of approximately 2,000 students.
- + GHCHS has no reliance on private contributions to meet its CSFP obligation.
- + Student performance at GHCHS has been exceptional with the school meeting all AYP criteria in the last four years along with ranking 9 out of 10 statewide for its 2008-09 API base scores.
- /+ GHCHS is projecting deficits in all years prior to its CSFP lease payment but GHCHS has an established history of strong financial operations. Projected deficits also represent a conservative outlook without the use of significant budget reduction measures which would be available to GHCHS if necessary.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Granada Hills Charter High School is financially sound for the purposes of Charter School Facilities Program Preliminary and Advance Apportionment but not for 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 Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.