

**CHARTER SCHOOL FACILITIES PROGRAM
STAFF SUMMARY REPORT
DATED JUNE 28, 2007**

Applicant:	Oscar De La Hoya Ánimo Charter High School
Educational Management Organization:	Green Dot Public Schools
Guarantor/Co-Borrower:	Green Dot Public Schools
Project School:	Oscar De La Hoya Ánimo Charter High School
Proposed Project Location:	1114 South Lorena Street, Los Angeles
County:	Los Angeles County
School District Where Located:	Los Angeles Unified School District
Chartering Entity:	Los Angeles Unified School District
OPSC Project Cost:	\$11,816,346
Total State Apportionment:	\$5,908,173
Lump Sum Contribution:	\$0
Total CSFP Lease Amount:	\$5,908,173
Length Of CSFP Lease Payments:	30 years
Assumed Interest Rate On Obligation:	5.50%
Estimated Annual CSFP Lease Payment:	\$406,514
First Year Of Occupancy Of New Project:	2008-09

Background: California Code of Regulations, title 4, section 10164, authorizes and directs staff to conduct a review of the charter school's financial status at the time of the application for an advance and final apportionment to determine whether the charter school has maintained a financially sound status. Staff has conducted the following analysis of Oscar De La Hoya Ánimo Charter High School (Animo De La Hoya) pursuant to the school's request for funding through the Charter School Facilities Program (Program).

In December 2004, the CSFA determined that Animo De La Hoya Charter High School was financially sound for purposes of the CSFP's Preliminary Apportionment. In February 2005, Animo De La Hoya received Preliminary Apportionment from the State Allocation Board through the CSFP. Animo De La Hoya's educational management organization, Green Dot Public Schools (Green Dot) will serve as guarantor/co-borrower.

In January 2006, Animo De La Hoya requested and received an advance apportionment of \$842,421 for design costs. At this time, Animo De La Hoya is requesting its final apportionment of approximately \$10,973,925 through the Program. Final project costs will be calculated by the Office of Public School Construction – the actual final apportionment amount may be less than the preliminary apportionment. Staff notes that the release of final apportionment funds is contingent on the execution of all program agreements – the Memorandum of Understanding, the Funding Agreement, and a Facility Use Agreement. Staff notes that discussions are still underway with the Los Angeles Unified School District regarding the Program agreements.

Project Description: Animo De La Hoya commenced instruction in FY 2003-04, with the enrollment of 140 ninth graders, and currently enrolls 525 students in grades nine through twelve at a temporary facility. The proposed project would provide a permanent facility (56,970 square feet, 24-classrooms) for a comprehensive charter high school serving grades nine through twelve. The property is owned by the Oscar De La Hoya Foundation in East Los Angeles, and has been leased by Green Dot at \$0 per year for ten years, with the option to purchase the site. Green Dot is proposing to utilize the option to purchase the site with Proposition 55 funds. Green Dot has received preliminary site approval from the California Department of Education (CDE), and has submitted a design and architectural package to the Department of the State Architect (DSA) for review. Pending DSA approval, Green Dot plans to break ground in May 2007 and complete construction by August 2008.

Organizational Information: Animo De La Hoya's charter was approved by the Los Angeles Unified School District in May 2003. The charter expires June 30, 2008.

Animo De La Hoya added a 12th grade level in FY 2006-07 as intended, and at a current enrollment of 520 students, is at 99% of its projected 2006-07 enrollment.

Educational Management Organization: Green Dot Public Schools' mission statement is "Transforming public education in Los Angeles so that all young adults receive the education they need to be prepared for college, leadership and life". Created in 1999, Green Dot Public Schools is organized as a 501c3 non-profit organization whose work is centered around influencing the Los Angeles Unified School District to turn around its failing high schools. Green Dot's method for turning these schools around includes developing clusters of small schools, and helping the district reinvent itself as the best school district in the country. Green Dot's focus is in the highest need areas of Los Angeles, where it is working to improve the district's worst high schools.

Management: Green Dot management team reported four new members to its board: Joanne Weiss, Noah Mamet, Abigail Garcia, and Mike Garcia.

Management Experience for Schools Open Less than Two Years: Not applicable.

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 De La Hoya has three years of reported API scores, allowing a review of progress and comparison to similar schools. Animo De La Hoya received an API base score of 623 in 2003-04, a growth score of 697 in 2004-05, and another growth score of 708 in 2005-06. This increase of 11 points exceeds the growth target of 5 points and the growth base score

of 708 exceeds the 614 median score for similar schools (as defined by the California Department of Education). Animo De La Hoya also met 14 of 14 AYP criteria for 2005-06.

Financial Analysis: Below we have highlighted selected financial data and credit indicators to evaluate the ability of Animo De La Hoya to meet its CSFP obligation.

Financial Performance: Staff's review of Animo De La Hoya's financial performance is based on the audited financial statements for fiscal years 2002-03 through 2005-06, and financial projections from 2007-08 through 2009-10, as provided by Animo De La Hoya. The school plans to occupy the project by August 2008 of the 2008-09 academic year. The projected enrollment at occupancy is projected to be 525 students, which would be unchanged from the current level.

As of June 30, 2006, Animo De La Hoya carried an \$83,333 balance on a \$250,000 Charter School Revolving Loan from the CDE; the final payment was scheduled for February 1, 2007. The school's projections do not indicate that any additional long-term debt will be incurred except for the Program lease.

In FY 2005-06, the school increased enrollment from 276 to 405 students as the third class of ninth graders matriculated and the first class of eleventh graders was served. Total revenues increased from \$2.10 million to \$3.52 million (\$9,054 per ADA) while total expenses, net of the principal payment on the revolving loan and before depreciation expense, grew from \$2.30 million to \$3.75 million (\$9,649 per ADA) for a recorded operating loss of \$231,326. After accounting for a net transfer in of \$577,304 from its parent organization, Green Dot, Animo De La Hoya increased net assets by \$345,978 to an ending balance of \$84,014. As of June 30, 2006, \$50,000 of this ending fund balance was held in cash, which represented 1.4% of the school's operating expenses for FY 2005-06.

While FY 2005-06 was the third consecutive year in which sizeable operating losses were recorded, the expected loss for FY 2006-07 is less at \$83,335 on total revenues and expenses of \$4.16 million (\$8,254 per ADA) and \$4.24 million (\$8,419 per ADA), respectively. In FY 2006-07, enrollment is growing to 525 students as the school begins to educate a twelfth grade class. Absent a net transfer in from Green Dot, Animo De La Hoya would reduce its ending fund balance to \$679 by June 30, 2007.

Based on the continued enrollment of 525 students in FY 2007-08, the school anticipates receiving \$4.27 million in total revenue and incurring \$4.08 million in total expenditures, for an increase to net assets of \$186,983. In August 2008, Animo De La Hoya expects to move from rental space costing over \$600,000 per year to their new facilities, thereby removing this rental payment and adding the annual CSFP lease payment projected at \$285,872. Factoring in these facility cost savings, final repayment of the revolving loan, modest cost of living adjustments for certified and non-certified staff and 2.0% revenue growth, the school is projecting increases in net assets of \$220,564 and \$191,261 in FY 2008-09 and FY 2009-10.

Based on our review of FY 2007 year-to-date actual financial information through April 30, 2007, and the projected budget for FY 2008, we expect Animo De La Hoya to finish FY 2007 with positive contributions to net assets. Enrollment growth and financial performance

projected for FY 2007 and FY 2008 are consistent with the information provided to CSFA staff in February 2007.

Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, Animo De La Hoya's annual CSFP lease payment will be \$406,514 beginning August 2008. This payment would represent, on average, 9.2% of projected revenues. Animo De La Hoya's projected FY 2008-09 net revenues of \$593,202 would provide debt service coverage of 159% in its first year of occupancy. For FY 2009-10, Animo De La Hoya's projected debt service coverage is projected at 147%. Accounting for Green Dot's subordination of its management fee to payment of the CSFP lease, the projected debt service coverage levels for FY 2008-09 and FY 2009-10 would increase to 229% and 213%.

Co-Borrower: Green Dot Public Schools is a 501(c)(3) nonprofit public benefit California Corporation, incorporated in 1999. Green Dot currently operates ten charter high schools in the Los Angeles area, including five schools which just began operations in Fall 2006. Green Dot currently operates the following schools:

1. Animo Leadership Charter High School (opened Fall 2000)
2. Animo Inglewood Charter High School (opened Fall 2002)
3. Oscar De La Hoya Animo Charter High School (opened Fall 2003)
4. Animo South Los Angeles Charter High School (opened Fall 2004)
5. Animo Venice Charter High School (opened Fall 2004)
6. Animo Film & Theater Arts (opened Fall 2006)
7. Animo Jackie Robinson (opened Fall 2006)
8. Animo Jefferson Charter High School (opened Fall 2006)
9. Animo Pat Brown (opened Fall 2006)
10. Animo Ralph Bunche (opened Fall 2006)

Green Dot's audited financial statements for FY 2005-06 are a consolidation of activities of five charter schools: Animo Leadership, Animo Inglewood, Animo De La Hoya, Animo South Los Angeles and Animo Venice. Past performance indicates that the organization uses net revenues generated by its older high schools as well as general revenues to subsidize the operations of its newer high schools until student enrollment has expanded to cover all four grade levels. Green Dot's dominant source of revenue for FY 2004-05 (\$16.4 million) and FY 2005-06 (\$21.7 million) were the per-ADA State apportionments received by its schools, with private contributions and government grants also representing significant levels of funding. The organization's primary expenses are teacher salaries and benefits, facility costs, and supplies. Over the last three fiscal years, Green Dot has increased its accrual based net assets by \$0.4 million, \$2.4 million, and \$1.7 million, respectively. On a cash basis, the organization recorded a \$48,352 net increase in FY 2004-05 and a (\$290,188) net decrease in FY 2005-06. The resultant cash and cash equivalents of \$813,963 at June 30, 2006 represent 4.3% of Green Dot's operating expenses for FY 2005-06. The organization expects to record approximately \$750,000 in cash and cash equivalents as of June 30, 2007.

As of June 30, 2006, Green Dot had aggregate long-term liabilities of \$7.1 million in the forms of four unsecured charter school revolving loans (\$545,833), two secured loans for computers (\$224,030) and a construction loan in the amount of \$6.3 million with a large

bullet payment due in January 2011. Green Dot's future minimum payments under non-cancelable operating leases for classroom and administrative space are approximately \$1.0 million per year through FY 2010-11.

Staff notes that including Animo De La Hoya, five Green Dot schools have received Preliminary Apportionment under Propositions 47 and 55. Each school intends to fund its 50% match through a 30-year lease from the CSFP. Although lease payments will be made from the revenues of each school, Green Dot would serve as co-borrower on each of these leases in the event of a default.

The table below presents a summary of Green Dot's total project cost information and estimated lease payments assuming 30-year terms and interest rates of 5.50%. The lease payment for the Animo De La Hoya project is expected to commence in FY 2008-09.

Green Dot School	Funding Source	Project Cost	CSFP Lease Amount	Annual Lease Payment
Animo Downtown	Prop. 55	\$12,142,552	\$6,071,276	\$417,737
Animo South LA	Prop. 55	12,457,476	6,228,738	428,571
Animo Venice	Prop. 55	8,309,572	4,154,786	285,872
Animo De La Hoya	Prop. 55	11,816,346	5,908,173	406,514
Animo Leadership	Prop. 47	10,023,014	5,011,507	344,819
		\$54,748,960	\$27,374,480	\$1,883,513

Strengths, Weaknesses and Mitigants

- + Debt service coverage met
- + Strong management and leadership; local district support
- + Support of Green Dot as co-borrower/guarantor
- + Endorsement and financial support of Oscar De La Hoya
- With five CSFP projects, CSFP-debt burden for Green Dot (guarantor) could be significant
- Release of final apportionment contingent on the execution of Program Agreements (between State, charter, EMO, and LAUSD)
- Historical financial performance has been weak however projections (which staff deems reasonable) provided by Animo De La Hoya indicate ability to maintain financial soundness in future years

Staff Recommendation: Staff recommends that the Authority members determine that Animo De La Hoya is financially sound for purposes of final apportionment as authorized under the Charter School Facilities Program. Staff recommends that the Members direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.