

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
EMO SUMMARY AS OF MARCH 23, 2008
GREEN DOT PUBLIC SCHOOLS (EMO FOR NINETEEN APPLICANT SCHOOLS)**

Background: Green Dot Public Schools, as an education management organization, (“Green Dot”, or the “EMO”) has submitted applications for Proposition 1D facilities financing for nineteen existing and projected schools for which Green Dot would act as guarantor, of which five schools have already received Preliminary Apportionment from the California School Finance Authority under Propositions 47 and 55 but are returning to the Board for additional funding. Although staff has also reviewed each applicant school on a stand-alone basis, the importance of Green Dot’s continued financial solvency and availability as a guarantor necessitates a review of Green Dot on an aggregate level.

Overview of Green Dot Public Schools: Green Dot (legal name Green Dot Educational Project, Inc.) is a 501(c)(3) nonprofit public benefit California Corporation, incorporated in 1999. Green Dot currently operates twelve charter high schools in the Los Angeles area, including two schools which began operations in fall 2007. Green Dot anticipates rapid growth to 31 high schools by 2010-11.

Enrollment Trends and Projections: Enrollment as of September 14, 2007 is provided below.

School	Opened	Enrollment by Grade				Total
		9	10	11	12	
Animo Leadership	2000-01	139	141	130	119	529
Animo Inglewood	2002-03	139	137	132	113	521
Oscar De La Hoya Animo	2003-04	147	131	125	126	529
Animo South L.A.	2004-05	142	131	128	122	523
Animo Venice	2004-05	149	135	118	94	496
Animo Film & Theater Arts	2006-07	39	46	32	0	117
Animo Jackie Robinson	2006-07	147	139	0	0	286
Animo Justice	2006-07	168	116	1	0	285
Animo Pat Brown*	2006-07	138	144	0	0	282
Animo Ralph Bunche	2006-07	147	143	0	0	290
Animo Watts 1 (Locke Tech)*	2007-08	153	0	0	0	153
Animo Watts 2*	2007-08	156	0	0	0	156
Total		1,664	1,263	666	574	4,167

* *Animo Pat Brown received Proposition 55 Preliminary Apportionment under the name Animo Downtown. Animo Watts 1 and 2 applied for Proposition 1D Preliminary Apportionment under the names Animo Jefferson 5 and 6, but are listed as their name appears on the California Department of Education website and the Green Dot website.*

Green Dot’s existing schools each had 9th grade waiting lists of at least 50 students in 2006-07. Animo Leadership, Inglewood, and Oscar De La Hoya, Green Dot’s oldest three schools, had an average 9th grade waitlist of 242 students. The one-year retention rate for Green Dot’s schools from October 2006 to April 2007 averaged about 93%. ADA as a percent of enrollment averaged 96% in 2004-05, 95% in 2005-06, and 96% in 2006-07. These ADA figures and enrollment demand provide some support for Green Dot’s projected ADA of 95% for all schools’ financial forecasts, as well as for Green Dot’s ambitious enrollment growth plans.

Based on its January 2007 business plan, Green Dot anticipates expanding to a total of thirty-one high schools in the Los Angeles area by 2010-11, serving over 14,000 students. This growth projection is dependent on Green Dot's ability to perform "school transformations" of large existing district-run schools (discussed below); a reduction or increase in these school transformations would substantially affect Green Dot's growth projections. Indeed, updated financial projections provided by Green Dot in July 2007 show slower short-term growth, apparently driven by delays in the school transformation schedule. However, Green Dot has confirmed its intention to grow to thirty-one schools by 2010-11. Green Dot has received private fundraising commitments supporting a substantial portion of the start-up costs for additional schools.

School Model: Green Dot's high schools typically follow the organization's standard model in which each school opens with a ninth grade of approximately 140 students, adds a new grade in each year, and reaches a maximum of approximately 525 students in grades 9-12 in the fourth year of operations. Green Dot targets individual school self-sufficiency from State revenues by the fifth year, requiring an estimated \$1 million per school of fundraising revenue through that point. Green Dot identifies the following as key sensitivities in this unit model: a) State apportionment revenues per average daily attendance (ADA); b) ADA as a percent of total enrollment; c) teacher salaries; and d) facility costs.

Five of Green Dot's existing schools have reached maximum enrollment of approximately 525 students through the EMO's school model. Three of these schools reached full enrollment by the 2006-07 school year (the most recent year for which financial results are available). Based on review of these schools' audited and unaudited financial statements, each school appears to operate on an effectively breakeven level once full enrollment is achieved, with some variation of operating surpluses and deficits. All three schools report operating surpluses before transfers out in 2006-07.

Green Dot's Animo Film & Theater Arts Charter High School, which is seeking Preliminary Apportionment under Proposition 1D, as a specialized school will not follow Green Dot's standard school model. With a projected maximum enrollment of 165 students (compared to the EMO's standard 525), and high per-ADA expenditures, the school is anticipated by Green Dot to operate at an ongoing deficit.

School Transformations: Green Dot's recent growth and ambitious growth schedule are based in part on the organization's "school transformations" plan, in which large traditional district-run high schools are replaced by a number (5 to 12) of smaller charter schools. Ideally, Green Dot's school transformation would include housing some of these schools in the facilities of the former district-run high school.

Green Dot launched its first school transformation by opening five new schools around Thomas Jefferson High School in the Los Angeles Unified School District (LAUSD) in September 2006. LAUSD has not agreed to transfer control of Thomas Jefferson High School to Green Dot, and is reported by Green Dot to be in ongoing negotiations. Green Dot reports that its five new schools in the Jefferson area had a combined waiting list of 600 students in 2006-07. Although it is difficult to directly compare Green Dot's new schools' performance to Thomas Jefferson High School after only one year of operations, staff notes that each new school's initial API score in 2006-07 was at least 100 points higher than Thomas Jefferson High School's. This suggests that student demand for Green Dot's new schools may continue.

The Los Angeles Board of Education voted in September 2007 to give control of LAUSD's Locke High School to Green Dot beginning fall 2008 for Green Dot's second large school transformation. The transfer is opposed by United Teachers Los Angeles, which has filed a grievance to block the transfer. Green Dot projects that school transformations will require private contributions averaging \$10 million per transformed large school; although Green Dot has managed to raise large amounts from foundations to date (discussed below), it is possible that such high up-front requirements will delay or reduce Green Dot's transformation schedule.

Academic 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, especially if those trends exceed threshold goals set by the school or the California Department of Education (CDE), are viewed favorably. 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.

API data for purposes of comparison only exist for Green Dot schools started prior to 2006-07. These schools have demonstrated respectable academic performance to date compared to similar schools. Performance compared to state averages is weaker; however the large traditional public high schools, against which Green Dot compares itself, have uniformly performed worse than Green Dot's schools on a statewide API basis. Only two of the EMO's five schools for which data are available met API growth targets in 2006-07.

API Base Rank (10=Best): Similar Schools/Statewide				
School	2003	2004	2005	2006
Animo Leadership	NA/5	9/3	7/3	7/3
Animo Inglewood	10/4	10/7	10/5	10/6
Oscar De La Hoya Animo		9/3	10/6	10/5
Animo South L.A.			9/3	10/6
Animo Venice			10/5	9/5

Green Dot's schools' AYP performance has been mixed to date; existing schools seem to follow a trend of failing AYP for the first year or two of operation, after which they meet all AYP criteria. This mixed performance does not appear to have affected student demand to date.

AYP Performance - Met AYP Targets					
School	2002-03	2003-04	2004-05	2005-06	2006-07
Animo Leadership	Yes	Yes	Yes	Yes	Yes
Animo Inglewood	No	Yes	Yes	Yes	Yes
Oscar De La Hoya Animo		No	No	Yes	Yes
Animo South L.A.			No	No	Yes
Animo Venice			No	No	Yes
Animo Film & Theater Arts					No
Animo Jackie Robinson					No
Animo Justice					No
Animo Pat Brown					No
Animo Ralph Bunche					No

Fundraising and Contribution Revenue: Green Dot has funded its rapid growth to date in part through successful fundraising from private donors. Green Dot raised \$12.5 million in private contributions and grants for the three years ending 2005-06 based on the EMO's audited financial statements, and reports additional committed private support totaling \$16.1 million from 2006-07 through 2009-10. These figures include major philanthropy from the Broad Foundation, the Wasserman Foundation, the Bill & Melinda Gates Foundation, and the Michael & Susan Dell Foundation. These contributions are largely tied to financing start-up costs of new schools, rather than ongoing support costs for the EMO. Green Dot's financial projections include additional contributions and fundraising of roughly \$1.0 million per year; this figure includes \$650,000 per year of projected Senate Bill 740 revenues. Staff notes that as Green Dot's schools enter CSFP facilities, they will no longer be eligible for SB740 aid. However, Green Dot's track record of fundraising suggests an ability to meet its contribution goals. Green Dot's draft 2007-08 audited financial statements include \$9.5 million in contributions and grants.

Organization and Management: Green Dot's home office, including 21 of 239 of Green Dot's full-time employees, is responsible for developing new schools, back-office management, fundraising, and advocacy initiatives. Green Dot's home office management costs are paid through fundraising and through a management fee of 6% of individual school revenues. Green Dot anticipates that the home office will be self-sustaining on school management fees by 2011. The organization has stated that school management fees will be subordinate to any CSFP lease payments.

Unusually for a charter school operator, Green Dot has a teachers' union, the Asociacion de Maestros Unidos. Green Dot believes the presence of a union is advantageous in attracting qualified teachers and in improving relations with LAUSD.

Green Dot is governed by a board of directors, and led by Steve Barr, Chairman and CEO. Mr. Barr has managed Green Dot since its inception in 1999 and is a State Board of Education appointee to the Advisory Commission on Charter Schools. Mr. Barr has previously served as a finance chair for the national Democratic Party. Marco Petruzzi, President and Chief Operating Officer, joined Green Dot in January 2007, replacing Marshall Tuck who left the EMO after serving as Chief Operating Officer since 2002. Mr. Petruzzi previously founded an organization providing management and administrative services to charter school management organizations, following fifteen years in management consulting.

Financial Performance: Green Dot has provided audited financial statements for 2003-04 through 2005-06, draft audited financial statements for 2006-07, budgets for 2007-08, and projections through 2009-10. Staff notes that the EMO's projections are based on a schedule of school additions which may vary significantly depending on Green Dot's ability to enact its school transformations described above. As an example, Green Dot's January 2007 business plan anticipated seven new schools opening in 2007-08, presumably based on an expected school transformation; the EMO's updated projections, provided as part of its CSFP application package, are based on Green Dot's actual school addition of two new schools in 2007-08. Based on Green Dot's anticipated acquisition of Locke High School in 2008-09, Green Dot projects much higher growth in that year.

Noting that this growth volatility is dependent on factors partially out of the EMO's control, staff has greater confidence in the accuracy of Green Dot's single-school projections (which follow a standard, relatively proven model) than in the EMO's aggregate financial forecasts. However, Green Dot's financial performance to date and net asset position are known and may provide indications of the EMO's future performance.

Performance / Change in Net Assets: Based on audited financials, Green Dot's dominant source of revenue for 2003-04 (\$6.9 million total, based on four schools), 2004-05 (\$16.4 million total, based on five schools), and 2005-06 (\$21.7 million total, based on five schools) were per-ADA State apportionments received by its schools, with private contributions and government grants also representing significant levels of funding. Revenue growth was based primarily on enrollment growth. Contributions and grants represented an average of 25% of total annual revenues. The organization's primary expenses were teacher salaries and benefits, and facility costs. For the three years ending 2005-06, Green Dot increased its accrual-based net assets by \$0.4 million, \$2.4 million, and \$1.7 million, respectively. In 2006-07, Green Dot added five additional schools, increasing annual revenues to \$39.7 million, including \$9.5 million in grants, contributions, and CSFP Proposition 47/55 funding. The EMO estimates an increase to net assets of \$5.75 million.

In 2007-08, Green Dot added two additional schools, and has budgeted \$37.7 million in revenues, including \$6.4 million in fundraising and grants. The EMO anticipates an increase in net assets of \$1.2 million for the year. For the following two fiscal years, Green Dot projects growing revenues to \$56.4 million and \$69.6 million, respectively, with increases in net assets of \$0.7 million and \$1.6 million. Staff notes that Green Dot's historical and projected financials indicate an ongoing annual deficit of \$1.8-\$5.5 million before grant and foundation income. Green Dot believes that these deficits will end once it reaches its target of 31 schools, and once its individual schools reach self-sufficiency at maturity of 525 students. Historically and in the near future, Green Dot's annual shortfall appears to have been addressed through strong actual and committed fundraising.

Assets/Liabilities: Based on the EMO's audited financial statements, as of June 30, 2006 Green Dot had aggregate liabilities of \$7.5 million, including 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. The tax-exempt \$6.3 million loan, relating to the Animo Inglewood facility, is senior to any CSFP lease obligations. Green Dot's future minimum payments under non-cancelable operating leases for classroom and administrative space are approximately \$1.0 million per year through 2010-11.

Green Dot has informed staff that the organization may pursue additional borrowing for its non-CSFP-associated schools. Although Green Dot has listed itself as guarantor on all its schools' applications, Green Dot is formally a co-borrower rather than guarantor, since the organization is not legally separated from the school. In the event of lease default, the CSFA would have recourse first to the specific school assets, and then recourse on parity with other creditors to Green Dot as an EMO. Other creditors would have first recourse to schools with associated obligations under the Green Dot umbrella.

Green Dot's net asset position as of June 30, 2006 was \$5.2 million. Based on Green Dot's draft audited financial statements for 2006-07, the EMO's net asset position rose to \$11.0 million as of June 30, 2007. Green Dot held cash of \$814,000 as of June 30, 2006.

CSFP Applications: Five Green Dot schools have received Preliminary Apportionment under Propositions 47 and 55, excluding Animo Inglewood which later removed itself from the Program. Four of these five schools has re-applied for additional facility financing under Proposition 1D. Two schools, Oscar De La Hoya Animo and Animo Venice, have applied for Final Apportionment under Proposition 55 in early 2008. Green Dot is also applying for facility financing for six additional existing schools, as well as eight schools which have not yet been

opened, for a total of nineteen schools. Each school intends to fund its 50% match through a 30-year lease through 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 projected CSFP facility cost and estimated lease payments assuming 30-year terms and interest rates of 5.50%.

Green Dot School	School Opening	CSFP Facility Occupancy Date	Project Cost	CSFP Lease Amount	Annual Lease Payment*
Animo Leadership	2000-01	2009-10	\$21,461,250	\$10,730,625	\$738,325
Oscar De La Hoya Animo	2003-04	2009-10	19,255,392	9,627,696	608,561
Animo South L.A.	2004-05	2009-10	21,578,320	10,789,160	742,352
Animo Venice	2004-05	2009-10	25,270,656	12,635,328	825,619
Animo Film & Theater Arts	2006-07	2009-10	30,250,866	15,125,433	1,040,711
Animo Jackie Robinson	2006-07	2009-10	27,883,656	13,941,828	959,273
Animo Justice	2006-07	2009-10	27,883,656	13,941,828	959,273
Animo Pat Brown	2006-07	2009-10	22,111,848	11,055,924	760,707
Animo Ralph Bunche	2006-07	2009-10	27,883,656	13,941,828	959,273
Animo Watts 1	2007-08	2010-11	25,503,656	12,751,828	877,394
Animo Watts 2	2007-08	2010-11	25,503,656	12,751,828	877,394
Animo College Prep #1	2008-09	2011-12	25,503,656	12,751,828	877,394
Animo College Prep #4	2008-09	2011-12	25,503,656	12,751,828	877,394
Animo College Prep #7	2008-09	2011-12	25,503,656	12,751,828	877,394
Animo College Prep #8	2008-09	2011-12	25,503,656	12,751,828	877,394
Animo College Prep #9	2008-09	2011-12	25,503,656	12,751,828	877,394
Animo College Prep #10	2008-09	2011-12	25,503,656	12,751,828	877,394
Animo College Prep #11	2008-09	2011-12	25,503,656	12,751,828	877,394
Animo College Prep #12	2008-09	2011-12	25,503,656	12,751,828	877,394
Total (Prop 47 & 55)			69,517,914	34,758,957	N/A
Total (Prop 1D)			409,097,946	204,548,973	N/A
Grand Total			\$478,615,860	\$239,307,930	\$16,368,034

* Annual lease payment based on 5.5% interest rate (except for Oscar De La Hoya Animo and Animo Venice (Prop 55) which have applied for final apportionment, assumed at 4.75%). Animo Leadership, South L.A, Venice, and Pat Brown have received Preliminary Apportionment under Prop 47 or 55, but are returning for additional funding under Prop 1D.

Strengths, Weaknesses and Mitigants

- + Track record of strong growth, enrollment demand, and financial stability.
- + Proven fundraising ability to date.
- With nineteen potential CSFP projects, Green Dot's CSFP debt burden would be a major component of the EMO's ongoing expenditures.
- As demonstrated in each applicant school's separate review, several Green Dot schools may have difficulties maintaining CSFP lease repayment without EMO assistance.
- Projected organizational growth schedule based on uncertain school transformation schedule.