

**CHARTER SCHOOL FACILITIES PROGRAM  
PROPOSITION 1D FUNDING ROUND  
STAFF SUMMARY REPORT – APRIL 2008**

<b>Applicant/Obligor:</b>	Green Dot Public Schools
<b>Project School:</b>	Ánimo Leadership Charter High School
<b>CDS (County – District – School) Code:</b>	19-64709-1996313
<b>Proposed Project Location:</b>	11044 & 11111 S. Freeman Avenue, Inglewood, CA 90304
<b>Type of Project:</b>	New Construction
<b>County:</b>	Los Angeles County
<b>District in which Project is Located:</b>	Los Angeles Unified School District
<b>Charter Authorizer:</b>	Lennox Elementary School District
	Proposition 47: \$10,023,014
	<u>Proposition 1D: \$11,438,236</u>
<b>Total OPSC Project Cost:</b>	Total: \$21,461,250
<b>State Apportionment (50% Project Cost):</b>	\$10,730,625
<b>Lump Sum Contribution:</b>	\$0
	Proposition 47: \$5,011,507
	<u>Proposition 1D: \$5,719,118</u>
<b>Total CSFP Financed Amount:</b>	Total: \$10,730,625
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	5.50%
	\$344,819 (Proposition 47)
	<u>393,506 (Proposition 1D)</u>
<b>Estimated Annual CSFP Payment:</b>	\$738,325 (Combined)
<b>First Year of Occupancy of New Project:</b>	2009-10

**Staff Recommendation:** Green Dot Public Schools (Green Dot), on behalf of Animo Leadership Charter High School (Animo Leadership) is seeking an additional \$11.44 million of Proposition 1D financing to supplement \$10.02 million of Proposition 47 financing for which Animo Leadership has previously received Preliminary Apportionment. Staff recommends that the California School Finance Authority (CSFA) Board determine that Animo Leadership 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.

Green Dot, as education management organization (EMO) and co-borrower, has applied for CSFP Preliminary Apportionment under Proposition 1D for a total of eighteen schools (including additional funding for four schools which previously received Preliminary Apportionment under Proposition 47 and 55). Green Dot has received funding under

Proposition 55 for a further school, for a total of nineteen potential CSFP-financed facilities. With this in mind, staff has reviewed Green Dot as an organization and guarantor under separate cover.

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

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	Animo Leadership met all eligibility criteria. The school has been open since September 2000, meeting the Program's requirement for two years of charter school experience in California. Animo Leadership's current charter will expire in July 2009.
<b>Demographic Information</b>	Animo Leadership serves 9 <sup>th</sup> through 12 <sup>th</sup> grade students in Los Angeles. At maximum capacity of 525 students in 2007-08, Animo Leadership's enrollment is not expected to grow as a result of CSFP facilities occupation.
<b>Debt Service Coverage</b>	Debt Service Coverage from school revenues is projected to be 110.7% in 2009-10, the first year of CSFP lease payment, and 114.0% in 2010-11. Removing the school's management fee to Green Dot, which would be subordinate to lease payment, coverage rises to 148.2% in 2009-10.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. Lease as % of Projected Revenues: 15.9% in 2009-10.</li> <li>2. Projected Contributions as % of Revenues: Less than 1%.</li> <li>3. CSFP lease would be supported by Green Dot, as EMO and co-borrower.</li> </ol>
<b>Student Performance</b>	Animo Leadership met AYP in each of the last four years. The school met API growth targets in the last three years, after failing to meet its target in 2004. The school's API statewide rank has been 3 (out of 10) for the last three years; its similar schools rank was 9 in 2004, and 7 in 2005 and 2006.

**Program Eligibility:** Animo Leadership received its initial charter on November 23, 1999. As Animo Leadership opened in September 2000, its currently in its eighth year of operations. The school's charter was renewed in 2004, with an expiration date in July 2009.

In March 2008, verification was received from the Superintendent's Office of Lennox Elementary School District, confirming that Animo Leadership 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 the applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead the staff to question the financial or legal integrity of this applicant.

**Project Description:** Green Dot, on behalf of Animo Leadership, received Preliminary Apportionment of \$10.0 million under Proposition 47 for permanent facilities for Animo Leadership. Green Dot has applied for \$11.4 million of additional funding under Proposition 1D, based on additional project costs. Green Dot has identified property at 11044 and 11111 S. Freeman Avenue in Inglewood, CA (Los Angeles County); the property has been acquired for Green Dot by Pacific Charter School Development, Inc. (PCSD), identified by

Green Dot as a nonprofit public benefit corporation. PCSD intends to develop facilities of between 30,000 and 45,000 square feet on the properties, for a maximum student population of approximately 525 students in grades nine through twelve.

Based on the school's website, Animo Leadership is currently leasing temporary space at 1155 W. Arbor Vitae in Inglewood, approximately 2.5 miles northwest of the proposed permanent facilities.

Animo Leadership is Green Dot's first school, following Green Dot's basic high school 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.

**Educational Management Organization:** 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.

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 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 management has over two years of charter school management experience. Green Dot's management is discussed in staff's review of Green Dot as an EMO, under separate cover.

**School Management:** Julio Murcia, principal of Animo Leadership, has worked in education for 13 years in positions including tutor, teacher, counselor, activities director, bilingual coordinator, assistant principal, and principal. He received his Bachelor of Arts in Education from California State University, Northridge, and Masters degrees from Loyola Marymount University in Counseling and in Administration.

**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 Leadership has three years of reported API scores, allowing a review of progress and comparison to similar schools. Following a drop in 2003-04, Animo Leadership has shown steady progress in its API results since 2003-04, increasing its growth score to 712 in 2006-07. API Base Statewide Rank dropped from 5 (out of 10) in 2003-04 to 3 in 2004-05 through 2006-07. Similar School Rank dropped from 9 in 2004-05 to 7 in 2005-06 and 2006-07. The school met API in two of the past four years. Animo Leadership met all applicable AYP requirements from 2003-04 through 2006-07.

Animo Leadership Charter H.S.	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>				
Met All AYP Criteria?	Yes	Yes	Yes	Yes
Criteria Met / Required Criteria	18 / 18	18 / 18	14 / 14	18 / 18
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	Yes	Yes
<b>ACADEMIC PERFORMANCE INDEX (API)</b>				
Met Schoolwide Growth Target?	No	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	No	Yes	No	Yes
Met Both Schoolwide & CI Growth Targets?	No	Yes	No	Yes
API Base Statewide Rank (10 = best)	5	3	3	3
API Base Similar Schools Rank (10 = best)	N/A	9	7	7
School's Actual Growth	-41	23	24	61
Similar Schools Median of Actual Growth	-13	36	9	4
Did School's Growth Exceed Median?	No	No	Yes	Yes

**School Enrollment:** Animo Leadership began operations in 2000-01, with an initial class of 140 ninth graders. Animo Leadership added successive grades in each following year, reaching full enrollment of 520 students in grades nine through twelve in 2003-04. Animo Leadership does not intend to increase enrollment beyond 525 students.

Green Dot reports that Animo Leadership retained 94% of its original students from October 2006 through April 2007. Green Dot also reports that Animo Leadership's ADA as a percent of total enrollment was 95-96% for the last three years, which supports the school's 95% ADA assumption in its financial forecasts. Animo Leadership had a 9th grade waitlist of 333 students in 2006-07 and 278 students in 2007-08, indicating very strong ongoing student demand for the school.

**Financial Performance:** Below we have highlighted selected financial data and credit indicators to evaluate Animo Leadership's ability to meet its CSFP obligation.

Animo Leadership 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
<b>ENROLLMENT PROJECTIONS</b>						
Enrollment	511	538	525	525	525	525
Average Daily Attendance	486	508	499	499	499	499
Average Daily Attendance (%)	95%	94%	95%	95%	95%	95%
<b>FINANCIAL PROJECTIONS</b>						
Total Revenues Available for CSFP Lease Payment	\$ 4,202,649	\$ 4,875,694	\$ 4,361,585	\$ 4,519,210	\$ 4,654,789	\$ 4,794,433
Total Expenses Paid Before CSFP Lease Payment	4,226,044	4,529,887	4,481,383	4,487,756	3,843,609	3,958,917
Accounting Adjustments	(26,605)	5,223	5,719	5,891	6,067	6,249
Net Revenues Available for CSFP Lease Payment	\$ (50,000)	\$ 351,030	\$ (114,079)	\$ 37,345	\$ 817,247	\$ 841,765
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ 738,325	\$ 738,325
Net Revenues After CSFP Lease Payment	\$ (50,000)	\$ 351,030	\$ (114,079)	\$ 37,345	\$ 78,922	\$ 103,440
<b>FINANCIAL INDICATORS</b>						
Net Revenues Available for CSFP Lease Payment	\$ (50,000)	\$ 351,030	\$ (114,079)	\$ 37,345	\$ 817,247	\$ 841,765
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	110.7%	114.0%
Contributions	\$ 19,660	\$ -	\$ 16,000	\$ 43,260	\$ 44,557	\$ 45,895
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	104.7%	107.8%
Management Fee to EMO	\$ -	\$ 292,542	\$ 260,735	\$ 268,557	\$ 276,614	\$ 284,912
Debt Service Coverage by Net Revenues (w/out Mgmt Fee)	N/A	N/A	N/A	N/A	148.2%	152.6%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	15.9%	15.4%
Contributions / Revenues	0.5%	N/A	0.4%	1.0%	1.0%	1.0%
Net Revenues After CSFP Lease Payment / Revenues	-1.2%	7.2%	-2.6%	0.8%	1.7%	2.2%
Revenues / ADA	\$ 8,647	\$ 9,595	\$ 8,745	\$ 9,061	\$ 9,333	\$ 9,613
Adjusted Expenses / ADA	\$ 8,750	\$ 8,904	\$ 8,974	\$ 8,986	\$ 9,175	\$ 9,405
Net Revenues After CSFP Lease Payment / ADA	\$ (103)	\$ 691	\$ (229)	\$ 75	\$ 158	\$ 207
Net Working Capital	\$ 211,129	\$ 573,604				
Net Working Capital / Expenses	5.0%	12.7%				

The school plans to occupy the CSFP-financed facilities in 2009-10. The projected enrollment at occupancy is projected to be 525 students, for no growth over current levels.

As of June 30, 2007, Animo Leadership's audited financial statements did not show any long-term debt outstanding for the school. The school's projections do not indicate that any additional long-term debt will be incurred except for the Program lease.

Performance/Change in Net Assets: Staff's review of Animo Leadership's financial performance is based on audited financial statements for fiscal years 2004-05 through 2006-07, mid-year financial reports as of 2/29/2008, and financial projections from 2007-08 through 2010-11, as provided by Green Dot. The school plans to occupy the project by the 2009-10 school year, based on its financial projections. Enrollment at occupancy is projected to be 525 students, effectively the same as current levels.

Animo Leadership reached its target maximum occupancy of approximately 525 students in 2003-04. In that year, the school decreased its net asset position by \$51,000 to \$472,000 on revenues of \$3.73 million and expenditures of \$3.78 million. In 2004-05, Animo Leadership's revenues increased to \$3.91 million due primarily to higher per-ADA state revenues. Expenditures increased to \$4.05 million, for a net asset decrease of \$145,000. In 2005-06, total revenues increased to \$4.20 million (\$8,647 per ADA) while total expenses grew to \$4.25 million (\$8,696 per ADA) for an operating loss of \$50,000 after final repayment of State revolving loan debt. Staff notes that these losses are after management fees to Green Dot of approximately \$200,000 per year.

In 2006-07, the school's revenues increased on the year prior to \$4.88 million (\$9,595 per ADA) and expenditures increased to \$4.53 million (\$8,904 per ADA). The widened per-ADA spread is due to non-budgeted one-time State revenues of \$370,000.

Based on continued enrollment of 525 students in 2007-08, the school budgets receiving \$4.36 million in total revenue and incurring \$4.48 million in total expenditures, for a decrease in net assets of \$114,000. The negative operating results versus the year prior are due to budgeted increases in temporary facility costs. In 2008-09, Animo Leadership anticipates increasing net assets by \$37,000 on revenues of \$4.52 million and expenditures of \$4.49 million. Staff notes that Animo Leadership's past and projected annual financial performance includes approximately \$275,000 per year in annual management fees to Green Dot, as EMO. Green Dot has stated that this fee would be subordinate to any CSFP facilities lease payment.

In August 2009, Animo Leadership expects to move from its temporary leased space to CSFP-financed facilities. Factoring in these new facility costs, and based on an assumed inflation rate of 3% for most revenues and expenditures, the school is projecting operating surpluses of \$80,000 to \$100,000 in 2009-10 and 2010 11.

Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, Animo Leadership's total annual CSFP lease payment (including Proposition 47 and Proposition 1D Allocations) will be \$738,325 beginning 2009-10. This payment would represent, on average, a reasonable 15.7% of projected revenues in the first two years of project occupancy. Animo Leadership's projected 2009-10 net revenues of \$817,247 would provide debt service coverage of 110.7% in its first year of occupancy. For 2010-11, Animo Leadership's projected debt service coverage increases to 114.0%. Accounting for Green Dot's subordination of its management fee to payment of the CSFP lease, the projected debt service coverage levels for 2009-10 and 2010-11 would increase to 148.2% and 152.6%, respectively.

Asset Position and Liquidity: As of June 30, 2007, Animo Leadership had net assets of \$649,806, including \$383,029 in cash. The school's current assets of \$1,054,991 were substantially higher than current liabilities of \$481,387. Green Dot as co-borrower also provides an additional source of liquidity.

### **Strengths, Weaknesses and Mitigants**

- + Debt service coverage met based on reasonable financial projections.
- + Support of Green Dot as co-borrower/guarantor.
- + Reasonably strong student demand; no additional school growth required to meet CSFP payment.
- With nineteen prospective CSFP projects, CSFP-debt burden for Green Dot (co-borrower/guarantor) could be significant.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Animo Leadership is financially sound for the purposes of the Charter School Facilities 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 Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.