

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

Applicant/Obligor:	Green Dot Public Schools
Project School:	Animo Pat Brown Charter High School
CDS (County – District – School) Code:	19-64733-0106849
Proposed Project Location:	Jefferson High School Area of So LA
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 Proposition 55: \$12,142,552 <u>Proposition 1D: \$9,969,296</u>
Total OPSC Project Cost:	Total: \$22,111,848
State Apportionment (50% Project Cost):	\$11,055,924
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$11,055,924
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	5.50%
Estimated Annual CSFP Payment:	\$760,707
First Year of Occupancy of New Project:	2009-10

Staff Recommendation: Green Dot Public Schools (Green Dot), on behalf of Animo Pat Brown Charter High School (Animo Pat Brown) is seeking an additional \$9.97 million of Proposition 1D financing to supplement \$12.14 million of Proposition 55 financing for which Animo Pat Brown (under its previous name Animo Downtown Charter High School) received Preliminary Apportionment in February 2005. Staff recommends that the California School Finance Authority (CSFA) Board determine that Animo Pat Brown 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 Pat Brown. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	Animo Pat Brown has been open since September 2006, less than two years of charter school experience in California. However, Green Dot has operated charter schools in California since 2000-01. Animo Pat Brown's current charter will expire in April 2009.
Demographic Information	Animo Pat Brown serves 9 th and 10 th grade students in Los Angeles. Enrolling 284 students in 2007-08, Animo Pat Brown intends to grow through the addition of an 11 th and 12 th grade in 2008-09 and 2009-10, to meet its maximum targeted capacity of approximately 525 students in the first year of CSFP facilities occupation.
Debt Service Coverage	Debt Service Coverage from school revenues is projected to be 113.3% in 2009-10, the first year of CSFP lease payment, and 118.5% in 2010-11 (see "Project Description" below). Removing the school's management fee to Green Dot, which would be subordinate to lease payment, coverage rises to 150.1% in 2009-10.
Other Financial Factors	<ol style="list-style-type: none"> 1. Lease as % of Projected Revenues: 15.8% 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	Animo Pat Brown met all AYP criteria except for graduation rate in 2007, its first year of enrollment. Since the school began operations in 2006-07, the school does not have API growth targets or an API statewide/similar school rank. Academic performance for Green Dot's older schools is available in staff's review of Green Dot, under separate cover.

Program Eligibility: Animo Pat Brown's current charter is valid from April 2004 through April 2009. In February 2008, verification was received from the Superintendent's Office of Los Angeles Unified School District, confirming that Animo Pat Brown is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Animo Pat Brown opened in September 2006 and is currently in its second year of operations. Green Dot's management team has more than two years of experience in charter school management and operations in California.

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 Pat Brown, received Preliminary Apportionment of \$12.1 million under Proposition 55 for permanent facilities for Animo Pat Brown. Green Dot has applied for \$9.97 million of additional funding under Proposition 1D, based on additional project costs. The site for the new facility has not yet been identified, but is expected to be located within a three-to-four mile radius around Thomas Jefferson High School, located at 1319 East 41st Street, Los Angeles, CA 90011. Green Dot expects

that the facilities will consist of between 30,000 and 45,000 square feet, for a maximum student population of approximately 525 students in grades nine through twelve.

Animo Pat Brown is currently leasing temporary space at 2400 S. Western Ave. in Los Angeles, approximately 4-5 miles northwest of Thomas Jefferson High School. Based on Green Dot's partial-year 2007-08 financials, the school's annual facility cost is approximately \$436,000.

Animo Pat Brown, along with Animo Justice, Animo Ralph Bunche, Animo Jackie Robinson, and Animo Film & Theater Arts, was opened in 2006-07 as part of Green Dot's Jefferson High School transformation project, after five previous Green Dot schools were established from 2000-01 through 2005-06. Animo Pat Brown follows 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 per-student 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, Green Dot has indicated that 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: Chad Soleo has served as the Principal of Animo Pat Brown since the school's opening. Previously, Mr. Soleo began teaching English language arts through Teach for America at Alain Leroy Locke High School in South Los Angeles. Mr. Soleo became an Assistant \principal at Locke in 2005, coordinating Locke's effort to reorganize itself into seven small learning communities. Mr. Soleo received a Bachelor of Arts degree in English Literature from the University of Arizona. He also received a Master's degree in Secondary Education from Loyola Marymount.

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.

As a relatively new school, Animo Pat Brown has only one year of reported API scores. Animo Pat Brown received a base API score of 671 for 2006-07, and met 17 of 18 AYP criteria (failing only its graduation rate). More extensive student performance metrics are available for Green Dot's older schools – summarized below is a summary of API similar schools information for schools managed by Green Dot which have operated long enough to have such data. A more extensive review of Green Dot school performance is provided in staff's review of Green Dot as an EMO.

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

School Enrollment: Animo Pat Brown began operations in 2006-07, with an initial class of 145 ninth graders. Animo Pat Brown added a tenth grade in 2007-08, for enrollment of 284. Animo Pat Brown intends to add an eleventh grade in 2008-09 (for enrollment of 420 students) and a twelfth grade in 2009-10, the first year of CSFP occupancy, reaching a maximum projected growth of 525 students.

Green Dot reports that Animo Pat Brown's ADA as a percent of total enrollment was 96.4% in 2006-07. Green Dot's schools averaged an ADA of 95.0%-95.9% in the past three years, providing support for the school's 95% ADA assumption in its financial forecasts. Animo Pat Brown had a 9th grade waitlist of 116 students in 2006-07, indicating strong ongoing student demand for the school.

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

Green Dot Public Schools - Animo Pat Brown Charter H.S.	Actual FY 2006-07	Budgeted FY 2007-08	Projected FY 2008-09	Projected FY 2009-10	Projected FY 2010-11
ENROLLMENT PROJECTIONS					
Enrollment	145	284	420	525	525
Average Daily Attendance	136	265	399	499	499
Average Daily Attendance (%)	94%	93%	95%	95%	95%
FINANCIAL PROJECTIONS					
Total Revenues Available for CSFP Lease Payment	\$ 2,015,244	\$ 2,405,685	\$ 3,645,802	\$ 4,683,121	\$ 4,823,627
Total Expenses Paid Before CSFP Lease Payment	1,921,092	2,565,685	3,440,931	3,774,487	3,875,579
Accounting Adjustments	1,488	1,980	(47,243)	(46,465)	(46,359)
Net Revenues Available for CSFP Lease Payment	\$ 95,640	\$ (158,020)	\$ 157,628	\$ 862,169	\$ 901,689
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ 760,707	\$ 760,707
Net Revenues After CSFP Lease Payment	\$ 95,640	\$ (158,020)	\$ 157,628	\$ 101,462	\$ 140,982
FINANCIAL INDICATORS					
Net Revenues Available for CSFP Lease Payment	\$ 95,640	\$ (158,020)	\$ 157,628	\$ 862,169	\$ 901,689
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	113.3%	118.5%
Contributions	\$ 575,030	\$ 42,418	\$ 10,582	\$ 21,165	\$ 21,800
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	110.6%	115.7%
Management Fee to EMO	\$ 108,953	\$ 143,956	\$ 218,113	\$ 279,718	\$ 288,109
Debt Service Coverage by Net Revenues (w/out Mgmt Fee)	N/A	N/A	N/A	150.1%	156.4%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	16.2%	15.8%
Contributions / Revenues	28.5%	1.8%	0.3%	0.5%	0.5%
Net Revenues After CSFP Lease Payment / Revenues	4.7%	-6.6%	4.3%	2.2%	2.9%
Revenues / ADA	\$ 14,863	\$ 9,095	\$ 9,137	\$ 9,390	\$ 9,671
Adjusted Expenses / ADA	\$ 14,157	\$ 9,693	\$ 8,742	\$ 9,186	\$ 9,389
Net Revenues After CSFP Lease Payment / ADA	\$ 705	\$ (597)	\$ 395	\$ 203	\$ 283
Net Working Capital	\$ 89,687				
Net Working Capital / Expenses	4.7%				

The school plans to occupy the CSFP-financed facilities in 2009-10. The projected enrollment at occupancy is projected to be 525 students, based on the addition of an eleventh and twelfth grade in the next two school years.

As of June 30, 2007, Animo Pat Brown's audited financial statements showed no outstanding debt obligations. The school's financial projections include a State revolving fund loan in 2007-08, due over the following four years at \$50,000 per year. Green Dot reports that this State revolving fund loan has not yet been implemented. If the school does not in fact enter into the revolving loan, the school's forecasted expenditures shown above would decrease by \$50,000 per year. 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 Pat Brown's financial performance is based on audited financial statements for fiscal year 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 in 2009-10.

In 2006-07, Animo Pat Brown opened with its first class of ninth graders, enrolling 145 students. The school's revenues of \$2.02 million exceeded expenditures by \$96,000 – this unusual surplus in the first year of operations was due to start-up federal implementation grant revenue of approximately \$324,000, foundation grants of \$323,500, and net transfers in of over \$135,000. Before inclusion of transfers and grant revenues, revenues were approximately \$9,546 per ADA. The school made a management fee payment of \$109,000 to Green Dot, unusual for a first-year school under the Green Dot model. Animo Pat Brown increased net assets from \$0 to \$94,152 as of 6/30/2007.

Based on the addition of its first class of tenth graders in 2007-08, reaching a mid-year ADA of 265 students, Animo Pat Brown anticipates receiving \$2.41 million in total revenue and incurring \$2.57 million in total expenditures, for a decrease in net assets of \$(158,020). Green Dot has indicated that the school is, as of 2/29/2008, approximately \$100,000 behind meeting this budget, due largely to higher than anticipated student transportation costs. In the following three fiscal years, based on (1) addition of an eleventh grade in 2008-09 and a twelfth grade in 2009-10, (2) temporary facilities cost of \$474,000 in 2008-09, (3) ADA of approximately 500 students beginning 2009-10, (4) projected annual revenue and expenditure growth of 3%, and (5) CSFP facility occupancy in 2009-10, the school is projecting increases/(decreases) in net assets of \$157,628, \$101,462, and \$140,982 in 2008-09, 2009-10, and 2010-11, respectively.

Staff notes that Animo Pat Brown's projected annual financial performance includes annual management fees to Green Dot, as EMO, of 6% of revenues. Green Dot has stated that this fee would be subordinate to any CSFP facility payment.

Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, Animo Pat Brown's total annual CSFP payment (including Proposition 55 and Proposition 1D Allocations) will be \$760,707 beginning 2009-10. This payment would represent, on average, a reasonable 16% of projected revenues in the first two years of project occupancy. Animo Pat Brown's projected 2009-10 net revenues of \$862,169 would provide debt service coverage of 113.3% in its first year of occupancy. For 2010-11, Animo Pat Brown's projected debt service coverage increases to 118.5%. Accounting for Green Dot's subordination of its management fee to payment of the CSFP obligation, the projected debt service coverage levels for 2009-10 and 2010-11 would increase to 150.1% and 156.4%, respectively.

Asset Position and Liquidity: As of June 30, 2007, Animo Pat Brown had net assets of \$94,152, including \$76,704 in cash or equivalents. The school's current assets of \$290,627 were higher than current liabilities of \$200,940. Green Dot as co-borrower also provides an additional source of liquidity.

Strengths, Weaknesses and Mitigants

- + Support of Green Dot as co-borrower/guarantor.
- + Strong student demand; reasonably conservative financial projections; proven school growth model.
- With nineteen prospective CSFP projects, CSFP-debt burden for Green Dot (co-borrower/guarantor) could be significant.
- +/- Although following Green Dot's school model, the school has a short track record for financial, enrollment, and academic performance review.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Animo Pat Brown 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

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