

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

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| Applicant/Obligor: | Green Dot Public Schools |
| Project School: | Ánimo Ralph Bunche Charter High School |
| CDS (County – District – School) Code: | 19-64733-0111575 |
| Proposed Project Location: | Not yet determined; Jefferson High School area (South Los Angeles) |
| 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: | \$27,883,656* |
| State Apportionment (50% Project Cost): | \$13,941,828 |
| Lump Sum Contribution: | \$0 |
| Total CSFP Financed Amount: | \$13,941,828 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 5.50% |
| Estimated Annual CSFP Payment: | \$959,273 |
| First Year of Occupancy of New Project: | 2009-10 |

Staff Recommendation: Green Dot Public Schools (Green Dot), on behalf of Animo Ralph Bunche Charter High School (Animo Ralph Bunche) is seeking facilities financing of \$27.9 million under Proposition 1D. Staff recommends that the California School Finance Authority (CSFA) Board determine that Animo Ralph Bunche 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.

* The school's project costs originally generated by OPSC was approximately \$50,198,986. At Green Dot's request, OPSC reduced the project cost to the current amount by removing the urban grant request, lowering the request for site acquisition and lowering the amount requested for hazardous material clean up. The school will not have an opportunity to increase its project costs.

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

| Criteria | Comments |
|--------------------------------|---|
| Eligibility Criteria | Animo Ralph Bunche 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 Ralph Bunche's current charter will expire in April 2011. |
| Demographic Information | Animo Ralph Bunche serves 9 th and 10 th grade students in Los Angeles. Enrolling 289 students in 2007-08, Animo Ralph Bunche 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 93.4% in 2009-10, the first year of CSFP lease payment, and 95.4% 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 122.8% in 2009-10. |
| Other Financial Factors | <ol style="list-style-type: none"> 1. Lease as % of Projected Revenues: 20.3% 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 Ralph Bunche did not meet AYP 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 Ralph Bunche received its initial charter in April 2006, with an expiration date in April 2011. In February 2008, verification was received from the Superintendent's Office of Los Angeles Unified School District, confirming that Animo Ralph Bunche is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Animo Ralph Bunche 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 Ralph Bunche, is requesting preliminary apportionment for permanent facilities at a location to be determined. Green Dot currently leases temporary facilities for Animo Ralph Bunche at 104 W. 47th Place in Los Angeles, in a short-term lease.

Animo Ralph Bunche, along with Animo Justice, Animo Jackie Robinson, Animo Pat Brown, 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 Ralph Bunche 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: Xochitl Avellán, Principal, served as Assistant Principal of Animo Justice Charter High School in 2006-07 before becoming Principal of Animo Ralph Bunche. Prior to working for Green Dot, Ms. Avellán worked for Los Angeles Unified School District for nine years as an English teacher and literacy coach. Ms. Avellán received a Bachelor of Arts degree in English from the University of California at Berkeley, and a Masters degree in Educational Administration from California State Northridge University.

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 Ralph Bunche has only one year of reported API scores. Animo Ralph Bunche received a base API score of 599 for 2006-07, and met 12 of 18 AYP

criteria. 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 Ralph Bunche began operations in 2006-07, with an initial class of 150 ninth graders. Animo Ralph Bunche added a tenth grade in 2007-08, for enrollment of 289. Animo Ralph Bunche 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 Ralph Bunche's ADA as a percent of total enrollment was 93.9% in 2006-07. Green Dot's schools averaged an ADA of 95.0%-95.9% in the past three years, providing some support for the school's 95% ADA assumption in its financial forecasts. Animo Ralph Bunche had a 9th grade waitlist of 40 students in 2006-07, indicating reasonably strong ongoing student demand for the school.

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

| Green Dot Public Schools - Animo Ralph Bunche Charter H | Actual FY 2006-07 | Budgeted FY 2007-08 | Projected FY 2008-09 | Projected FY 2009-10 | Projected FY 2010-11 |
|---|----------------------|------------------------|-------------------------|-------------------------|-------------------------|
| ENROLLMENT PROJECTIONS | | | | | |
| Enrollment | 150 | 289 | 420 | 525 | 525 |
| Average Daily Attendance | 138 | 275 | 399 | 499 | 499 |
| Average Daily Attendance (%) | 92% | 95% | 95% | 95% | 95% |
| FINANCIAL PROJECTIONS | | | | | |
| Total Revenues Available for CSFP Lease Payment | \$ 1,948,832 | \$ 2,431,093 | \$ 3,682,557 | \$ 4,722,586 | \$ 4,864,274 |
| Total Expenses Paid Before CSFP Lease Payment | 1,582,430 | 2,591,058 | 3,416,412 | 3,780,106 | 3,903,194 |
| Accounting Adjustments | 2,089 | 2,706 | (46,880) | (46,465) | (46,359) |
| Net Revenues Available for CSFP Lease Payment | \$ 368,491 | \$ (157,259) | \$ 219,265 | \$ 896,015 | \$ 914,721 |
| CSFP Lease Payment | \$ - | \$ - | \$ - | \$ 959,273 | \$ 959,273 |
| Net Revenues After CSFP Lease Payment | \$ 368,491 | \$ (157,259) | \$ 219,265 | \$ (63,258) | \$ (44,552) |
| FINANCIAL INDICATORS | | | | | |
| Net Revenues Available for CSFP Lease Payment | \$ 368,491 | \$ (157,259) | \$ 219,265 | \$ 896,015 | \$ 914,721 |
| Debt Service Coverage by Net Revenues | N/A | N/A | N/A | 93.4% | 95.4% |
| Contributions | \$ - | \$ 44,000 | \$ 10,582 | \$ 21,165 | \$ 21,800 |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A | N/A | N/A | 91.2% | 93.1% |
| Management Fee to EMO | \$ 116,930 | \$ 145,383 | \$ 220,319 | \$ 282,086 | \$ 290,548 |
| Debt Service Coverage by Net Revenues (w/out Mgmt Fee) | N/A | N/A | N/A | 122.8% | 125.6% |
| CSFP Lease Payment / Revenues | N/A | N/A | N/A | 20.3% | 19.7% |
| Contributions / Revenues | N/A | 1.8% | 0.3% | 0.4% | 0.4% |
| Net Revenues After CSFP Lease Payment / Revenues | 18.9% | -6.5% | 6.0% | -1.3% | -0.9% |
| Revenues / ADA | \$ 14,091 | \$ 8,855 | \$ 9,229 | \$ 9,469 | \$ 9,753 |
| Adjusted Expenses / ADA | \$ 11,427 | \$ 9,428 | \$ 8,680 | \$ 9,596 | \$ 9,842 |
| Net Revenues After CSFP Lease Payment / ADA | \$ 2,664 | \$ (573) | \$ 550 | \$ (127) | \$ (89) |
| Net Working Capital | \$ 360,374 | | | | |
| Net Working Capital / Expenses | 22.8% | | | | |

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 Ralph Bunche'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 Ralph Bunche'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 Animo Ralph Bunche. The school plans to occupy the project in 2009-10.

In 2006-07, Animo Ralph Bunche opened with its first class of ninth graders, enrolling 150 students. The school's revenues of \$1.95 million exceeded expenditures by \$366,000 – this unusual surplus in the first year of operations was due to start-up federal implementation grant revenue of approximately \$400,000 and transfers of over \$100,000. Before inclusion of transfers and grant revenues, revenues were approximately \$10,476 per ADA. The school made a management fee payment of \$117,000 to Green Dot, unusual for a first-year school under the Green Dot model. Animo Ralph Bunche increased net assets from \$0 to \$366,402 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 264 students, Animo Ralph Bunche anticipates receiving \$2.43 million in total revenue and incurring \$2.59 million in total expenditures, for a decrease in net assets of \$(157,259). Green Dot has indicated that the school is, as of 2/29/2008, on track to meet its budget. 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 \$435,000 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 \$219,265, (\$63,258), and (\$44,552) in 2008-09, 2009-10, and 2010-11, respectively.

Staff notes that Animo Ralph Bunche'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 lease payment.

Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, Animo Ralph Bunche's total annual CSFP lease payment will be \$959,273 beginning 2009-10. This payment would represent, on average, a relatively high 20% of projected revenues in the first two years of project occupancy. Animo Ralph Bunche's projected 2009-10 net revenues of \$896,015 would provide debt service coverage of 93.4% in its first year of occupancy. For 2010-11, Animo Ralph Bunche's projected debt service coverage increases to 95.4%. 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 122.8% and 125.6%, respectively.

Asset Position and Liquidity: As of June 30, 2007, Animo Ralph Bunche had net assets of \$366,402, including \$300,726 in cash or equivalents. The school's current assets of \$539,600 were substantially higher than current liabilities of \$179,226. Green Dot as co-borrower also provides an additional source of liquidity.

Strengths, Weaknesses and Mitigants

- School does not meet 1x debt service coverage unless EMO management fee is subordinated; lease is a high 20% of projected revenues.
- + 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 Ralph Bunche 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.