

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

Applicant/Obligor:	Green Dot Public Schools
Project School:	Ánimo South Los Angeles Charter High School
CDS (County – District – School) Code:	19-64733-0102434
Proposed Project Location:	Not yet determined; Washington Preparatory High School Attendance Area
Type of Project:	New Construction
County:	Los Angeles County
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
	Proposition 55: \$12,457,476
	<u>Proposition 1D: \$9,120,844</u>
Total OPSC Project Cost:	Total: \$21,578,320
State Apportionment (50% Project Cost):	\$10,789,160
Lump Sum Contribution:	\$0
	Proposition 55: \$6,228,738
	<u>Proposition 1D: \$4,560,422</u>
Total CSFP Financed Amount:	Total: \$10,789,160
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	5.50%
	\$428,571 (Proposition 55)
	<u>313,782 (Proposition 1D)</u>
Estimated Annual CSFP Payment:	\$742,352 (Combined)
First Year of Occupancy of New Project:	2009-10

Staff Recommendation: Green Dot Public Schools (Green Dot), on behalf of Animo South Los Angeles Charter High School (Animo South LA) is seeking an additional \$9.12 million of Proposition 1D financing to supplement \$12.46 million of Proposition 55 financing for which Animo South LA received Preliminary Apportionment in February 2005. Staff recommends that the California School Finance Authority (CSFA) Board determine that Animo South LA 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 South LA. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	Animo South LA met all eligibility criteria. The school has been open since September 2004, meeting the Program's requirement for two years of charter school experience in California. Animo South LA's current charter will expire in October 2008.
Demographic Information	Animo South LA serves 9 th through 12 th grade students in Los Angeles. At 519 students in 2007-08, Animo South LA is near its maximum targeted capacity of approximately 525 students. Enrollment is not expected to grow above 525 as a result of CSFP facilities occupation.
Debt Service Coverage	Debt Service Coverage from school revenues is projected to be 105.9% in 2009-10, the first year of CSFP lease payment, and 113.6% in 2010-11. Removing the school's management fee to Green Dot, which would be subordinate to lease payment, coverage rises to 147.1% in 2009-10.
Other Financial Factors	<ol style="list-style-type: none"> 1. Lease as % of Projected Revenues: 16.4% 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 South LA met AYP in one of the last three years. The school met API growth targets in one of the last two years. The school's API statewide rank increase from 3 (out of 10) to 6 in the last two years; its similar schools rank was 9 in 2005, and 10 in 2006.

Program Eligibility: Animo South LA received its initial charter in October 2003, with an expiration date in October 2008. In February 2008, verification was received from the Superintendent's Office of Los Angeles Unified School District, confirming that Animo South LA is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Animo South LA opened in September 2004 and is currently in its fourth 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 South LA, received Preliminary Apportionment of \$12.3 million for permanent facilities under Proposition 55 in February 2005. Green Dot has applied for \$9.1 million of additional funding under Proposition 1D, based on additional project costs. Green Dot anticipates building a permanent new construction of facilities between 30,000 and 45,000 square feet, at a site to be determined.

Animo South LA is currently housed in temporary facilities at 11130 S. Western Ave. Los Angeles, CA 90047. Based on its 2007-08 budget, the school's budgeted existing facilities cost of \$818,339 is higher than the projected CSFP facility lease cost at 5.50%.

Animo South LA is Green Dot's fourth 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: Gordon Gibbings has served as Principal of Animo South LA since August 2007. Previously, Mr. Gibbings was an Assistant Principal at Jordan High School, and taught elementary school for four years as a member of Teach For America. Mr. Gibbings graduated with a Masters in Educational Policy from the University of California, Berkeley and is currently completing his Doctorate of Education at the University of Southern California.

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 South LA has three years of reported API scores, allowing a review of progress and comparison to similar schools. Animo South LA received a base API score of 645 for 2004-05 and a growth score of 711 for 2005-06. The school's growth base of 711 exceeded the 602 median score for similar schools (as defined by the California Department of Education). In 2006-07, Animo South LA achieved an API score of 677, for a decrease of 24, but still well above the similar schools median of 587. Animo South LA met AYP in one of the last three years. The school improved its statewide ranking from 3 in 2005-06 to 6 in 2006-07, and improved its similar school ranking from 9 to 10 in the same period.

Animo South L.A. Charter H.S.	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?		No	No	Yes
Criteria Met / Required Criteria	/	10 / 13	13 / 14	17 / 17
Met API Indicator for AYP?		Yes	Yes	Yes
Met Graduation Rate?		N/A	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?		N/A	Yes	No
Met Comparable Improvement Growth Target?		N/A	Yes	No
Met Both Schoolwide & CI Growth Targets?		N/A	Yes	No
API Base Statewide Rank (10 = best)			3	6
API Base Similar Schools Rank (10 = best)			9	10
School's Actual Growth			66	-24
Similar Schools Median of Actual Growth			13	-3
Did School's Growth Exceed Median?			Yes	No

School Enrollment: Animo South LA began operations in 2004-05, with an initial class of 140 ninth graders. Animo South LA added successive grades in each following year, reaching near-full enrollment of 519 students in grades nine through twelve in 2007-08. Animo South LA does not intend to increase enrollment beyond 525 students.

Green Dot reports that Animo South LA retained 92% of its original students from October 2006 through April 2007. Green Dot also reports that Animo South LA's ADA as a percent of total enrollment was 95-98% for the last three years, which supports the school's 95% ADA assumption in its financial forecasts. Animo South LA had a 9th grade waitlist of 50 students in 2006-07 and 71 students for 2007-08 as of mid-2007, indicating reasonably strong ongoing student demand for the school.

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

Animo South L.A. 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
ENROLLMENT PROJECTIONS						
Enrollment	268	394	519	525	525	525
Average Daily Attendance	259	377	493	499	499	499
Average Daily Attendance (%)	97%	96%	95%	95%	95%	95%
FINANCIAL PROJECTIONS						
Total Revenues Available for CSFP Lease Payment	\$ 2,266,822	\$ 3,355,757	\$ 4,290,383	\$ 4,403,823	\$ 4,535,938	\$ 4,672,016
Total Expenses Paid Before CSFP Lease Payment	2,320,895	3,177,840	4,410,381	4,010,086	3,703,501	3,832,329
Accounting Adjustments	54,073	(46,668)	(46,668)	(46,568)	(46,465)	3,641
Net Revenues Available for CSFP Lease Payment	\$ -	\$ 131,249	\$ (166,666)	\$ 347,169	\$ 785,972	\$ 843,328
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ 742,352	\$ 742,352
Net Revenues After CSFP Lease Payment	\$ -	\$ 131,249	\$ (166,666)	\$ 347,169	\$ 43,620	\$ 100,976
FINANCIAL INDICATORS						
Net Revenues Available for CSFP Lease Payment	\$ -	\$ 131,249	\$ (166,666)	\$ 347,169	\$ 785,972	\$ 843,328
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	105.9%	113.6%
Contributions	\$ -	\$ -	\$ 19,950	\$ 20,549	\$ 21,165	\$ 21,800
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	103.0%	110.7%
Management Fee to EMO	\$ 70,062	\$ 201,345	\$ 256,226	\$ 297,078	\$ 305,990	\$ 315,170
Debt Service Coverage by Net Revenues (w/out Mgmt Fee)	N/A	N/A	N/A	N/A	147.1%	156.1%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	16.4%	15.9%
Contributions / Revenues	N/A	N/A	0.5%	0.5%	0.5%	0.5%
Net Revenues After CSFP Lease Payment / Revenues	0.0%	3.9%	-3.9%	7.9%	1.0%	2.2%
Revenues / ADA	\$ 8,738	\$ 8,910	\$ 8,702	\$ 8,830	\$ 9,095	\$ 9,367
Adjusted Expenses / ADA	\$ 8,738	\$ 8,561	\$ 9,040	\$ 8,134	\$ 9,007	\$ 9,165
Net Revenues After CSFP Lease Payment / ADA	\$ -	\$ 348	\$ (338)	\$ 696	\$ 87	\$ 202
Net Working Capital	\$ 318,078	\$ 388,202				
Net Working Capital / Expenses	13.7%	12.2%				

The school plans to occupy the CSFP-financed facilities in 2009-10. The projected enrollment at occupancy is projected to be 525 students, similar to the current level of 519 students.

As of June 30, 2007, Animo South LA's audited financial statements showed \$150,000 of debt outstanding, representing a State revolving fund loan due over the next three years. 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 South LA'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.

In 2004-05, Animo South LA opened with its first class of 140 ninth graders. Bolstered in large part by grant and EMO support, the school increased net assets by \$278,144. In 2005-06, the school increased enrollment to 268 students as the first class of ninth graders matriculated and the first class of tenth graders was served. Total revenues increased from \$1.64 million to \$2.27 million (\$8,738 per ADA) while total expenses grew from \$1.36 million to \$2.27 million for breakeven operations on a cash basis (or \$104,073 loss after incorporating depreciation). Animo South LA decreased its net assets by \$104,073 to an ending balance of \$174,071. In the following fiscal year, Animo South LA added its first class of eleventh graders, for enrollment of 394. The school's revenues increased to \$3.36 million (\$8,910 per ADA), and expenditures increased to \$3.22 million (\$8,561 per ADA). Animo South LA increased net assets by \$127,920 to \$301,991 as of 6/30/2007. 2006-07

marks the first year in which Animo South LA paid a significant management fee to Green Dot without a substantially offsetting transfer in.

Based on the addition of its first class of twelfth graders in 2007-08, reaching a mid-year ADA of 487 students, Animo South LA anticipates receiving \$4.29 million in total revenue and incurring \$4.46 million in total expenditures, for decrease in net assets of (\$167,000). In the following three fiscal years, based on (1) ADA of approximately 500 students, (2) projected annual revenue and expenditure growth of 3%, and (3) CSFP facility occupancy in 2009-10, the school is projecting increases in net assets of \$347,169, \$43,620, and \$100,976 in FY 2008-09, FY 2009-10, and FY 2010-11, respectively. The surplus in 2008-09 is based on temporary facility costs of \$408,887, lower than Animo South LA's budgeted 2007-08 facility costs. Green Dot's history of start-up fund-raising and net asset position mitigates staff concerns that higher-than-expected temporary facility costs will significantly impact school operations.

Staff notes that Animo South LA's projected annual financial performance includes approximately \$300,000 per year in annual management fees to Green Dot, as EMO. Green Dot has stated that this fee would be subordinate to any CSFP facility lease payment.

Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, Animo South LA's total annual CSFP lease payment (including Proposition 55 and Proposition 1D Allocations) will be \$742,352 beginning 2009-10. This payment would represent, on average, a reasonable 16% of projected revenues in the first two years of project occupancy. Animo Leadership's projected 2009-10 net revenues of \$785,972 would provide debt service coverage of 105.9% in its first year of occupancy. For 2010-11, Animo Leadership's projected debt service coverage increases to 113.6%. 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 147.1% and 156.1%, respectively.

Asset Position and Liquidity: As of June 30, 2007, Animo South LA had net assets of \$301,991, including \$50,000 in cash. The school's current assets of \$696,329 were substantially higher than current liabilities of \$308,127. Green Dot as co-borrower also provides an additional source of liquidity.

Strengths, Weaknesses and Mitigants

- + Track record of reasonable financial results; budgeted temporary facility cost for 2007-08 is higher than projected CSFP lease cost.
- + Support of Green Dot as co-borrower/guarantor.
- + Reasonably strong student demand; minimal additional school growth required for 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 South LA 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.