

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

Applicant/Obligor:	Green Dot Public Schools Animo College Preparatory Charter High
Project Schools:	#1, 4, 7, 8, 9, 10, 11, 12
CDS (County – District – School) Code:	Not yet available
Proposed Project Location:	Not yet determined; Locke High School area (South Los Angeles)
Type of Projects:	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 (per school):	\$25,503,656*
State Apportionment (50% Project Cost):	\$12,751,828
Lump Sum Contribution (per school):	\$0
Total CSFP Financed Amount (per school):	\$12,751,828
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	5.50%
Estimated Annual CSFP Payment (per school):	\$877,394
First Year of Occupancy of New Project:	2011-12

Staff Recommendation: Green Dot Public Schools (Green Dot), on behalf of Animo College Preparatory Charter High Schools #1, #4, #7, #8, #9, #10, #11, and #12 (together, the ACP High Schools) is seeking facilities financing of \$25.5 million per school under Proposition 1D. These schools have not opened yet, and all have uniform financial and enrollment projections based on Green Dot’s standard school model. Green Dot intends to open each new school in the Locke High School area of south Los Angeles, in the Los Angeles Unified School District (LAUSD). These schools have not yet opened, and have uniform financial and enrollment projections based on Green Dot’s standard school model. Staff recommends that the California School Finance Authority (CSFA) Board determine that the ACP High Schools are 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

* The schools’ project costs originally generated by OPSC were \$42,369,446 each. 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.

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 the ACP High Schools. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	The ACP High Schools met all eligibility criteria. Green Dot Public Schools, as EMO, and its leadership meet the Program's requirement for two years of charter school experience in California. The ACP High Schools received their charters in April 2007 from LAUSD, valid through April 2012.
Demographic Information	The ACP High Schools will each serve 9 th through 12 th grade students in south Los Angeles. Each school intends to enroll 140 ninth-grade students in its first year of operations, 2008-09, growing to maximum projected size of 525 students by 2011-12, the first year of CSFP facility occupancy.
Debt Service Coverage	Debt Service Coverage from each school's revenues is projected to be 96.7% in 2011-12, the first year of CSFP lease payment, and 101.0% in 2012-13. Removing each school's management fee to Green Dot, which would be subordinate to the lease payment, coverage rises to 129.6% in 2011-12 and 134.8% in 2012-13.
Other Financial Factors	<ol style="list-style-type: none"> 1. Lease as % of Projected Revenues: 18.2% in 2011-12. 2. Projected Contributions as % of Revenues: Less than 1%. 3. CSFP lease would be supported by Green Dot, as EMO and guarantor.
Student Performance	Since the ACP High Schools will not open until 2008-09, no student performance metrics exist for these schools. Student performance for Green Dot's existing schools is provided under separate cover.

Program Eligibility: The ACP High Schools received their initial charters on April 10, 2007. The schools' charters will expire on April 10, 2012. The schools have not yet opened and therefore do not have two years experience. However Green Dot, as EMO operating these schools, has been in operation since 2000 and provides the California charter school management experience required for Program eligibility.

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 staff to question the financial or legal integrity of this applicant.

Project Description: Green Dot, on behalf of the ACP High Schools, has requested funding for acquisition of land and new construction of eight permanent high school facilities to accommodate a maximum of 525 students each, in grades 9 through 12. The sites for the new facilities have not yet been identified, but are expected to be located within a three-

to-four mile radius around Locke High School, located at 325 East 111th Street, Los Angeles, CA 90061. Green Dot anticipates that the facilities will each consist of between 30,000 and 45,000 square feet. The ACP High Schools are expected to open in 2008-09 in temporary facilities, and occupy the CSFP-financed facilities in the 2011-12 school year. The schools' lease payment obligation would begin in 2011-12. Based on materials provided by Green Dot, temporary facilities have not yet been acquired for the schools in the interim; Green Dot is measuring student demand to determine its 2008-09 strategy for the Locke area schools.

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," discussed further in staff's separate review of Green Dot as an EMO. The eight ACP High Schools will be part of this transformation. The transfer is currently opposed by United Teachers Los Angeles, which has filed a grievance to block the transfer. Depending on the success of this effort, Green Dot may or may not gain access to the existing Locke High School campus to house a portion of Locke's enrollment base, and may face potential competition for students from the existing traditional public school.

The ACP High Schools will follow Green Dot's standard 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's fundraising efforts to meet these start-up costs are discussed in staff's review of Green Dot as an EMO. 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 the two Animo Watts 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: The school principals of the ACP High Schools have not yet been selected by Green Dot.

EMO Management: Green Dot’s management has over two years of charter school management experience. Green Dot’s management is discussed in staff’s separate review of Green Dot as an EMO.

Student Performance and Enrollment: The ACP High Schools have not yet begun operations and therefore have no student performance metrics to date. The existing Green Dot schools, based on Academic Performance Index (API) results, have performed well relative to similar schools, but relatively poorly with regards to statewide rankings. 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. These results are discussed in more detail in staff’s separate review of Green Dot as an EMO. Green Dot’s existing schools have large wait-lists, and do not appear to have experienced any major problems in attracting students to meet their growth schedules.

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 averaged an ADA of 95.0%-95.9% in the past three years, providing some support for the schools’ 95% ADA assumption in financial forecasts. Green Dot’s existing schools had substantial 9th grade waitlists at the end of 2006-07, indicating reasonably strong ongoing student demand for the EMO’s schools.

Financial Analysis: Below we have highlighted selected financial data and credit indicators to evaluate each ACP High School’s ability to meet its CSFP obligation. Each school’s projected financials are identical, since all schools will open in the same area and year, have the same project requirements, and will follow Green Dot’s standard school growth model.

Animo College Preparatory Charter High Schools #1, 4, 7, 8, 9, 10, 11, 12

Animo College Prep High School	Budgeted FY 2007-08	Projected FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13
ENROLLMENT PROJECTIONS						
Enrollment	-	140	280	420	525	525
Average Daily Attendance	-	133	266	399	499	499
Average Daily Attendance (%)	N/A	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS						
Total Revenues Available for CSFP Lease Payment	\$ -	\$ 1,778,350	\$ 2,423,479	\$ 3,749,566	\$ 4,812,409	\$ 4,967,045
Total Expenses Paid Before CSFP Lease Payment	-	1,763,525	2,395,152	3,211,860	3,917,366	4,034,890
Accounting Adjustments	-	1,299	(48,467)	(48,233)	(46,465)	(46,359)
Net Revenues Available for CSFP Lease Payment	\$ -	\$ 16,124	\$ (20,140)	\$ 489,473	\$ 848,578	\$ 885,796
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ 877,394	\$ 877,394
Net Revenues After CSFP Lease Payment	\$ -	\$ 16,124	\$ (20,140)	\$ 489,473	\$ (28,816)	\$ 8,402
FINANCIAL INDICATORS						
Net Revenues Available for CSFP Lease Payment	\$ -	\$ 16,124	\$ (20,140)	\$ 489,473	\$ 848,578	\$ 885,796
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	96.7%	101.0%
Contributions	\$ -	\$ 585,000	\$ -	\$ 5,291	\$ 10,582	\$ 21,165
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	95.5%	98.5%
Management Fee to EMO	\$ -	\$ 95,901	\$ 145,409	\$ 224,657	\$ 288,109	\$ 296,753
Debt Service Coverage by Net Revenues (w/out Mgmt Fee)	N/A	N/A	N/A	N/A	129.6%	134.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	18.2%	17.7%
Contributions / Revenues	N/A	32.9%	N/A	0.1%	0.2%	0.4%
Net Revenues After CSFP Lease Payment / Revenues	N/A	0.9%	-0.8%	13.1%	-0.6%	0.2%
Revenues / ADA	N/A	\$ 13,371	\$ 9,111	\$ 9,397	\$ 9,649	\$ 9,959
Adjusted Expenses / ADA	N/A	\$ 13,250	\$ 9,187	\$ 8,171	\$ 9,707	\$ 9,942
Net Revenues After CSFP Lease Payment / ADA	N/A	\$ 121	\$ (76)	\$ 1,227	\$ (58)	\$ 17

Each school plans to occupy the CSFP-financed facilities in 2011-12. The projected enrollment at occupancy is projected to be 525 students, which would be attained through a process of growing one grade per year, beginning with the 9th grade in 2008-09.

Performance/Change in Net Assets: Green Dot projects that each ACP High School will open in 2008-09 with a 9th grade of 140 students, for revenues of \$1.78 million and expenditures of \$1.76 million. The very high revenues and expenditures per ADA (\$13,370 and \$13,250, respectively) appear to be due to initial start-up and administrative costs, supported by a one-time \$180,000 transfer from the Green Dot home office as well as federal implementation grant revenue of \$405,000. Based on Green Dot's current balance sheet and pledged contribution revenue for new schools, these revenues appear attainable to staff. Green Dot's unaudited 2006-07 financial statements show that each of the five schools opened in that fiscal year received foundation grant and federal implementation grant revenue of at least \$486,000; likewise the EMO's 2/29/2008 year-to-date reports for the two new schools opened in 2007-08 indicate grant revenues of \$554,000 per school. In 2009-10, Green Dot anticipates growing each ACP High School to 280 students, for revenues of \$2.42 million and expenditures (including revolving fund debt service) of \$2.44 million, resulting in a slight deficit of \$ (20,000). These results are based on a very low \$100,000 per annum lease cost (\$376 per ADA in 2009-10), rising to \$250,000 in 2010-11 (\$627 per ADA). Green Dot reports not yet having acquired temporary facilities – these low initial facility costs may be based on Green Dot's school transformation plan to initially base new charter schools in the facilities of large traditional "transformed" public schools. Green Dot's history of start-up fund-raising and net asset position mitigates staff concerns that higher-than-expected initial facility costs would significantly impact school operations. In 2010-11, Green Dot projects that the ACP High Schools will each increase enrollment to 400 students (grades 9 through 11), for revenues of \$3.75 million, expenditures of \$3.26 million, and a surplus of \$489,000.

The ACP High Schools are anticipated by Green Dot to enter into the CSFP-financed facilities in 2011-12, the same year in which the schools are projected to reach maximum occupancy of 525 students. Based on a 5.5% lease interest rate, each ACP High School would face a CSFP annual lease cost of \$877,394, or \$1,759 per ADA. In 2011-12, the first year of project occupancy, this lease payment is equivalent to approximately 18.2% of projected revenues, somewhat higher than the typical charter school facility lease cost equal to 10% - 15% of annual revenues. Based on this facility lease cost, Green Dot's projections for each ACP High School would produce revenues of \$4.81 million and expenditures of \$4.84 million in 2011-12, for a deficit of \$ (29,000). In 2012-13, each ACP High School projects revenues of \$4.97 million and expenditures of \$4.96 million, for a surplus of \$8,000. Staff notes that each ACP High School's projected annual financial performance includes approximately \$275,000 per year in annual management fees to Green Dot once the school reaches maturity. Green Dot has stated that this fee would be subordinate to any CSFP facilities lease payment.

Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, each ACP High School's annual CSFP lease payment will be \$877,394 beginning 2011-12. This payment would represent 18.2% of projected revenues in the first year of project occupancy. Each ACP High School's projected 2011-12 net revenues of \$849,000 would provide debt service coverage of 96.7% in its first year of occupancy. For 2012-13, projected debt service coverage is 101.0%. Removing Green Dot's management fee, which is subordinate to payment of the CSFP lease, the projected debt service coverage levels for 2011-12 and 2012-13 would increase to 129.6% and 134.8%, respectively.

Green Dot, as EMO and guarantor, is expected to provide lease payment relief to each ACP High School, in addition to its other schools seeking Preliminary Apportionment, in the event of a revenue shortfall.

Asset Position and Liquidity: As of June 30, 2007, the ACP High Schools had not yet opened and therefore had no net assets. Green Dot will act as co-borrower and additional source of liquidity for each ACP High School.

Strengths, Weaknesses and Mitigants:

- + Support of Green Dot as co-borrower/guarantor.
- + Acquisition of Locke High School may provide temporary facilities and large source of prospective students for the ACP High Schools.
- +/- Schools' projected debt service coverage is at or slightly below 1x before subordinating EMO management fee; lease is a high 18% of projected revenues.
- With nineteen prospective CSFP-financed facilities, CSFP-debt burden for Green Dot (guarantor) could be significant.
- Although following Green Dot's school model, the ACP High Schools have not yet opened and thus have no financial, enrollment, or academic track record.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Animo College Preparatory Charter High Schools #1, #4, #7, #8, #9, #10, #11, and #12 are 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.