

MEMORANDUM

Date: July 14, 2008

Staff Summary No. 7

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 08-15 Financially Sound Status of Ánimo Venice

Consideration of Resolution No. 08-15, approving that Ánimo Venice has maintained a financially sound status for purposes of a Final Apportionment Under the Proposition 55 Funding Round of the Charter School Facilities Program (Program).

Background:

At its February 23, 2005 meeting, the State Allocation Board awarded Ánimo Venice a preliminary apportionment of \$15,639,480 through the Proposition 55 funding round of the Charter School Facilities Program.

Since its award in 2005 through the Proposition 55 funding round, Ánimo Venice recently applied for approximately \$9.6 million in funding through the Proposition 1D funding round. Accordingly, staff of the California School Finance Authority conducted an analysis of the Ánimo Venice's financial soundness for purposes of a preliminary apportionment through Proposition 1D.

Staff's analysis took into account Ánimo Venice's ability to support not only its Proposition 1D apportionment, but also Ánimo Venice's Proposition 55 obligation. Staff's most recent analysis found that Ánimo Venice could support its Proposition 55 obligation of approximately \$16 million as well as its Proposition 1D application for funding of approximately \$10 million. Staff found that Ánimo Venice could support the combined obligation of \$25,270,656. *Ánimo Venice did not receive an apportionment through the Proposition 1D funding round.*

Relevant Statutory Changes to the Project Costs:

Assembly Bill (AB) 127, Chapter 35, Statutes of 2006 (Perata/Nunez) increased the New Construction Grant by seven percent for elementary and middle school projects and four percent for high school projects beginning July 1, 2006. AB 127 authorizes the SAB, beginning January 1, 2008, to annually increase or decrease the new construction per pupil base grant amount based on an analysis of the current costs to build a school. An increase can be up to six percent; a decrease is unlimited. It is important to note that the grant amounts are adjusted each January for the Construction Cost Index (CCI). The 2008 CCI adjustment resulted in a 3.19 percent increase to the new construction grant.

Recent Request for Final Apportionment:

Ánimo Venice is now requesting its final apportionment under Proposition 55 of approximately \$16,513,594 – this revised Proposition 55 figure is an OPSC generated project cost amount, and reflects a 6% cost escalator (pursuant to AB 127 – see discussion above). Staff’s recent review in April 2008 found that Ánimo Venice is able to support its existing Proposition 55 award and a hypothetical Proposition 1D award of approximately \$10 million, for a total of over \$25 million. As Ánimo Venice did not receive a preliminary apportionment under Proposition 1D, and was found to be able to support over \$25 million in CSFP funding, staff is recommending that Ánimo Venice be found sound for purposes of its Proposition 55 final apportionment of \$16.5 million.

Given the short time frame between the Authority’s findings regarding the financial soundness of Ánimo Venice in April 2008 and July 2008, Authority staff contacted Ánimo Venice seeking information about any material financial and/or operational changes at the school since Program applicants were reviewed in early to mid-2008. Pursuant to staff’s request, representatives of Ánimo Venice reported that there have not been any material changes from staff’s most recent evaluation of Ánimo Venice in April 2008.

Such findings, and issues that were highlighted to Authority members at the time of the financially sound determinations in April 2008, have been highlighted below.

Criteria	Comments
Eligibility Criteria	Animo Venice 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 Venice’s current charter will expire in July 2009.
Demographic Information	Animo Venice serves 9 th through 12 th grade students in Los Angeles. At 498 students in 2007-08, Animo Venice 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 80.7% in 2009-10, the first year of CSFP lease payment, assuming a 3% of revenue ground lease, and 87.7% 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 114.3% in 2009-10.

Other Financial Factors	1. Lease as % of Projected Revenues: 17.7% 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 Venice met AYP in one of the last three years. The school met API growth targets in the last two years. The school's API statewide rank has been 5 (out of 10) for the last two years; its similar schools rank was 10 in 2005, and 9 in 2006.
Student Retention	Student retention rates for 2006-07 and 2007-08 are 92% and 82%, respectively. Management reports the drop in retention was due to the relocation to 98 th Street Elementary School while their CSFP-funded permanent facility is being constructed at Broadway Elementary School. Enrollment is expected to stabilize this upcoming year and increase once the school is in its permanent home in Fall of 2009.

Recommendation:

Staff recommends that the California School Finance Authority Board determine that Animo Venice is financially sound for the purposes of the Charter School Facilities Program Final Apportionment, and approve Resolution 08-15. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction regarding this determination.