

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – MARCH 2010**

Applicant/Obligor:	Green Dot Public Schools
Project School:	Animo Leadership Charter High School
CDS (County – District – School) Code:	19-64709-1996313
Proposed Project Location:	11044 & 11111 S. Freeman Avenue, Inglewood, CA 90304
Type of Project:	New Construction
County:	Los Angeles County
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Lennox Elementary School District
	Proposition 47: \$18,747,078
	<u>Proposition 1D: \$15,628,994</u>
Total OPSC Project Cost:	Total: \$34,376,072
State Apportionment (50% Project Cost):	\$17,188,036
Lump Sum Contribution:	\$0
	Proposition 47: \$9,373,539
	<u>Proposition 1D: \$7,814,497</u>
Total CSFP Financed Amount:	Total: \$17,188,036
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
	\$478,231 (Proposition 47)
	<u>\$398,690 (Proposition 1D)</u>
Estimated Annual CSFP Payment:	\$876,921 (Combined)
First Year of Occupancy of New Project:	2012-13

Staff Recommendation: Green Dot Public Schools (Green Dot), on behalf of Animo Leadership Charter High School (Animo Leadership) is seeking an additional \$15.63 million of Proposition 1D financing to supplement \$18.75 million of Proposition 47 financing for which Animo Leadership has previously received Preliminary Apportionment. Staff recommends that the California School Finance Authority (CSFA) Board determine that Animo Leadership is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Preliminary or Advance Apportionment, but not for purposes of a Final Apportionment. This determination is subject to the financial and legal review of Green Dot Public Schools' ability to serve as co-borrower for all CSFP obligations. This determination as it relates to a Preliminary or 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 (2009 Funding Round) for three schools, including Animo Pat Brown, Animo South Los Angeles, and Animo Leadership. Animo Pat Brown and Animo South Los Angeles previously received preliminary

apportionment awards under Proposition 55, and Animo Leadership previously received a preliminary apportionment award under Proposition 47. Four other Green Dot schools, Animo Justice, Animo Jackie Robinson, Animo Venice, and Animo Oscar De La Hoya, also previously received preliminary apportionment awards under either Proposition 55 or Proposition 1D (2007 Funding Round). Because Green Dot is financing multiple projects under the CSFP program (a total of seven schools), staff has reviewed Green Dot as an organization and guarantor under separate cover. Green Dot currently serves as an EMO for nineteen schools.

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

Criteria	Comments
Eligibility Criteria	Animo Leadership 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 Leadership's current charter will expire in June 2014.
Demographic Information	Animo Leadership serves 9 th through 12 th grade students in Los Angeles. Currently at 590 students in 2009-10, Animo Leadership's enrollment is not expected to grow as a result of CSFP facilities occupation.
Debt Service Coverage	Debt service coverage from school revenues is projected to be 118.9% and 124.2% in 2013-14 and 2014-15, respectively, assuming subordination of the school's management fee to Green Dot.
Other Financial Factors	<ol style="list-style-type: none"> 1. Lease as % of projected revenues: average of 17.8% for 2013-14 and 2014-15, above staff's preferred 15% threshold. 2. Projected contributions are on average 2.1% of revenues from 2013-14 and 2014-15. 3. CSFP lease would be supported by Green Dot, as EMO and co-borrower.
Student Performance	Animo Leadership did not meet all AYP criteria in 2008-09 but did meet the criteria in the prior three years. The school has missed its schoolwide API growth targets in the past two years, after meeting the targets in both 2005-06 and 2006-07. The school's API similar schools ranking has been 10 (out of 10) for the last two years; its statewide schools ranking was 6 and 5 in 2007-08 and 2008-09, respectively.

Program Eligibility: Animo Leadership received its initial charter on November 23, 1999. As Animo Leadership opened in September 2000, it is currently in its tenth year of operations. The school's charter was renewed in 2009, with a current expiration date in July 2014.

In December 2009, verification was received from the Superintendent's Office of Lennox Elementary School District, confirming that Animo Leadership is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Legal Status Questionnaire: Staff reviewed the applicant's responses to the questions contained in the Legal Status portion of the application as received in September 2009. 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 Leadership, received Preliminary Apportionment of \$18.75 million under Proposition 47 for permanent facilities for Animo Leadership. Green Dot has applied for \$15.63 million of additional funding under Proposition 1D, based on additional project costs. Green Dot has identified properties at 11044 and 11111 S. Freeman Avenue in Inglewood, CA (Los Angeles County) which have been acquired for Green Dot by Pacific Charter School Development, Inc. (PCSD), a nonprofit public benefit corporation. PCSD intends to develop facilities of between 30,000 and 45,000 square feet on the properties, for a maximum student population of approximately 590 students in grades nine through twelve. Animo Leadership initially received an award under Prop 47 for this project with the limitation of serving 310 students. The school's Prop 1D application is to fund any project costs in excess of the Prop 47 award financing.

According to the school's website, Animo Leadership is currently leasing temporary space at 1155 W. Arbor Vitae in Inglewood.

Animo Leadership is Green Dot's first 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. Program guidelines have been revised to accommodate more students due to high student demand, facility capacity, and fiscal constraints from the State budget. 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 nineteen charter high schools in the Los Angeles area, including one school which began operations in 2009-10. Green Dot has since moderated school growth projections to approximately 20-25 high schools by 2012-13 compared to prior projections of 31 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's 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: Julio Murcia, principal of Animo Leadership, has worked in education for 15 years in positions including tutor, teacher, counselor, activities director, bilingual coordinator, assistant principal, and principal. He received his Bachelor of Arts in Education from California State University, Northridge, and Masters Degree from Loyola Marymount University in Counseling and in Administration.

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 Leadership has four years of reported API scores, allowing a review of progress and comparison to similar schools. Animo Leadership met all AYP criteria from 2005-06 through 2007-08 but met only 14 of 18 AYP criteria in 2008-09. Animo Leadership did not meet AYP pertaining to the English and Math proficiency percentage in this year. After meeting all API comparable improvement growth and schoolwide growth targets in 2006-07, Animo Leadership did not meet the API growth targets for 2007-08 or 2008-09 with API growth scores of 715 and 688, respectively. Animo Leadership's comparable school's ranking, however, did improve to 10 out of 10 in 2007-08 from 7 out of 10 and has since been maintained in 2008-09.

According to Animo Leadership, the school has revamped the CAHSEE preparation programs in response to declining student performance. Since AYP is determined by the percent of students who achieve proficiency on both sections of the CAHSEE, Animo Leadership is requiring that CAHSEE preparation begins in the 9th grade, not the 10th grade.

Animo Leadership also noted that the school continues to outperform the neighboring district schools where students would otherwise attend if not going to a Green Dot school. According to Animo Leadership, the school has identified the areas of concern and has implemented intervention programs such as CAHSEE prep, Algebra I interventions and double blocking of certain subjects to ensure proficiency and continued academic achievement.

Animo Leadership	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	Yes	Yes	No
Criteria Met / Required Criteria	14 / 14	18 / 18	18 / 18	14 / 18
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	Yes	No	No
Met Comparable Improvement Growth Target?	No	Yes	No	No
Met Both Schoolwide & CI Growth Targets?	No	Yes	No	No
API Base Statewide Rank (10 = best)	3	3	6	5
API Base Similar Schools Rank (10 = best)	7	7	10	10
School's Actual Growth	24	61	3	-27
Similar Schools Median of Actual Growth	9	5	5	12
Did School's Growth Exceed Median?	Yes	Yes	No	No

School Enrollment: Animo Leadership began operations in 2000-01, with an initial class of 140 ninth graders. Animo Leadership added successive grades in each following year, reaching enrollment of 520 students in grades nine through twelve in 2003-04. Animo Leadership indicated enrollment of 590 students in 2009-10 and does not intend to increase student enrollment growth.

Green Dot reports that Animo Leadership retained 94% of its students from the 2008-09 to 2009-10. Green Dot also reports that Animo Leadership's ADA as a percent of total enrollment was approximately 95% for the last three years, which supports the school's 95% ADA assumption in its financial forecasts. Per the 2009-10 P-1 report, Animo Leadership's ADA is 573 or 97% of enrollment. Animo Leadership had a waitlist of 500 students at the beginning of 2009-10, indicating very strong ongoing student demand for the school.

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

Animo Leadership	Actual FY 2006/07	Actual FY 2007/08	Actual FY 2008/09	Budget FY 2009/10	Projected FY 2010/11	Projected FY 2011/12	Projected FY 2012/13	Projected FY 2013/14	Projected FY 2014/15
ENROLLMENT PROJECTIONS									
Enrollment	538	525	574	590	590	590	590	590	590
Average Daily Attendance	498	505	557	573	561	561	561	561	561
Average Daily Attendance (%)	93%	96%	97%	97%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Payment	\$ 4,871,070	\$ 5,203,099	\$ 6,656,456	\$ 4,775,278	\$ 4,765,330	\$ 4,765,330	\$ 4,721,974	\$ 4,863,707	\$ 4,974,084
Total Expenses Paid Before CSFP Payment	4,529,887	5,345,812	5,343,415	4,502,388	4,502,390	4,502,390	3,714,635	3,821,160	3,885,223
Accounting Adjustments	5,223	7,658	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 346,406	\$ (135,055)	\$ 1,313,041	\$ 272,890	\$ 262,940	\$ 262,940	\$ 1,007,339	\$ 1,042,547	\$ 1,088,861
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 876,921	\$ 876,921
Net Revenues After CSFP Payment	\$ 346,406	\$ (135,055)	\$ 1,313,041	\$ 272,890	\$ 262,940	\$ 262,940	\$ 1,007,339	\$ 165,626	\$ 211,940
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Payment	\$ 346,406	\$ (135,055)	\$ 1,313,041	\$ 272,890	\$ 262,940	\$ 262,940	\$ 1,007,339	\$ 1,042,547	\$ 1,088,861
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	118.9%	124.2%
Contributions	\$ 257,012	\$ 287,967	\$ 257,511	\$ 238,125	\$ 441,125	\$ 441,125	\$ 211,125	\$ 146,125	\$ 56,125
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	102.2%	117.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	18.0%	17.6%
Contributions / Revenues	5.3%	5.5%	3.9%	5.0%	9.3%	9.3%	4.5%	3.0%	1.1%
Net Revenues After CSFP Payment / Revenues	7.1%	-2.6%	19.7%	5.7%	5.5%	5.5%	21.3%	3.4%	4.3%
Revenues / ADA	\$ 9,781	\$ 10,303	\$ 11,951	\$ 8,334	\$ 8,502	\$ 8,502	\$ 8,425	\$ 8,677	\$ 8,874
Expenses / ADA	\$ 9,096	\$ 10,586	\$ 9,593	\$ 7,858	\$ 8,033	\$ 8,033	\$ 6,627	\$ 8,382	\$ 8,496
Surplus (Deficit) / ADA	\$ 685	\$ (283)	\$ 2,357	\$ 476	\$ 469	\$ 469	\$ 1,797	\$ 295	\$ 378
Net Working Capital	\$ 642,148	\$ 982,370	\$ 2,295,411						
Net Working Capital / Expenses	14.2%	18.4%	43.0%						

As of June 30, 2009, Animo Leadership’s audited financial statements did not show any long-term debt outstanding for the school other than the anticipated Prop 47 lease payments. 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 Leadership’s financial performance is based on audited financial statements for fiscal years 2005-06 through 2008-09, 2009-10 budgeted projections, and financial projections from 2010-11 through 2014-15, as provided by Green Dot. Highlighted in this section are financial data and credit indicators used to evaluate Animo Leadership’s ability to meet its CSFP obligations. Please note that the revenue, expenditure and changes to net assets recorded in financial audits and provided in Animo Leadership’s financial projections have been modified by staff, where necessary, to include capital outlays, operating leases and repayment of debt and other significant obligations, and to exclude non-cash items such as depreciation.

In 2005-06, the school decreased its net asset position by \$111,019 from \$3.89 million of revenues, expenditures of \$4.32 million, and contributions of \$290,422. In 2006-07, the school’s revenues increased from the year prior to \$4.87 million inclusive of \$257,012 in contributions. Although expenditures also increased to \$4.53 million, Animo Leadership experienced an increase in net assets of \$346,406. In 2007-08, Animo Leadership experienced a reduction to net assets of \$135,055 due to revenues of \$5.20 million (including contributions of \$287,967) and expenditures of \$5.35 million. In 2008-09, Animo Leadership experienced a large increase in net assets of \$1.31 million due increased Other State and Federal revenue. This was the result of \$6.66 million in revenue and \$5.34 million in expenses.

The 2009-10 ADA funding rate of \$6,055 (grades 9 to 12) were used a base when determining projected future funding rates. Staff notes that this funding rate is conservative in comparison to the CDE funding rate of \$6,118 as of February 19, 2010. Animo Leadership assumed growth of 0% in years 2010-11 and 2011-12 to the general purpose block grant per ADA funding rates. Animo Leadership then anticipates funding levels growing at an average of 4.7% in 2012-13 through 2014-15. Expenses are expected to be held static through 2012-13 but thereafter annual growth COLAs of 2%-3% are applied. As

Green Dot's longest operating school, Animo Leadership contends the school will actually see small decreases in salary expenses due to employee turnover and retirement of higher paid employees.

Animo Leadership's projections from the budgeted 2009-10 and projected 2010-11 and 2011-12 years are roughly identical with no material changes in revenue or expenses. Animo Leadership expects no increase in to the general purpose or categorical block grants in these years and forecast maintaining expenses at current levels, as well. This is projected to result in an average of \$266,257 in increases to net assets. In 2013-14 and 2014-15, Animo Leadership anticipates having an average of \$1.07 million available for the CSFP payment. After the CSFP payment in these years, Animo Leadership projects an increase in net assets of \$146,125 and \$56,125. Staff notes that Animo Leadership's past and projected annual financial performance includes approximately \$275,000 per year in annual management fees to Green Dot, as EMO. Green Dot has stated that payment of this fee would be paid subordinate to all of its CSFP facilities lease payments.

Debt Service Coverage: Assuming a 3.0% interest rate and 30-year repayment period, Animo Leadership's total annual CSFP lease payment (including Proposition 47 and Proposition 1D Allocations) is projected to be \$876,921 beginning 2013-14. This payment would represent, on average, a high but manageable 17.8% of projected revenues in 2013-14 and 2014-15. Animo Leadership's projected 2013-14 net revenues of \$1.04 million would provide debt service coverage of 118.9% in its first year of occupancy. For 2014-15, Animo Leadership's projected debt service coverage increases to 124.2% based on available revenue of \$1.09 million. Calculation of debt service coverage in 2013-14 and 2014-15 without contributions is projected to be 102.2% and 117.8%. These debt service coverage ratios are calculated assuming the subordination of Green Dot's management fee to payment of the CSFP lease. The projected debt service coverage levels for 2013-14 and 2014-15 (inclusive of contributions) would decrease to 86.6% and 90.5%, respectively, if the management fee is not subordinated.

Staff noted the aggressive general purpose block grant growth rate assumption of 4.7% and also calculated debt service coverage using a 3.0% growth rate. Debt service coverage when modifying this growth rate reduces to 106.5% and 104.0% in 2013-14 and 2014-15.

Asset Position and Liquidity: As of June 30, 2009, Animo Leadership had net assets of \$2.30 million, including \$50,750 in cash and \$6.7 million in accounts receivables. Liquidity is also measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. Animo Leadership's NWC at June 30, 2009 was \$2.30 million, or 47.6% of total expenses which had substantially increased from the prior years \$982,370 at June 30, 2008, or 19.6% of total expenses. As staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient, Animo Leadership's most recent audited financials and cash balances indicate strong liquidity positions. Green Dot as co-borrower also provides an additional source of liquidity to Animo Leadership.

Strengths, Weaknesses and Mitigants

- + Support of Green Dot as co-borrower/guarantor.
- + Strong student demand with no additional school growth required to meet CSFP payment.
- /+ Inconsistent student performance but measures are being put in place to improve student performance.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Animo Leadership is financially sound for the purposes of the Charter School Facilities Program Preliminary or Advance Apportionment, but not for purposes of a Final Apportionment. This determination is subject to the financial and legal review of Green Dot Public Schools' ability to serve as co-borrower for all CSFP obligations. This determination as it relates to a Preliminary or 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.