

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

Applicant/Obligor:	Green Dot Public Schools
Project School:	Animo 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: \$18,143,644</u>
Total OPSC Project Cost:	Total: \$30,601,120
State Apportionment (50% Project Cost):	\$15,300,560
Lump Sum Contribution:	\$0
	Proposition 55: \$6,228,738
	<u>Proposition 1D: \$9,071,822</u>
Total CSFP Financed Amount:	Total: \$15,300,560
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
	Proposition 55: \$317,786
	<u>Proposition 1D: \$462,837</u>
Estimated Annual CSFP Payment:	Total: \$780,623
First Year of Occupancy of New Project:	2012-13

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 \$18.14 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 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 South Los Angeles, Animo Pat Brown, and Animo Leadership.

Animo South Los Angeles and Animo Pat Brown 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 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 June 2014.
Demographic Information	Animo South LA serves 9 th and 12 th grade students in Los Angeles. Enrolling 541 students in 2009-10, Animo South LA intends on maintaining current student enrollment for the foreseeable future.
Debt Service Coverage	Debt service coverage from school revenues is projected to be 119.3% and 136.4% in 2013-14 and 2014-15, respectively, assuming subordination of school’s management fee to Green Dot.
Other Financial Factors	<ol style="list-style-type: none"> 1. Lease as % of Projected Revenues: Average of 17.6% in 2013-14 and 2014-15. 2. Projected Contributions as % of Revenues: Average of 1.5% in 2013-14 and 2014-15. 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 four years. The school met API growth targets in two of the last four years. The school’s API statewide rank has been between 3 (out of 10) and 6 over the past four years; its similar schools rank has been either 9 or 10 (out of 10) for this period, as well.

Program Eligibility: Animo South LA received its initial charter in October 2003 and recently renewed its charter through June 2014. In December 2009, 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 sixth 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 \$12.46 million for permanent facilities under Proposition 55 in February 2005 with the limitation of serving 353 students. Green Dot has applied for \$18.14 million of additional funding under Proposition 1D to cover any 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. Green Dot intends to acquire land within a three to four mile radius of Washington Preparatory High School located at 10860 S. Denker Ave., Los Angeles, CA 90047.

Animo South LA is currently housed in temporary facilities at 11130 S. Western Ave. Los Angeles, CA 90047. Based on its 2009-10 budget, the school's existing facilities cost \$645,080.

Animo South LA 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. 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: 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 not met all AYP criteria for three out of last four years. The school did not meet all AYP criteria in 2007-08 and 2008-09 because of not meeting both the English and Math proficiency percentages required. In addition, Animo South LA has been inconsistent with meeting both schoolwide and comparable improvement growth API targets. In 2005-06 and 2007-08, Animo South LA met the API growth targets with API scores of 711 and 705, respectively. However, in 2006-07 and 2008-09, the School did not meet the API growth targets with API growth scores of 677 and 692. Although Animo South LA has been ranked between 3 and 6 out of 10 in statewide ranking over the last four years, the school has maintained strong similar school rankings of either 9 or 10 out of 10 over the same period.

According to Animo South LA, 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 South LA is requiring that CAHSEE preparation begins in the 9th grade, not the 10th grade.

Animo South LA 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 South LA, 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 South Los Angeles	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	Yes	No	No
Criteria Met / Required Criteria	13 / 14	17 / 17	14 / 18	15 / 22
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	No	Yes	No
Met Comparable Improvement Growth Target?	Yes	No	Yes	No
Met Both Schoolwide & CI Growth Targets?	Yes	No	Yes	No
API Base Statewide Rank (10 = best)	3	6	4	5
API Base Similar Schools Rank (10 = best)	9	10	9	10
School's Actual Growth	66	-24	28	-13
Similar Schools Median of Actual Growth	13	-3	12	12
Did School's Growth Exceed Median?	Yes	No	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 523 students in grades nine through twelve in 2007-08. Animo South LA does not intend to increase enrollment beyond 540 students.

Green Dot reports that Animo South LA's average ADA as a percent of total enrollment was 94% over the past three years provide support for the school's 95% ADA assumption in its financial forecasts. Per the 2009-10 P-1 report, Animo South LA's ADA is 521 or 96% of enrollment. Animo South LA had a waitlist of 150 students at the beginning of 2009-10, indicating 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 Los Angeles	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	394	523	531	540	540	540	540	540	540
Average Daily Attendance	377	485	502	521	513	513	513	513	513
Average Daily Attendance (%)	96%	93%	95%	96%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Payment	\$ 3,355,757	\$ 4,278,018	\$ 5,249,214	\$ 4,427,802	\$ 4,419,625	\$ 4,415,625	\$ 4,468,065	\$ 4,626,538	\$ 4,786,389
Total Expenses Paid Before CSFP Payment	3,277,837	3,872,505	4,390,436	4,174,999	4,174,999	4,174,999	3,527,209	3,610,094	3,671,457
Accounting Adjustments	3,332	2,660	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	\$ 81,252	\$ 408,173	\$ 858,778	\$ 252,803	\$ 244,626	\$ 240,626	\$ 940,856	\$ 1,016,444	\$ 1,114,932
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 780,623	\$ 780,623
Net Revenues After CSFP Payment	\$ 81,252	\$ 408,173	\$ 858,778	\$ 252,803	\$ 244,626	\$ 240,626	\$ 940,856	\$ 235,821	\$ 334,309
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Payment	\$ 81,252	\$ 408,173	\$ 858,778	\$ 252,803	\$ 244,626	\$ 240,626	\$ 940,856	\$ 1,016,444	\$ 1,114,932
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	130.2%	142.8%
Contributions	\$ 485,790	\$ 684,342	\$ 747,337	\$ 245,000	\$ 420,000	\$ 416,000	\$ 295,000	\$ 85,000	\$ 50,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	119.3%	136.4%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	16.9%	16.3%
Contributions / Revenues	14.5%	16.0%	14.2%	5.5%	9.5%	9.4%	6.6%	1.8%	1.0%
Net Revenues After CSFP Payment / Revenues	2.4%	9.5%	16.4%	5.7%	5.5%	5.4%	21.1%	5.1%	7.0%
Revenues / ADA	\$ 8,901	\$ 8,821	\$ 10,457	\$ 8,499	\$ 8,615	\$ 8,607	\$ 8,710	\$ 9,019	\$ 9,330
Expenses / ADA	\$ 8,695	\$ 7,985	\$ 8,746	\$ 8,013	\$ 8,138	\$ 8,138	\$ 6,876	\$ 8,559	\$ 8,679
Surplus (Deficit) / ADA	\$ 207	\$ 836	\$ 1,711	\$ 485	\$ 477	\$ 469	\$ 1,834	\$ 460	\$ 652
Net Working Capital	\$ 399,331	\$ 807,504	\$ 1,666,282						
Net Working Capital / Expenses	12.2%	20.9%	38.0%						

As of June 30, 2009, Animo South LA's audited financial statements indicated one outstanding debt obligation in connection with a \$250,000 CDE loan. The school plans to make its final principal payment of \$50,000 to retire the loan in 2009-10. The school's projections do not anticipate 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 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 South LA'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 South LA'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, Animo South LA had 132 ninth and tenth grade students. Bolstered in large part by grant and EMO support, the school increased net assets by \$154,073. Since 2005-06, Animo South LA has seen increases in net assets in every year through 2008-09. With sizable annual contributions averaging \$640,000, the school experienced increases of \$81,252, \$408,173, and \$858,778 to net assets from 2006-07 through 2008-09. Contributions are expected to gradually reduce in projected years as Animo South LA becomes more reliant school operations to meet expenditure needs.

The 2009-10 ADA funding rate of \$6,010 (grades 9 to 12) were used as 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 South LA assumed growth of 0% in years 2010-11 and 2011-12 to the general purpose block grant per ADA funding rates. Animo South LA then anticipates funding levels growing at 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.

Staff notes that Animo South LA's projected annual financial performance includes annual management fees to Green Dot, as EMO equal to 6% of revenues. Green Dot has stated that payment of this fee would be made subordinate to any CSFP facility payment.

Debt Service Coverage: Assuming a 3.0% interest rate and 30-year repayment period, Animo South LA's total annual CSFP lease payment (including Proposition 55 and Proposition 1D Allocations) is projected to be \$780,623 beginning 2013-14. This payment would represent, on average, 16.6% of projected revenues in 2013-14 and 2014-15. Staff prefers that the CSFP lease payment as a percentage of revenues be less than 15%. Animo South LA's projected 2013-14 net revenues of \$1.02 million would provide debt service coverage of 130.2% in its first year of occupancy. For 2014-15, Animo South LA's projected net revenues of \$1.11 million would provide debt service coverage of 142.8%. Calculation of debt service coverage in 2013-14 and 2014-15 without contributions is projected to be 119.3% and 136.4%. 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 95.3% and 106.4%, respectively, if the management fee is not subordinated.

Staff noted the aggressive general purpose block grant funding rate assumption of 4.7% and calculated debt service coverage using a 3.0% growth rate. When modifying the funding growth rate, Animo South LA is projected to still meet the minimum 100% debt service coverage requirement.

Asset Position and Liquidity: As of June 30, 2009, Animo South LA had net assets of \$1.66 million, including \$51,100 in cash and \$1.02 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 South LA's NWC at June 30, 2009 was \$1.67 million, or 40.8% of total expenses which had increased from the prior year's \$807,504 at June 30, 2008, or 22.3% of total expenses. As staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient, Animo South LA's most recent audited financials and cash balances indicate sufficient liquidity positions. Green Dot as co-borrower also provides an additional source of liquidity.

Strengths, Weaknesses and Mitigants

- + Track record of reasonable financial results.
- + Support of Green Dot as co-borrower/guarantor.
- + Reasonably strong student demand; minimal or zero additional school growth required for 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 South LA 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.