

**CHARTER SCHOOL FACILITIES PROGRAM  
2011 FUNDING ROUND  
STAFF SUMMARY REPORT – MARCH 2011**

<b>Applicant/Obligor:</b>	Bright Star Schools
<b>Project School:</b>	Stella Middle Charter Academy
<b>CDS (County – District – School) Code:</b>	19-64733-0100669
<b>[Proposed] Project Location:</b>	5051 Rodeo Dr., Los Angeles
<b>Type of Project:</b>	New Construction
<b>County:</b>	Los Angeles
<b>District in which Project is Located:</b>	Los Angeles Unified School District
<b>Charter Authorizer:</b>	Los Angeles Unified School District
<b>Total OPSC Project Cost:</b>	\$24,426,544
<b>State Apportionment (50% Project Cost):</b>	\$12,213,272
<b>Lump Sum Contribution:</b>	\$500,000
<b>Total CSFP Financed Amount:</b>	\$11,713,272
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$597,603
<b>First Year of Occupancy of New Project:</b>	2013-14

*Stella Middle Charter Academy (SMCA) received a Preliminary Apportionment of \$24,426,544 at the State Allocation Board meeting on May 28, 2008. SMCA received an advance for design for the amount of \$1,010,175.40 on June 5, 2009. At this time, SMCA is requesting an advance fund release for site acquisition through the Program.*

**Staff Recommendation:** Bright Star Schools (BSS) intends to construct a new permanent facility for one of its two existing schools, SMCA. Staff recommends that the California School Finance Authority (CSFA) Board determine that SMCA is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) 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.

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

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	SMCA met all Program eligibility criteria: 1) currently in its eighth year of operations; 2) has a valid charter in place until June 2013; 3) SMCA is in good standing with its authorizer and is in compliance with the terms of its charter agreement.
<b>Demographic Information</b>	SMCA serves 5 <sup>th</sup> through 8 <sup>th</sup> grade students in Los Angeles. It

<b>Criteria</b>	<b>Comments</b>
	currently has 507 enrolled students and the school expects to reach full enrollment of 610 students upon occupancy of the new CSFP facilities in 2013-14.
<b>Debt Service Coverage</b>	Coverage estimates based on SMCA's financial projections are 131.5% in 2014-15, the first year of CSFP payment, and 120.4% in 2015-16. Coverage projections adjusted for projected contributions and CMO management fees are discussed in "Financial Analysis" below.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. CSFP obligation as % of revenues projected to be 11.8% in 2014-15, and 11.6% in 2015-16.</li> <li>2. Contributions as % of revenues are less than 1% in 2008-09 and 2009-10</li> <li>3. Net working capital as a % of expenses was 37.1% for 2008-09 and 45.3% for 2009-10</li> <li>4. BSS, CMO of the SMCA, will provide additional financial support to SMCA's CSFP obligation if needed</li> </ol>
<b>Student Performance</b>	API results are consistently in the 800's. SMCA was ranked 9 out of 10 statewide and 10 out of 10 among similar schools in 2007-08, and 7 out of 10 statewide and 10 out of 10 among similar schools in 2008-09.

**Program Eligibility:** On March 1, 2011, verification was received from the Superintendent's Office of LAUSD, confirming that SMCA is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. SMCA's charter will expire in June 30, 2013.

**Legal Status Questionnaire:** Staff reviewed the applicant's responses to the questions contained in the Legal Status Questionnaire (LSQ) portion of the application. SMCA answered "No" to all question contained in the LSQ.

**Project Description:** BSS, on behalf of SMCA, has requested funding for new construction of a permanent middle school facility to accommodate a maximum of 610 students in grades 5 through 8. The new facility will replace the school's current facility at 2636 Mansfield Avenue of Los Angeles. SMCA is seeking a site within a 5-mile radius of its current facility, and is currently in negotiations for property at 5051 Rodeo Road. The CDE School Facilities Planning Division has performed and approved a SFPD 4.0 initial school site evaluation on the property and BSS has submitted an application for Contingent CDE Site Approval. SMCA expects to complete the CSFP project and occupy the new facility during the 2013-14 school year. Therefore, its CSFP payment obligation is projected to begin with the 2014-15 school year.

**Organizational Information:** SMCA is a public charter school located in mid-city Los Angeles. The school was opened in 2003-04 to serve and prepare socio-economically or educationally disadvantaged students for success in high school and college.

From 2007-08 through 2009-10, there were 328, 416, and 434 students enrolled in SMCA respectively, based on data from the California Department of Education (CDE). Current enrollment at SMCA is approximately 507 students and SMCA is anticipating approximately 100 potential students on the waiting list for 2011-12, consisting of 50 potential students in grades 6, and 7.

SMCA's charter was approved by the LAUSD on June 2008, and has been renewed through June 30, 2013.

In 2005, Bright Star Schools (BSS) was established to provide charter school management services for SMCA and Bright Star Secondary Charter Academy.

**Educational Management Organization:** BSS is a California 501(c)(3) nonprofit, public-benefit organization incorporated on May 13, 2006 to provide charter school management services to SMCA and BSSCA. Its leadership team opened SMCA in 2003-04 to serve 5<sup>th</sup> to 8<sup>th</sup>-grade students in the mid-Los Angeles area. In September 2006, BSS also opened BSSCA which is currently serving approximately 256 students in the 9<sup>th</sup> through 11<sup>th</sup>-grades. BSS states that its goal is to serve the most underserved communities in Los Angeles through education, predominantly Latino and economically disadvantaged students. Along with BSSCA and SMCA, BSS plans to open a new middle school, Rise Ko-Hyang Middle School (Rise) in 2011-12. Rise will open with an enrollment of 150 students in the 6<sup>th</sup> grade, and will expand one grade level each year until it reaches its maximum enrollment of 450 students (6<sup>th</sup> -8<sup>th</sup> grades) in 2013-14. BSS has no immediate plans of opening any other schools at the moment, due to the organizations focus to successfully operate BSSCA, which is expanding to full capacity over the next few years, and the opening of Rise next fall. Operating as a 501(c)(3) organization, BSS will serve as guarantor for this application and will provide backup capacity for SMCA's CSFP lease obligations, if necessary.

**School Management Experience:** Jeff Hilger founded SMCA in 2003 and serves as Principal of for the 7<sup>th</sup> and 8<sup>th</sup> grades, as well as principal for BSSCA. Prior to SMCA, he was a teacher at public elementary and middle schools. He was also a fourth grade classroom teacher from 2001 through 2002. Mr. Hilger obtained a J.D. and a Master's Degree in Public Policy and Social Research from UCLA, and a Bachelor of Science Degree in Foreign Service from Georgetown University.

Monique Bonilla serves as Principal for the 5<sup>th</sup> and 6<sup>th</sup> grades at SMCA. Prior to this position, Ms. Bonilla was a high school English teacher from 2004-2008, and a former juvenile detention officer and caseworker. Ms. Bonilla received a Masters of Arts in Education from Azusa Pacific University, and a Bachelor of Arts in Psychology from the University of Washington.

**EMO Management:** Ari Engelberg serves as the CEO and is member of the Board of BSS. In addition to serving on the Board, he was formerly a teacher at Harvard-Westlake High School in Los Angeles and is also the founding partner of the Los Angeles Social Venture Partners. His other experience includes serving on the Boards of Directors of the Jewish Venture Philanthropy Fund of Los Angeles, The Literacy Network of Greater Los Angeles, and the Jewish Big Brothers-Big Sisters. Mr. Engelberg obtained a BA degree in Political Science and Psychology from UC Berkeley and a JD and a MBA from UCLA.

**Management Experience for Schools Open Less than Two Years:** Not applicable as SMCA began instructional operations in the 2003-04 school year, exceeding the two years of instruction requirement.

**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.

Stella Middle Charter Academy	FY 2007-08	FY 2008-09	FY 2009-10
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>			
Met All AYP Criteria?	Yes	No	No
Criteria Met / Required Criteria	17 / 17	16 / 17	9 / 17
Met API Indicator for AYP?	Yes	No	Yes
Met Graduation Rate?			
<b>ACADEMIC PERFORMANCE INDEX (API)</b>			
Met Schoolwide Growth Target?	No		N/A
Met Comparable Improvement Growth Target?	No		N/A
Met Both Schoolwide & CI Growth Targets?	No		N/A
API Base Statewide Rank (10 = best)	9	7	
API Base Similar Schools Rank (10 = best)	10	10	
School's Actual Growth	-47	22	
Similar Schools Median of Actual Growth	22		
Did School's Growth Exceed Median?	No		

SMCA has shown steady progress in its Academic Performance Index (API) results, having increased its scores from 785 in 2007-08, to 822 in 2008-09, but experiencing a decrease to 808 in 2009-10. API Base Statewide Rank has remained consistent from 9 in 2007-08, to a 7 in 2008-09. Similar School Rank has been 10 in the past two years. The table above shows a gap in 2008-09 data, this is due to a self reported testing error. Stella has stated that they self-reported a testing irregularity which resulted in CDE invalidating its API score. The error Stella reported was that in one classroom, materials that had been on the wall during the school year were not removed before the test began. The test rules require that any material on the walls which may provide students an advantage on the test need to be removed. The teacher and administrator noted the error after the first section of the exam and removed the materials. There is no indication that any advantage actually accrued to the students. Nonetheless, the school reported the irregularity, and even though it only applied to one classroom (5.4% of the enrolled students) for one section of the test, CDE invalidated the score. The unofficial API score for Stella in 2008-09 was 802, a gain of 22 points from the prior year.

The middle school met all applicable Adequate Yearly Progress (AYP) requirements from 2007-08, but received a 16 out of 17 in 2008-09 due to the not achieving the additional indicator for AYP by not having at least one point growth in the API. Stella experienced a large decrease in AYP scores in 2009-10, achieving a score of 9 out of 17. When staff asked the school for an explanation the school stated that in 2009-10, the AYP targets for Percent Proficient for English and Math were 56.8% and 58%, respectively. Stella came just short of meeting these overall targets, though the absolute levels of proficiency remained essentially unchanged from the prior year. Historically, Stella has produced consistently strong results, and has consistently outperformed neighboring schools (in most cases by a factor of two) since Stella was founded.

**Financial Analysis:** Below we have highlighted selected financial data and credit indicators to evaluate SMCA’s ability to meet its CSFP obligation. Staff’s review of SMCA’s financial performance is based on three years of audited financial statements (2007-08 through 2009-10), 2010-11 adopted budget and the school’s financial projections from 2011-12 through 2015-16 as provided by SMCA. The school expects to occupy the CSFP project in 2013-14, by which time its enrollment will have increased from 434 students (grades 5 – 8) in 2009-10 to 610 students (grades 5 – 8), the maximum capacity of the proposed facility.

Stella Middle Charter Academy	Actual FY 2007-08	Actual FY 2008-09	Actual FY 2009-10	Budgeted FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16
<b>ENROLLMENT PROJECTIONS</b>									
Enrollment	328	416	434	507	560	610	610	610	610
Average Daily Attendance	314	412	408	490	532	580	580	580	580
Average Daily Attendance (%)	96%	99%	94%	97%	95%	95%	95%	95%	95%
<b>FINANCIAL PROJECTIONS</b>									
Total Revenues Available for CSFP Lease Payment	\$ 3,677,607	\$ 4,426,459	\$ 4,205,165	\$ 4,424,781	\$ 4,636,043	\$ 5,081,477	\$ 4,968,472	\$ 5,057,071	\$ 5,147,442
Total Expenses Paid Before CSFP Lease Payment	3,692,882	4,130,883	3,966,325	3,887,157	4,246,841	4,540,818	4,308,848	4,284,399	4,441,186
Accounting Adjustments	39,139	-	549	18,125	18,125	18,125	13,125	13,125	13,125
Net Revenues Available for CSFP Lease Payment	\$ 23,864	\$ 295,576	\$ 239,389	\$ 555,749	\$ 407,327	\$ 558,784	\$ 672,749	\$ 785,797	\$ 719,381
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 597,603	\$ 597,603
Net Revenues After CSFP Lease Payment	\$ 23,864	\$ 295,576	\$ 239,389	\$ 555,749	\$ 407,327	\$ 558,784	\$ 672,749	\$ 188,194	\$ 121,778
<b>FINANCIAL INDICATORS</b>									
Net Revenues Available for CSFP Lease Payment	\$ 23,864	\$ 295,576	\$ 239,389	\$ 555,749	\$ 407,327	\$ 558,784	\$ 672,749	\$ 785,797	\$ 719,381
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	131.5%	120.4%
Contributions	\$ 11,464	\$ 13,165	\$ 5,570	\$ 78,803	\$ 104,200	\$ 129,575	\$ 154,575	\$ 154,575	\$ 154,575
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	105.6%	94.5%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11.8%	11.6%
Contributions / Revenues	0.3%	0.3%	0.1%	1.8%	2.2%	2.5%	3.1%	3.1%	3.0%
Net Revenues After CSFP Lease Payment / Revenues	0.6%	6.7%	5.7%	12.6%	8.8%	11.0%	13.5%	3.7%	2.4%
Revenues / ADA	\$ 11,712	\$ 10,744	\$ 10,307	\$ 9,030	\$ 8,714	\$ 8,769	\$ 8,574	\$ 8,727	\$ 8,883
Expenses / ADA	\$ 11,761	\$ 10,026	\$ 9,721	\$ 7,933	\$ 7,983	\$ 7,836	\$ 7,435	\$ 8,425	\$ 8,695
Surplus (Deficit) / ADA	\$ (49)	\$ 717	\$ 585	\$ 1,097	\$ 732	\$ 933	\$ 1,138	\$ 302	\$ 187
Net Working Capital	\$ 1,277,211	\$ 1,533,430	\$ 1,796,585	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	34.6%	37.1%	45.3%	N/A	N/A	N/A	N/A	N/A	N/A

**Assets/Liabilities:** As of June 30, 2010, SMCA had no outstanding long-term liabilities as shown on its audited financial statements. The school currently leases a property at 2636 Mansfield Avenue, Los Angeles for an average of \$90,000 per year (based on 2008-09 lease agreement). This existing facility lease obligations would be incurred each year until SMCA moves to the new CSFP facility in 2013-14. SMCA’s projections do not indicate that there will be any other long-term debt incurred for any purpose other than the CSFP Program.

**Changes in Net Assets:** SMCA produced operating surpluses in the past three years based on its audited financial statements. From 2007-08 through 2009-10, SMCA recorded an increase in net assets of \$23,864, to \$295,576, and \$239,389 on revenues of \$3.7 million, \$4.4 million, and \$4.2 million.

In anticipation of enrollment growth from 507 students in 2010-11 to 560 students in 2011-12, SMCA budgeted an increase in revenues from \$4.2 million to \$4.6 million and expenditures from \$3.9 million to \$4.2 million. The revenue projections in 2011-12 assume general purpose block grant of \$5,168 per ADA for 5<sup>th</sup> and 6<sup>th</sup>-grade students and \$5,319 per ADA for 7<sup>th</sup> and 8<sup>th</sup>-grade students, which are in line with CDE block grant rate estimates for the year. SMCA’s operating surplus prior to management fee payment in 2010-11 is projected to be \$1.1 million, resulting in an ending fund balance of \$555,749 in the year after contribution revenues of \$78,000 and management fee to the CMO of \$640,090 are taken out.

Based on the school’s estimated enrollment of 610 students in 2013-14, total operating revenues are projected to reach \$5.0 million while total expenditures will reach \$4.3 million in 2013-14,

resulting in an operating surplus (prior to management fee payment) of \$672,749 and ending fund balance of \$1.3 million in the year after contributions and management fee. From 2011-12 through 2013-14, SMCA is projecting to reach full enrollment of 610 students and expects an increase in operating revenues from \$4.6 million in 2011-12, \$5.0 million in 2012-13, and \$5.0 million in 2013-14. Expenditures are also expected to grow from \$4.2 million, \$4.5 million, and \$4.3 million respectively over the three years. As a result of enrollment increases, SMCA projects surpluses from 2011-12 to 2015-16 of \$407,327, \$558,784, \$672,749, \$785,797, and \$719,381 respectively.

Contributions/Fundraising: The surpluses anticipated above are based on contribution levels well above historical levels for SMCA. SMCA did obtain material funds raised from private sources in the past three years, however the percentage of contributions to revenues is less than 1%. In 2009-10, SMCA received approximately \$5,570 in private contributions from fundraising activities, which represents less than 1% of total revenue of the year. From 2011-12 through 2015-16, SMCA expects to receive \$104,200, \$129,575, \$154,575, \$154,575, and \$154,575 in contributions each year, representing as a percentage of total revenues of 2.2% in 2011-12, 2.5% in 2012-13, and 3.1% in 2013-14 and thereafter. SMCA's projected fundraising revenues are substantially higher than such revenues received to date, but staff notes that such contributions are much smaller in every year than SMCA's projected annual management fee to BSS of \$640,090 to \$543,457 – this fee is subordinate to SMCA's CSFP payment. Ignoring this subordinate management fee, SMCA's projected debt service coverage levels are healthy even if the school fails to achieve its contribution goals.

BSS, CMO of SMCA, was awarded a \$6 million augmentation from LAUSD for from Proposition 1D. Due to the nature of the delivery of funds, the grant has no restrictions of use for BSS. However, BSS still intends to honor the original intention of the grant by using most, or all, of the funds to subsidize Stella's Prop 1D project on Rodeo Road (and all of the funds on BSS facility related projects). BSS will use the grant to cover the \$500,000 lump sum contribution, on any overages in project cost after subtracting the loan and grant portion from the State, and to reduce the principal amount on the loan from CSFA. BSS's financial soundness is contingent upon that the BSS board vote to restrict and set-aside the \$500K (part of the LAUSD grant) to the CSFP local matching share.

Projected Debt Service Coverage: Based on OPSC's estimated total project cost of \$24,426,544, SMCA financial projections indicate an ability to afford the projected annual CSFP payment (at 3.0%) starting in the 2014-15 school year of \$597,603 each year, as evidenced by the debt service coverage ratios of 131.5% in 2014-15, and 120.4% in 2015-16.

Given the aggressive contribution income projections described above, staff has reviewed projected debt service coverage excluding contribution/fundraising income. Without this revenue source, coverage is estimated to be 105.6% in 2014-15, the first year of CSFP payments, and 94.5% in 2015-16. Removing the school's management fees to BSS, which are subordinate to the CSFP lease payments, increases coverage to 221.0% in 2014-15, and 211.3% in 2015-16. This indicates an ability on the part of the school to maintain lease payments even if contribution revenues are below projections; however, the resultant decrease in management fee transfers could still have a negative impact on the organization as a whole.

SMCA's ability to meet its payment obligations will be negatively impacted if the school is unable to reach its enrollment growth projections to full capacity of 610 students starting 2012-13, or if the school is unable to meet its expenditure projections. Projected annual CSFP lease payments represent an average equal to about 11.7% of projected revenues or roughly \$240 per ADA.

Staff believes that, based on SMCA's financial records and projections, the CSFP obligation is affordable and should not significantly impact the school's flexibility to fund unforeseen costs during the term of repayment.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liability from current assets. SMCA's NWC for 2008-09 was \$1.5 million, and \$1.8 million for 2009-10. NWC as a percentage of expenses in 2009-10 was 37.1%, and 45.3%, which is above the preferred threshold of 5.0%.

### **Strengths, Weaknesses and Mitigants**

- + SMCA produced an operating surplus in each of the past three years as shown from its audited financial statements from 2007-08 through 2009-10. The school is also projecting operating surpluses in the projected years from 2011-12 through 2015-16.
- + SMCA's financial projections indicate that the school will be able to afford its projected annual lease payments of \$597,603, as evidenced by the debt service coverage ratio of 131.5% calculated for 2014-15 and 120.4% in 2015-16. However, coverage is at risk if enrollment projections do not meet expectations, if expenses are not managed as anticipated, or if contributions fall short of projections.
- + With CSFP payments expected to aggregate to an average equal to 11.7% of projected revenues or roughly \$240 per ADA, staff believes that the CSFP obligation is affordable and will not significantly impact the school's flexibility to fund unforeseen costs during the term of repayment.
- +/- Historically, SMCA has been able to meet all AYP and record strong API results, and continually outperforms schools in the area. However, in the last couple of school years, AYP has shown significant decreases, and do not have reported API scores for 2008-09.

**Staff Recommendation**: Staff recommends that the California School Finance Authority Board determine that the Stella Middle Charter Academy is financially sound for the purposes of the Charter School Facilities Program Advance Apportionment, but not for purposes of Final Apportionment. BSS's financial soundness is contingent upon that the BSS board vote to restrict and set-aside the \$500K (part of the LAUSD grant) to the CSFP local matching share. 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.