

**CHARTER SCHOOL FACILITIES PROGRAM
2010 LOTTERY FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2011**

Applicant/Obligor:	Alliance College-Ready Public Schools
Project School:	Media Arts and Entertainment High
CDS (County – District – School) Code:	19-64733-0116509
Project Location:	3859 E. 1 st Street, Los Angeles
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
Total OPSC Project Cost:	\$34,172,028
State Apportionment (50% Project Cost):	\$17,086,014
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$17,086,014
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$871,716
First Year of Occupancy of New Project:	2013-14

Staff Recommendation: Alliance College-Ready Public Schools (“Alliance”), on behalf of Media Arts and Entertainment High (“Media”), is seeking a Proposition 1D Advance Apportionment of \$2,991,370 for site acquisition. Alliance is making the CSFP payments on behalf of the school. Staff recommends that the California School Finance Authority (CSFA) Board determine that Alliance College-Ready Public Schools is financially sound for the Charter School Facilities Program (“Program”) Advance Apportionment, but not for purposes of Final Apportionment under the Program. 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 immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Alliance, an educational management organization (EMO), has applied for CSFP Prop 1D financing on behalf of Media. Media received a preliminary apportionment for \$34,172,028 and should be sufficient to complete the project. The project has an anticipated occupancy date of 2013-14.

Additionally, Alliance has received a Preliminary Apportionment of \$33,050,312 under CSFP Proposition 1D to fund new construction for Health Services Academy (“Health”). Staff’s financial analysis of Alliance assumes that the organization’s 50% local matching share of the combined funding amount of \$67,222,340 is documented through a 30-year

funding agreement with CSFA at an interest rate of 3.00%, resulting in annual payments of \$1,714,817 commencing in 2014-15.

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

Criteria	Comments
EMO Information	
Demographic Information	<p>1. In 2009-10, Alliance operated 16 charter schools; enrollment totaled 5,536 students (up 41% from the prior year); the system-wide ADA rate was 96.2%. Alliance has noted that their retention rate is 92%.</p> <p>2. By 2013-14, Alliance plans to operate 28 schools with total projected enrollment of 12,150 students.</p>
Debt Service Coverage	Based on Alliance’s financial projections, the projected debt service coverage levels for the anticipated combined CSFP lease payment in 2014-15 and 2015-16 are 417.7% and 446.6%, respectively. Alliance will need to receive on average at least 45% (\$4.45 million) of expected contributions in 2014-15 in order to meet the 100% projected debt service coverage ratio threshold. In 2015-16, Alliance will need to receive at least 44% (\$4.64 million) to maintain 100% projected debt service coverage.
Other Financial Factors	<p>1. Measured as a percentage of total revenues, contributions from 2010-11 through 2015-16 are projected to average 8.2% annually, which is below the 15.0% threshold level employed by staff.</p> <p>2. Alliance’s net working capital (NWC) at June 30, 2009 was \$14.79 million, or 22.3% of total expenses, and increased to \$18.44 million, or 27.8% of total expenses at June 30, 2010 when excluding restricted cash balances. Staff considers NWC representing less than 5.0% of total expenses to be a weak liquidity indicator.</p>
School Information	
Eligibility Criteria	Media has met all eligibility criteria: (1) Media commenced operations in 2009-10; (2) Media’s charter was approved May 2007 and is in place through June 2013; (3) Media is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	In its first year of testing, Media did not achieve AYP, and its API will be considered as the base. Media did not have school rankings due to 2009-10 being its first year.
Demographic Information	Media currently serves 236 students in grades 9-10. Enrollment in 2011-12 is expected to be 405 students, and adding the 11 th grade. Media plans to increase enrollment to 540 students in 2011-12 by adding the 12 th grade. This is

	the total projected enrollment for the proposed facility. Based on the 2010-11 P-1 report, Media’s ADA rate was 94.5%. An ADA rate of 93.9% was achieved in 2009-10. Alliance’s financial projections assume an ADA rate of 95.0% for Media.
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Program Eligibility: On December 12, 2010, at CSFA staff’s request, verification was sent to the Office of Innovation and Charter Schools Division of Los Angeles Unified School District (LAUSD), confirming that Media is (1) in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority.

Legal Status Questionnaire: CSFA staff and counsel review responses to the questions contained in the Legal Status Questionnaire. Alliance answered "No" to a LSQ question(s).

Project Description: Alliance has requested total Proposition 1D funding for anticipated project costs of \$34,172,028, and is currently seeking an Advance Apportionment of \$2,991,370 for site acquisition. Alliance has already received advance apportionment of Prop 1D funding in the amount of \$3,009,255 for design costs associated with the Media project. The expected construction completion date is the beginning of the 2013-14 school year, with occupancy expected immediately thereafter. Media’s proposed project is for new construction of a 9-12 school facility on a 1.3 acre site to be located at 3859 E. 1st Street, Los Angeles. This new facility will accommodate approximately 500-550 students. Alliance is currently in the process of obtaining contingent site approval from the California Department of Education.

Media anticipates funding its 50% local matching share of the OPSC calculated Project cost of \$34,172,028 through a 30-year loan agreement with the State. CFSP payments are assumed to commence in 2014-15. Alliance will make the payments on behalf of Media.

Media Organizational Information: Media’s charter was approved by the LAUSD on May 22, 2007, and the school began operations in 2009-10 and will expire June 30, 2013.

Media currently serves 236 students in grades 9-10. Enrollment in 2013-14, when the new facility will open is expected to be 540 students, in grades 9-12. Based on the 2010-11 first interim report, Media’s ADA rate was 94.5%. An ADA rate of 93.9% was achieved in 2009-10. Alliance’s financial projections assume an ADA rate of 95.0% for Media.

School Management: The resume of the school’s personnel and the management team demonstrate professional, experienced, and qualified individuals serving in key capacities within the organization.

Dr. John Fox, Principal of Media, has 17 years of experience in education, both as a teacher and as a principal at the middle and high school levels. He recently completed his doctorate from the University of Southern California with an emphasis on leadership for urban education.

Management Experience for Schools Open Less than Two Years: Due to Media beginning operations in 2009-10, Alliance is meeting 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 1 funds.

Media has one year of reported API scores, thus not allowing a review of progress and comparison to similar schools. The following table summarizes the school’s trend in student performance. For 2009-10, Media recorded a growth API score of 664, which will be their base API score for 2010-11 school year. Media met only 8 out of 17 of the AYP criteria for 2009-10. Due to the lack of historical data, please see Alliances’ testing information (Page 7), which provides a better indicator for Alliances’ testing history.

Media Arts and Entertainment High	FY 2009-10
ADEQUATE YEARLY PROGRESS (AYP)	
Met All AYP Criteria?	No
Criteria Met / Required Criteria	8 / 17
Met API Indicator for AYP?	No
Met Graduation Rate?	N/A
ACADEMIC PERFORMANCE INDEX (API)	
Met Schoolwide Growth Target?	N/A
Met Comparable Improvement Growth Target?	N/A
Met Both Schoolwide & CI Growth Targets?	N/A
API Base Statewide Rank (10 = best)	
API Base Similar Schools Rank (10 = best)	
School's Actual Growth	
Similar Schools Median of Actual Growth	
Did School's Growth Exceed Median?	

Overview of Alliance College-Ready Public Schools: The Alliance is a 501(c)(3) non-profit public benefit corporation, governed by a board of directors that creates, controls, and operates its schools. A 501(c)(3) non-profit public benefit corporation is formed for each Alliance school. The Board of Directors of Alliance serves as the governing board and policy-making body for the organization. The Alliance schools commonly share three Alliance directors that also represent the entire Alliance organization. The Board of Directors of each school includes the three Alliance directors, the Alliance President/CEO, the Principal, a parent, a teacher, and a representative of LAUSD as ex-officio members. Each Alliance school maintains a local advisory council with presentation from the community it serves. The local advisory council works with each school Principal in elements of curriculum, parental involvement, and day-to-day school operations.

Enrollment Trends and Projections: The table on the following page presents school and enrollment information for Alliance’s schools open during 2009-10 and for new schools expected to be opened 2011-12 through 2015-16. As of June 30, 2010, Alliance operated 16 charter schools. In 2009-10 Alliance opened five additional schools: Health Services Academy HS (#8); Media Arts and Entertainment HS (#9); Environmental Science & Tech HS (#10); College Ready Middle Academy #4; and College Ready Middle Academy #5. In 2010-11 Alliance opened up two additional schools: College Ready Academy High School #11, and College Ready Middle Academy #7.

In 2009-10, enrollment totaled 5,536 students, with attendance at 5,324 students to produce an average daily attendance (ADA) rate of 96.2%. From 2007-08 through 2008-09, Alliance’s schools had total enrollments and ADA rates of 2,930 (95.4%), and 3,903 (96.8%). The aggregate ADA rate has averaged 96.2% for the last three years. Alliance has noted that their re-enrollment (retention) rate is at 92% in all schools and 90% at Media from the end of 2009-10 to the beginning of 2010-11.

System-wide enrollment for 2010-11 is up by 29.2% to 7,155 students from 2009-10. In 2010-11, Alliance opened one middle school and one high school. The majority of the enrollment growth in 2010-11 and subsequent years is expected to come from the opening of new schools, and schools reaching mature enrollment levels. Projected enrollment totals for 2011-12 through 2015-16 are 8,910, 10,665, 12,150, 13,635, and 14,580 students, respectively. Alliance plans to operate 24 schools in 2011-12, and projects opening two new schools a year, one middle school and one high school, through the 2015-16 school year, thus totaling 32 schools. The organization’s financial projections incorporate these expected enrollment levels as well as an assumed system-wide ADA rate of 95.0%.

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School	Year Opened	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Gertz-Ressler High School	FY 05	540	540	540	540	540	540
Huntington Park High School	FY 06	540	540	540	540	540	540
Heritage High School	FY 06	540	540	540	540	540	540
Richard Merkin Middle School	FY 06	405	405	405	405	405	405
Dr. Olga Mohan HS (#4)	FY 07	540	540	540	540	540	540
William and Carol Ouchi High School	FY 07	540	540	540	540	540	540
Marc & Eva Stern Math and Science School	FY 07	540	540	540	540	540	540
College Ready High #5	FY 08	540	540	540	540	540	540
Jack H. Skirball Middle School	FY 08	405	405	405	405	405	405
College Ready High #7	FY 08	540	540	540	540	540	540
Christine O'Donovan Middle Academy	FY 09	405	405	405	405	405	405
Health Services Academy HS (#8)	FY 10	270	405	540	540	540	540
Media Arts and Entertainment HS (#9)	FY 10	270	405	540	540	540	540
Environmental Science & Tech HS (#10)	FY 10	270	405	540	540	540	540
College Ready Middle Academy #4	FY 10	270	405	405	405	405	405
College Ready Middle Academy #5	FY 10	270	405	405	405	405	405
College Ready Middle Academy #7	FY 11	135	270	405	405	405	405
College Ready High #11	FY 11	135	270	405	540	540	540
College Ready High #13	FY 12	0	135	270	405	540	540
College Ready High #14	FY 12	0	135	270	405	540	540
College Ready High #16	FY 12	0	135	270	405	540	540
Century Middle Academy	FY 12	0	135	270	405	405	405
College Ready High (Sylmar)	FY 12	0	135	270	405	540	540
College Ready High (paired with Middle Academy #5)	FY 12	0	135	270	405	540	540
College Ready High #17	FY 13	0	0	135	270	405	540
College Ready Middle Academy #6	FY 13	0	0	135	270	405	405
College Ready Middle Academy #10	FY 14	0	0	0	135	270	405
College Ready High #18	FY 14	0	0	0	135	270	405
College Ready High #19	FY 15	0	0	0	0	135	270
College Ready Middle Academy #8	FY 15	0	0	0	0	135	270
College Ready High #20	FY 16	0	0	0	0	0	135
College Ready Middle Academy #9	FY 16	0	0	0	0	0	135
Total		7,155	8,910	10,665	12,150	13,635	14,580

School Model: The Alliance brand of high performance schools delivers a consistent educational environment and experience for students-preparing every student with the skills, experience, and knowledge to enter college. The measures for success are that all students continuously enrolled for at least four years will graduate from high school prepared for college, and that 100% of graduates will be accepted into a college and that middle school students enrolled for three years will culminate ready for success in high school. The Alliance’s primary role is to ensure the effective and consistent operations of its schools and quality experience for each individual student. Alliance provides its schools with operation services, resources, guidance, and oversight. Alliance defines and implements key non-negotiable parameters that define the Alliance brand of schools. Alliance is the charter holder of record and local operator of its schools.

The Alliance schools provide small and personalized learning environments with a school size of 500-550 students for high schools and 400-450 students for middle schools. Within these schools, small learning communities are created of 125-150 students each, where no teacher works with more than 75 students per day in core academic areas, and 85% of teacher-student time is spent together within that small learning community. In addition, teachers will stay with students for at least two years. Each student will be known intensely by at least one adult through advisory groups of 20-25 students.

The mission for Alliance is to open and operate a network of exemplary small high-performing 9-12 and 6-8 public schools in historically underachieving, low income, overcrowded communities in Los Angeles that will significantly outperform other public

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schools in preparing students to enter and to succeed in college. This is being accomplished through consistent implementation of five core values and is the basis of its educational model: 1) High expectations for all students; 2) Small personalized schools and classrooms; 3) Increased instructional time; 4) Highly qualified principals and teachers; 5) Parents as partners.

Academic Performance: As mentioned previously, staff views student performance as a leading indicator of a school’s financial position. Student performance data is available for the Alliance schools that have reportable data during 2009-10 or before.

Alliance College Ready API Growth Scores						
School	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Christine O'Donovan Middle Academy						733
Dr. Olga Mohan HS (#4)				812	846	883
College Ready High #5					649	715
College Ready High #7					610	614
Gertz-Ressler High School	696	749	741	778	827	853
Richard Merkin Middle School		653	663	702	747	775
Heritage High School		612	674	642	650	717
Huntington Park High School		578	662	716	781	778
William and Carol Ouchi High School			709	804	799	795
Marc & Eva Stern Math and Science School			718	792	788	789
Jack H. Skirball Middle School				727	740	730
Health Services Academy HS (#8)						667
Media Arts and Entertainment HS (#9)						664
Environmental Science & Tech HS (#10)						859
College Ready Middle Academy #4						765
College Ready Middle Academy #5						671

As shown in the previous table, the Alliance schools’ base API scores have shown gradual improvement. Alliance schools’ statewide and similar schools rankings have shown improvement as well. Of the 16 schools that posted statewide and similar school rankings in 2009-10, only three schools didn’t show improvement in either ranking categories.

Alliance College Ready API Base Rank: Statewide/Similar Schools					
School	2005-06	2006-07	2007-08	2008-09	2009-10
Christine O'Donovan Middle Academy					5/8
Dr. Olga Mohan HS (#4)			5/10	9/10	10/10
College Ready High #5				3/10	2/9
College Ready High #7				2/N/A	2/7
Gertz-Ressler High School	6/10	8/10	7/10	8/10	9/10
Richard Merkin Middle School		3/8	3/9	4/10	5/10
Heritage High School		2/8	4/10	2/9	2/8
Huntington Park High School		1/2	3/5	5/10	8/10
William and Carol Ouchi High School			6/10	9/10	8/10
Marc & Eva Stern Math and Science School			6/10	9/10	8/10
Jack H. Skirball Middle School				3/8	5/10

In 2006-07, 2 out of 4 (50%) met all AYP criteria. In 2007-08 and 2008-09, 6 of 7 schools (86%) and 5 of 10 schools (50%), respectively, also met all AYP criteria. In 2009-10, 5 of

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16 schools (31%) met all AYP criteria. Alliance has not been able to effectively maintain AYP student performance while adding schools to their system. The following table presents AYP target data for each Alliance school over the six year period.

Alliance College Ready Met All AYP Criteria						
School	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Christine O'Donovan Middle Academy						No
Dr. Olga Mohan HS (#4)				Yes	Yes	Yes
College Ready High #5					No	No
College Ready High #7					No	No
Gertz-Ressler High School	No	Yes	Yes	Yes	Yes	Yes
Richard Merkin Middle School		No	No	No	Yes	No
Heritage High School		No	No	Yes	No	Yes
Huntington Park High School			Yes	Yes	No	No
William and Carol Ouchi High School				Yes	Yes	Yes
Marc & Eva Stern Math and Science School				Yes	Yes	No
Jack H. Skirball Middle School					No	No
Health Services Academy HS (#8)						No
Media Arts and Entertainment HS (#9)						No
Environmental Science & Tech HS (#10)						Yes
College Ready Middle Academy #4						No
College Ready Middle Academy #5						No

EMO Organization and Management: The Alliance is a 501(c)(3) non-profit public benefit corporation, governed by a board of directors that creates, controls and operates its schools. A 501(c)(3) non-profit public benefit corporation is formed for each Alliance school. The Board of Directors of Alliance serves as the governing board and policy-making body for the organization. The Alliance schools commonly share three Alliance directors that also represent the entire Alliance organization. The Board of Directors of each school includes the three Alliance directors, the Alliance President/CEO, the Principal, a parent, a teacher, and a representative of LAUSD as ex-officio members. Each Alliance school maintains a local advisory council with representation from the community it serves. The local advisory council works with each school Principal in elements of curriculum, parental involvement, and day-to-day school operations.

It has recently come to CSFA's attention that Alliance is in discussions with a large, urban charter management organization for purposes of a potential merger of the two organizations. Staff asked Alliance for information regarding the legal and financial implications of the merger and Alliance staff provided the following explanation, "Nothing is definite as formal negotiations have not yet commenced. More information should become available by mid-May. The legal and financial impact of the proposed merger is expected to be minimal, if and when it is finalized." Staff will continue to monitor this issue and assess any risks such a merger could have on the financial soundness of the Alliance and its schools.

Board Experience: The Board of Directors consists of 25 active members includes leaders in the community who bring experience in education reform, charter school management, leadership development, political management, community/parent engagement, at-risk students, finance, operations, legal and fundraising. The Alliance Board of Directors can be seen in the table below:

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Name	Primary Occupation
Frank Baxter, Co-Chairman	Chairman emeritus of Jefferies and Company Inc.
Antony P. Ressler, Co-Chairman	Co-founder of Ares Management LLC
Harold Williams, Vice Chairman	Counsel to the law firm of Skadden, Arps, Slate, Meagher & Flom
Gayle Miller, Secretary	Retired President of Anne Klein II
Alan Arkatov	Chief Strategy Officer for Rogers & Associates
Judy Burton, President and CEO	Alliance for College-Ready Public Schools
Maria A. Casillas	President of Families in Schools
David S. Cunningham, III	L.A. Superior Court Judge
Luis de la Fuente	Associate Director at the Broad Foundation
David I. Fisher	Chairman of the Board of Capital Group International, Inc.
Cecil R. House	Senior Vice President of Operations Support for Southern California
Stewart Kwoh	President of the Asian Pacific American Legal Center of Southern CA
Harry Levitt	Executive Vice President of MullinTBG
Meyer Luskin	President of Scope Industries
Richard Merkin, M.D.	CEO and Founder of Heritage Provider Network
Neal Millard	Attorney practicing in the area of finance
Theodore R. Mitchell	CEO of New Schools Venture Fund
William G. Ouchi	Sanford & Betty Sigoloff Professor in Corporate Renewal at UCLA
Richard Riordan	Former California Secretary of Education and former Mayor of L.A.
Virgil Roberts	Managing partner for Bobbitt & Roberts
Araceli Ruano	Senior V.P./ Director - California office of the Center for American
Fred Simmons	General Partner - Freeman Spogli & Co.
Eva Stern	Clinical Social Worker and Educator
Ronald Sugar	Chairman Emeritus of Northrop Grumman Corporation
C. Frederick Wehba	Chairman of BentleyForbes

Staff Experience: Ms. Judy Burton is the President/Chief Executive Officer for Alliance and is responsible for setting the direction of Alliance. Prior to her founding Alliance, Ms. Burton served as the superintendent to LAUSD Local District B for 3 years. Ms. Burton attended the Doctoral Program in Educational Management at the Graduate School of Education, University of La Verne and received an A.B.D. in 1992.

Ms. Valerie Braimah, Vice President of Instructions, is responsible for strategic management of the Alliance’s instructional team, and for implementation of The College Ready Promise initiative. A former teacher, administrator, program evaluator, and educational consultant, Ms. Braimah has extensive experience in the areas of school reform, staff development and program evaluation. She has taught in both the elementary and high school levels in Oakland Unified School District and in two California charter high schools. Formerly the Chief Learning Officer for Insight Education Group, Ms. Braimah spent over five years providing teacher professional development, conducting school-wide academic program evaluations, and facilitating school and district reform across the

country. Ms. Braimah has a Master's Degree in Public Policy from Johns Hopkins University, with a specialty in education policy and literacy program development.

Mr. David Hyun, Chief Financial Officer is responsible for overseeing the accounting and finance department for the Alliance. Prior to joining Alliance, Mr. Hyun worked for the real estate industry for over twelve years. His accounting and finance background and industry experience include real estate investments, property management, construction and development. He earned his B.A. in Business Administration/Finance at the California State University, Northridge. Mr. Hyun is also a graduate of the Graziadio School of Business and Management, where he earned his M.B.A. He currently holds an active CPA license from the Washington State Board of Accountancy and is also a licensed real estate broker in the State of California.

Ms. Joan Massey, Chief Academic Officer, is responsible for overseeing all academic programs. Prior to assuming the position of Chief Academic Officer at the Alliance, Ms. Massey served as the Assistant Superintendent for Secondary Education in the Hartford Public Schools supervising, training and supporting the principals of twenty-one schools. Prior to that Ms. Massey worked with leaders from 26 different school districts as a staff member of the Educational Service Center. Ms. Massey has dedicated the past 22 years to developing and expanding opportunities for today's low performing youth and has a significant track record in developing learning communities dedicated to increasing rigor, relevance and relationships as the key levers for school improvement.

Mr. Steve Synott, Chief Operating Officer, is responsible for overseeing technology, facility development, facility operations, infrastructure development, human resources, and strategic partnerships for the Alliance. Mr. Synott brings over 20 years in General Management, Financial and Operational expertise – most recently as the President of the Small Business Group at United Healthcare. Mr. Synott has demonstrated success in providing strategic vision and turnaround management through instituting and embedding a performance culture along with organization, operational, and fiscal reform. He has a proven track record of high ambition/breakthrough strategic planning, building strong teams for executional excellence, and innovative product development and go-to-market methods, including especially noteworthy website efforts. Mr. Synott received his Bachelor of Science in Business Administration from Georgetown University, and is also a CPA.

Financial Analysis: Staff's review of Alliance's financial performance is based on three years of audited financial statements (2007-08 through 2009-10), and financial projections from 2010-11 through 2015-16 as provided by Alliance.

Highlighted in this section are financial data and credit indicators used to evaluate Alliance's ability to meet its CSFP obligations for its projects funded by Proposition 1D. Staff's financial analysis is based on information for Alliance as an organization and not for each applicant school on a stand-alone basis. Please note that the revenue, expenditure and changes to net assets recorded in financial audits and provided in Alliance'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.

Long-Term Liabilities – At June 30, 2010, Alliance had outstanding long-term liabilities of \$54.22 million, which is an increase from the \$53.98 million recorded at June 30, 2009. These debt obligations took the forms of eight promissory notes (\$38.69 million); various California Department of Education loans (\$900,000); and Educational Facilities Revenue Bonds (\$15.75 million). Annual payments due under these various obligations will be paid before annual payments are made on the CSFP funding agreements for the projects funded by Proposition 1D. Details regarding these long-term liabilities are provided below.

The California Department of Education loans in the amount of \$900,000 and bearing an interest rate of 0.53%. The loans are expected to be repaid in monthly installments through 2015.

The California Statewide Communities Development Insured Educational Facilities Revenue Bonds, 2007 Series A include term bonds in the amount of \$15.75 million and carries interest rates that range from 5.15% to 8.00% through the 2042 final maturity. The purpose of issuing the 2007 Revenue Bonds was to finance the acquisition of educational facilities in Huntington Park, which is leased to Huntington Park College-Ready Academy High School and an unrelated party. Principal payments are due annually, and began July 1, 2008.

Alliance submitted an application for \$22 million in QSCB borrowing authority, and was approved at the CSFA November 10, 2010 board meeting.

Alliance is developing two projects for 3 schools. It is to provide permanent facilities for the existing College-Ready Middle School #5, and the to-be-opened College-Ready High School #14. Construction will begin in Summer 2011 and be open for school beginning August 2012. The second project is to provide permanent facilities for College-Ready High School #13.

The financing for these projects will use a unique structure to combine Qualified School Construction Bonds to fund self-leveraged loans with a New Markets Tax Credit financing. The QSCBs will use the tax-credit approach instead of the direct-pay approach. In addition to the NMTC equity, the tax-credits for the QSCBs will be stripped off and sold to the NMTC equity investor. On top of the approximately \$2.5 million NMTC equity, this will result in an additional \$1.2 million of equity.

Short-Term Liabilities: Alliance has one line of credit with a bank that allows borrowings up to \$3.5 million. The line of credit bears an interest at the bank's index rate (4.75% as of

June 30, 2010) plus 1.5% and requires monthly interest payments on outstanding balances, with the total outstanding principal and interest due on February 1, 2011. The line is secured by all personal property of the Alliance. As of June 30, 2010, no amounts remained outstanding. The Alliance expects to renew this line of credit agreement at maturity.

School Facilities – Alliance anticipates operating 24 charter schools with a projected enrollment of 8,910 students by 2011-12, and 32 schools in 2015-16, with an enrollment of 14,580. The facility costs consist of capital leases, revenue bond debt service, and expected payments to CSFA for the funding agreements pursuant to Proposition 1D. Alliance's CSFP payments will account for the facility costs of two schools: Health - \$843,101; Media - \$871,716.

During the year ended June 2007, Alliance entered into a ground lease agreement with the Trustees of the California State University for the use of a lot on which Alliance built a school facility and leases to one of the Alliance schools. The term of the lease is through 2048. There is no lease payment under the lease; instead, at the end of the lease term, or upon termination, all right, title and interest in and to all improvements and equipment constructed or installed will be vested with the Trustees of the California State University. As part of the agreement, Alliance must pay into an Extraordinary Repair Fund for the purpose of replacement or renewal of the assets constructed on the site or for the costs of demolition. Annual installment payments of \$25,000 and \$75,000 will begin in 2017 and 2034, respectively, and continue until the end of the lease term.

Alliance is obligated under various non-cancelable operating lease agreements for office and school facilities. The leases require monthly payments ranging from \$3,500 to \$63,375 and expire through August 31, 2017. Several of the leases have options to extend the terms for one year to five years, depending on the agreement. The aggregate rental payments required under the terms of their operating leases ranges from \$1.97 million in 2010-11 to \$1.81 million in 2014-15.

Non-Operating Revenues from Contributions - Over the last three years, Alliance received the following total amounts of private grants and contributions averaging \$6.31 million per year: \$6.18 million (2007-08), \$5.35 million (2008-09), and \$7.40 million (2009-10). The financial projections estimate the following donations averaging \$8.70 million per year. Historically, fundraising annual receipts averaged 11.3% and 11.9% of revenues in 2008-09 and 2009-10, but this average is expected to decrease to 8.2% from 2010-11 through 2014-15. The projected percentage of contributions to revenues is below the 15.0% threshold level employed by staff.

Alliance's contribution revenues come from a variety of sources; grants, corporations and individuals. In regards to contributions, Alliance stated that the 2010-11 amounts are contributions that have been pledged. Projected contribution amounts are increased by the factor of the enrollment increases. Alliance projected approximately \$48.7 million in contributions from 2010-11 through 2015-16, and Alliance's strong contribution history supports their ability to receive a large percentage of expected contributions which lessens concerns surrounding the ability to pay the CSFP obligation.

Staff Adjusted Changes in Net Assets - Alliance's historical and projected financial operations incorporate the aforementioned described enrollment trends, facility costs and non-operating revenues from contributions. The organization's CFO prepared Alliance's financial projections by carrying forward the State's 2010-11 per-pupil funding rates for the 2011-12 through 2015-16 period. This static per-pupil revenue assumption is reasonable given that projected expenses do not include annual inflationary increases.

Staff notes that Alliance has been able to maintain positive ending fund balances due to receipt of sizeable donations. Factoring in their contribution revenues, Alliance experienced an increase to net assets in 2008-09 and a decrease in 2009-10 of \$8.74 million and (\$2.97) million. Alliance continues to project increases to net assets in the amounts of \$3.76 million, \$4.68 million, and \$5.60 million from 2010-11 through 2012-13. From 2014-15 through 2015-16, Alliance projects net revenues available after the CSFP lease payments to be \$5.48 million, and \$5.94 million, respectively.

The 2010-11 ADA funding rates of \$5,537 (grades 6), \$5,687 (grades 7 to 8), and \$6,551 (grades 9 to 12) were used as a base when determining projected future funding rates. Alliance assumed growth of 0% for all projected years 2011-12 through 2015-16, to the general purpose block grant per ADA funding rates. The 0% growth rate is applied to the categorical block grant as well. All projected revenue is increased due to increasing enrollment, not from increase in funding rates. Expenses are expected to increase based on enrollment levels.

Projected Debt Service Coverage – Debt service coverage ratios on CSFP payments are calculated using net revenues available after payment of debt service on any existing and projected indebtedness. Alliance does have debt outstanding, which has been incorporated into their financial projections. Staff calculates Net Revenues Available for CSFP Payments by adding back capital outlay expenses to the projected change in net assets on the presumption that these costs would be deferred if the obligor was unable to make its CSFP payments, and thus these funds would be accessible for CSFP payments. Prior to Alliance's expected CSFP payments, the annual increases in net assets are projected to be \$7.16 million in 2014-15 and \$7.66 million in 2015-16.

Assuming a 3.00% interest rate and 30-year repayment period, Alliance's annual CSFP payments for Health and Media would total to \$1,714,817 commencing in 2014-15. Alliance's Net Revenues Available for CSFP Payments in 2014-15 and 2015-16 are projected to provide debt service coverage of 417.7% and 446.6%, respectively. If debt service coverage is calculated using solely projections from Media's operations, coverage of 115.0% and 114.6% are projected in 2014-15 and 2015-16, respectively. Contributions are projected to represent to be 8.2% of total revenues in 2014-15 and 2015-16. Alliance would need to receive at least 45% of expected contributions in 2014-15 and 44% of contributions in 2015-16 to maintain debt service coverage ratios of greater than 100.0%.

**Item 4.8 – Alliance College-Ready Public Schools –
Media Arts and Technology High**

Alliance College Ready	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
ENROLLMENT PROJECTIONS									
Enrollment	2,930	3,930	5,536	7,155	8,910	10,665	12,150	13,635	14,580
Average Daily Attendance	2,784	3,803	5,324	6,797	8,465	10,132	11,543	12,953	13,851
Average Daily Attendance (%)	95%	97%	96%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Lease Payment	\$ 35,032,542	\$ 47,124,210	\$ 62,034,678	\$ 63,562,725	\$ 79,153,584	\$ 94,744,441	\$ 107,936,704	\$ 121,128,968	\$ 129,524,045
Total Expenses Paid Before CSFP Lease Payment	34,578,548	66,280,190	66,360,727	59,804,131	74,473,069	89,142,008	101,554,186	113,966,363	121,865,023
Accounting Adjustments	5,821,089	18,133,021	13,607,976	-	-	-	-	-	-
Net Revenues Available for CSFP Lease Payment	\$ 6,275,083	\$ (1,022,959)	\$ 9,281,927	\$ 3,758,594	\$ 4,680,515	\$ 5,602,433	\$ 6,382,518	\$ 7,162,605	\$ 7,659,022
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,714,817	\$ 1,714,817
Net Revenues After CSFP Lease Payment	\$ 6,275,083	\$ (1,022,959)	\$ 9,281,927	\$ 3,758,594	\$ 4,680,515	\$ 5,602,433	\$ 6,382,518	\$ 5,447,788	\$ 5,944,205
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Lease Payment	\$ 6,275,083	\$ (1,022,959)	\$ 9,281,927	\$ 3,758,594	\$ 4,680,515	\$ 5,602,433	\$ 6,382,518	\$ 7,162,605	\$ 7,659,022
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	417.7%	446.6%
Contributions	\$ 6,179,842	\$ 5,346,144	\$ 7,400,722	\$ 5,193,550	\$ 6,467,440	\$ 7,741,329	\$ 8,819,236	\$ 9,897,142	\$ 10,583,083
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-159.5%	-170.5%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.4%	1.3%
Contributions / Revenues	17.6%	11.3%	11.9%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Net Revenues After CSFP Lease Payment / Revenues	17.9%	-2.2%	15.0%	5.9%	5.9%	5.9%	5.9%	4.5%	4.6%
Revenues / ADA	\$ 12,586	\$ 12,391	\$ 11,652	\$ 9,351	\$ 9,351	\$ 9,351	\$ 9,351	\$ 9,351	\$ 9,351
Expenses / ADA	\$ 12,423	\$ 17,428	\$ 12,465	\$ 8,798	\$ 8,798	\$ 8,798	\$ 8,798	\$ 8,931	\$ 8,922
Surplus (Deficit) / ADA	\$ 163	\$ (5,037)	\$ (813)	\$ 553	\$ 553	\$ 553	\$ 553	\$ 421	\$ 429
Net Working Capital	\$ 10,938,263	\$ 14,794,181	\$ 18,441,361	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	31.6%	22.3%	27.8%	N/A	N/A	N/A	N/A	N/A	N/A

CRAHS#9 (Media Arts and Entertainment High)	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
ENROLLMENT PROJECTIONS								
Enrollment	-	134	236	405	540	540	540	540
Average Daily Attendance	-	126	223	385	513	513	513	513
Average Daily Attendance (%)	N/A	94%	94%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Lease Payment	\$ 482,791	\$ 1,482,890	\$ 2,100,956	\$ 3,116,168	\$ 4,533,619	\$ 4,169,570	\$ 4,202,334	\$ 4,202,334
Total Expenses Paid Before CSFP Lease Payment	344,236	1,669,324	2,086,468	2,435,394	3,215,232	3,213,135	3,238,815	3,242,201
Accounting Adjustments	-	201,937	7,700	38,964	38,964	38,964	38,964	38,964
Net Revenues Available for CSFP Lease Payment	\$ 138,555	\$ 15,503	\$ 22,188	\$ 719,738	\$ 1,357,351	\$ 995,399	\$ 1,002,483	\$ 999,097
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 871,716	\$ 871,716
Net Revenues After CSFP Lease Payment	\$ 138,555	\$ 15,503	\$ 22,188	\$ 719,738	\$ 1,357,351	\$ 995,399	\$ 130,767	\$ 127,381
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Lease Payment	\$ 138,555	\$ 15,503	\$ 22,188	\$ 719,738	\$ 1,357,351	\$ 995,399	\$ 1,002,483	\$ 999,097
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	115.0%	114.6%
Contributions	\$ 230,000	\$ 26,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	115.0%	114.6%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	20.7%	20.7%
Contributions / Revenues	47.6%	1.8%	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Lease Payment / Revenues	28.7%	1.0%	1.1%	23.1%	29.9%	23.9%	3.1%	3.0%
Revenues / ADA	#DIV/0!	\$ 11,783	\$ 9,421	\$ 8,099	\$ 8,837	\$ 8,128	\$ 8,192	\$ 8,192
Expenses / ADA	#DIV/0!	\$ 13,264	\$ 9,356	\$ 6,330	\$ 6,268	\$ 6,263	\$ 8,013	\$ 8,019
Surplus (Deficit) / ADA	N/A	\$ (1,481)	\$ 65	\$ 1,769	\$ 2,570	\$ 1,864	\$ 179	\$ 172
Net Working Capital	\$ 138,555	\$ (20,155)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	40.3%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Liquidity – For the fiscal year ending June 30, 2008, Alliance maintained a cash balance of \$12.34 million. Cash balances increased substantially to \$17.14 million at the end of 2008-09, and increased slightly to \$17.89 million as of June 30, 2010. Liquidity is also measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. Alliance’s NWC at June 30, 2009 was \$14.79 million, or 22.3% of total expenses, and increased to \$18.44 million as of June 30, 2010, or 27.8% of total expenses. Staff considers NWC equivalent of at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

- +/- Strong improvement in meeting API growth scores and ranking consistently high compared to similar schools. However AYP scores have not been met
- + Staff projects debt service coverage ratios for 2014-15 and 2015-16 of 417.7% and 446.6%, respectively. Alliance would need to receive at least 45% of expected contributions 2014-15 and 44% of contributions in 2014-15 to maintain debt service coverage ratios of greater than 100.0%.
- + Strong management and leadership with support of local districts.
- + Alliance has a strong fundraising track record raising an average of \$6.31 million per year over the last three years.
- Outstanding long-term liabilities of \$54.22 million as of June 30, 2010, and a planned bond offering will increase liabilities by \$22 million.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Alliance College-Ready Public Schools is financially sound for the Charter School Facilities Program Advance Apportionment, but not Final Apportionment under the Program. 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.