

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

Applicant/Obligor:	Monseñor Oscar Romero Charter Middle School
Project School:	Monseñor Oscar Romero Charter Middle School
CDS (County – District – School) Code:	19-64733-0114959
[Proposed] Project Location:	To Be Determined
County:	Los Angeles
Type of Project:	New Construction
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$13,464,960
State Apportionment (50% Project Cost):	\$6,732,480
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$6,732,480
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$343,486
First Year of Occupancy of New Project:	2013-14

Applicant/Obligor:	Monseñor Oscar Romero Charter Middle School
Project School:	Monseñor Oscar Romero Charter Middle School
CDS (County – District – School) Code:	19-64733-0114959
[Proposed] Project Location:	To Be Determined
County:	Los Angeles
Type of Project:	Rehabilitation
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$882,788
State Apportionment (50% Project Cost):	\$441,394
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$441,394
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$22,520
First Year of Occupancy of New Project:	2013-14

Staff Recommendation: Monseñor Oscar Romero Middle School (MORMS) is currently seeking a Proposition 1D Advance Apportionment of \$1,346,496 for design relating to its new construction project and \$88,278 for design relating to its rehabilitation project.

With respect to MORMS' new construction project, staff recommends that the California School Finance Authority (Authority) Board determine that MORMS is financially sound for purposes of the Charter School Facilities Program (Program or CSFP) 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.

With respect to MORMS' rehabilitation project, Staff recommends that the CSFA Board determine that MORMS is financially sound for purposes of the CSFP 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 the MORMS. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	MORMS has met all the eligibility criteria for the Program: 1) a charter is in place; 2) MORMS has more than two years of instructional operations experience; and 3) is in compliance and in good standing with its chartering entity.
Demographic Information	MORMS has shown a consistent increase in enrollment from 65 students serving grade 6 in 2007-08 to the current 263 students serving grades 6-8, and anticipates an increase in enrollment to 325 for 2011-12, and to a capacity of 400 students upon project occupancy in 2013-14.
Debt Service Coverage	MORMS projects debt service coverage ratios of 129.4% and 131.9% during 2014-15 and 2015-16, the first two years of CSFP payments.
Other Financial Factors	<ol style="list-style-type: none"> 1. MORMS does not rely on contributions. 2. MORMS' CSFP lease payments are anticipated at 11.5% and 11.3% of revenues during the first two years after occupancy, which is within the recommended threshold of 15%. 3. MORMS has shown a decrease in net working capital from 24.3% of total expenses in 2008-09 to 6.0% of total expenses in 2009-10. In addition, as of June 30, 2010, MORMS showed a net deficit of unrestricted net assets.

Student Performance	Although MORMS met all AYP criteria in 2007-08, MORMS did not meet all AYP criteria in 2008-09 and 2009-10, and is in its first year of Program Improvement status per the No Child Left Behind Act of 2001. Furthermore, MORMS did not meet its 2008-09 and 2009-10 growth targets. Based on its API base score for 2009-10, MORMS ranked 3 out of 10 statewide and 10 out of 10 against similar schools.
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Program Eligibility: On March 17, 2011, verification was received from Los Angeles Unified School District (District) stating that MORMS is: 1) in compliance with the terms of its charter agreements, and 2) is in good standing with its chartering authority.

MORMS' charter was approved by the Los Angeles Unified School District on May 22, 2007, and the school commenced instructional operations in September 2007. The charter will expire on June 30, 2012. As the charter school has been in operations for more than two years, it meets the minimum two-year operational requirement set forth by the Program regulations.

Legal Status Questionnaire: Staff reviewed MORMS' responses to the questions contained in the Legal Status Questionnaire (LSQ) (dated March 7, 2011). MORMS answered "No" to all LSQ questions.

Project Description: MORMS is requesting funding for both new construction and rehabilitation of permanent facilities. In collaboration with LAUSD, MORMS is currently seeking a new site within the LAUSD boundaries in which to build a new facility and/or renovate an existing facility. MORMS is also considering an option of having LAUSD buy some or all of its current facility at 1501/1503 Wilshire Blvd., Los Angeles 90017. MORMS is currently located at two sites, a site at 1501 Wilshire Blvd., Los Angeles 90017 for 6th and 7th graders and a site at 2900 Temple St., Los Angeles, CA 90026 for 8th graders.

Through its proposed projects, MORMS is planning for the development of a multi-level facility consisting of 16 classrooms, as well as administrative offices, auditorium, science laboratory, art studio, multi-purpose room, and library. The rehabilitation component represents the construction of one classroom, while the new construction component represents the remainder of the development. Both projects together will provide capacity for 400 students, and MORMS anticipates initial project occupancy in 2013-14.

Organizational Information: MORMS commenced instructional operations in September 2007 with 55 students in sixth grade. MORMS has added a grade each year, and for the current 2010-11 academic year, MORMS has 263 students in grades 6-8.

The Youth Policy Institute (YPI), a Los Angeles-based non-profit organization that designs and operates education programs for low-income communities, has been a key developer of MORMS' educational programs and served in the development of MORMS' charter petition. YPI was similarly responsible for the development of the educational program and charter petition for Bert Corona Middle School, which has been in operations since 2004-05.

MORMS and Bert Corona Middle School were initially separate 501(c)(3) non-profit organizations, in July 2010, the 501(c)(3) status was consolidated into one non-profit

organization, YPI Charter Schools, Inc., which assumes ongoing administrative oversight responsibility for both schools. Under this arrangement, both schools share a common Board of Directors and common Executive Director. YPI Charters, Inc. also provides accounting and information systems support to both schools. Notwithstanding the administrative oversight role of YPI Charter Schools, Inc., both schools operate independently and maintain their own financial operations, and both will continue to be subject to separate independent financial audits. The YPI Charters Schools, Inc. Executive Director, Yvette King-Berg, has indicated that the main purpose for this consolidation was to achieve economies of scale.

YPI and YPI Charter Schools, Inc. represent separate non-profit entities. While YPI retains involvement through having four of its senior staff, including the YPI Executive Director, on the YPI Charter Schools, Inc. Board, both entities have different Boards of Directors, and YPI Charter Schools, Inc. represents the primary oversight organization.

According to information provided by MORMS, the mission of MORMS is to prepare students for academic success in high school, as well as post-secondary education, to be responsible and active participants in their community, and to be life-long learners. MORMS uses a learning model that treats all students as 'gifted and talented', with an emphasis on effective education and collaborative inquiry.

MORMS' target population comes from the local community of the Pico-Union area, which is densely populated with low-income minority students. The school uses the community as its primary means of student recruitment through informational meetings with families, open houses and school tours. In addition to these community meetings, MORMS will also develop promotional and informational material for local media and distribute them in a variety of community settings to a broad range of community groups, agencies, neighborhood youth organizations, social service providers, churches, grocery store, public libraries, and legislators. MORMS will keep a competitive advantage by placing a cap to remain small with a maximum enrollment of 400 students. MORMS believes that smaller schools are more advantageous for students than larger schools.

Educational Management Organization: MORMS is not run by an EMO (see discussion above).

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

Ms. Yvette King-Berg has been serving as Executive Director of YPI Charter Schools, Inc. since July 2010 and Executive Director of both MORMS and Bert Corona Middle School from January 2010 to July 2010 wherein she has been overseeing all day-to-day operations of both schools. Ms. King-Berg was originally appointed Executive Director in January 2010 to address both academic and financial performance. Prior to these positions, Ms. King-Berg served as Vice President of School Development and Advocacy – Southern California, California Charter Schools Association (July 2008 – January 2010). Ms. King-Berg holds a Masters in Educational Administration and a Preliminary Administrative Services Credential from National University.

Board Experience: The YIP Charter Schools, Inc. Board of Directors is represented by the following chart.

NAME	OCCUPATION	COUNTY OF RESIDENCE	TERM OF OFFICE (years)
Dixon Slingerland, Board President	Executive Director, YPI	Los Angeles	7/1/10-6/30/12
Joe Lucente	Former Executive Director of Fenton Avenue Charter School, and Chairman of the Board for Charter Works	Los Angeles	7/1/10-6/30/12
Isaias Martinez	Principal, Harrison Span School	Los Angeles	7/1/09-6/30/11
Sandra Mendoza	Executive Director, Central Neighborhood Council	Los Angeles	7/1/09-6/30/11
Mario Matute	Director of Operations, YPI-Valley Technology Programs	Los Angeles	7/1/10-6/30/12
David Moguel	Associate Professor, Department of Education, CSU, Northridge	Los Angeles	7/1/10-6/30/12
Alex Reza	Retired LAUSD Secondary Teacher and Community Activist	Los Angeles	7/1/10-6/30/12
Eugene Staub	Chief Operating Officer, YPI	Los Angeles	7/1/09-6/30/11
Carlos Vaquerano	Executive Director of the Salvadoran American Leadership and Education Fund	Los Angeles	7/1/10-6/30/12
Iris Zuniga	Chief of Staff, YPI	Los Angeles	7/1/10-6/30/12

Management Experience for Schools Open Less than Two Years: (Not Applicable)

Student Performance: Because of its implications for student enrollment stability and growth, staff reviews student performance as a leading indicator of a charter school's financial position. Schools with improving student performance trends are viewed favorable, 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 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 not a recipient of federal Title 1 funds.

As MORMS began operations in 2007-08, three years of AYP data and two years of API data are available upon which to assess the school's performance. The table below reflects academic performance data for MORMS.

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Monseñor Oscar Romero Charter Middle School	FY 2007-08	FY 2008-09	FY 2009-10
ADEQUATE YEARLY PROGRESS (AYP)			
Met All AYP Criteria?	Yes	No	No
Criteria Met / Required Criteria	5 / 5	12 / 17	8 / 17
Met API Indicator for AYP?	Yes	Yes	No
Met Graduation Rate?	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)			
Met Schoolwide Growth Target?	N/A	No	No
Met Comparable Improvement Growth Target?	N/A	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	N/A	No	No
API Base Statewide Rank (10 = best)	N/A	3	3
API Base Similar Schools Rank (10 = best)	N/A	N/A	10
School's Actual Growth	N/A	-7	-36
Similar Schools Median of Actual Growth	N/A	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A	N/A

Although MORMS met all AYP criteria in 2007-08, it did not meet all AYP criteria in 2008-09 or 2009-10. In addition, MORMS did not meet its API growth targets in either 2008-09 or 2009-10. MORMS had API base scores of 716 and 708 for 2008-09 and 2009-10, respectively, which resulted in MORMS being ranked “3” statewide for each of these years and “10” against similar schools for 2009-10 (“10” = best). With its failure to meet AYP in two consecutive years, MORMS is also in its first year of Program Improvement (PI) Status per “No Child Left Behind.” Notwithstanding MORMS’ favorable similar schools ranking, staff has serious concerns regarding MORMS’ academic performance. As such, staff recommends that prior to any recommendation of financial soundness for Final Apportionment MORMS provide evidence of improved academic performance.

Staff notes that MORMS submitted a detailed action plan to address its academic performance, which includes, but is not limited to, the following strategies: (1) retain Gemas Consulting Group to provide on-going support to teachers of English Language Learners (ELL), including provision of staff development workshops along with individual coaching and feedback sessions for teachers; (2) incorporate a small classroom learning environment known as Personalized Academic Support for Students (PASS) classes to promote personalized instruction in math and English for students identified as having performance issues; and (3) incorporate a special curriculum for math instruction involving each student receiving a double block period that includes both teacher-directed and individualized learning as well as an internet-based learning system. MORMS’ action plan includes methods for ongoing assessment of teachers and students to address program improvement.

Student Enrollment and Retention Rates: With the addition of a new grade each year, MORMS has shown a consistent increase in enrollment from 65 students (average enrollment) in grade 6 in 2007-08 to 228 students in grades 6-8 in 2009-10 to 263 students in grades 6-8 for the current 2010-11 school year. MORMS anticipates an increase in enrollment to 325 students for 2011-12, 375 for 2012-13, and to a maximum of 400 students in 2013-14. Although MORMS had a low year-to-year retention rate of 70.3% for 2009-10, MORMS achieved retention rates of 95% in 2008-09 and 91% for the current 2010-11

school year. In addition, MORMS maintains a wait list of 132 students. Given MORMS' current enrollment and wait list, along with the capacity of the CSFP facility, staff considers MORMS' enrollment projection of 400 students by 2013-14 to be reasonable.

MORMS achieved ADA rates of 97%, 95%, and 95% for 2008-09, 2009-10, and 2010-11, respectively, which supports staff's assumption of an ADA rate of 95% in MORMS' financial projections.

Financial Performance: Highlighted below are selected financial data and credit indicators used to evaluate MORMS' ability to meet its CSFP obligation. Staff's evaluation of MORMS' financial performance is based on review of the following documents: (1) audited financial statements for 2007-08, 2008-09, and 2009-10; (2) MORMS' 2nd Interim budget report for 2010-11; and (3) MORMS' budget projections for 2011-12 through 2015-16.

Monseñor Oscar Romero Charter Middle School	Actual FY 2008-09	Actual FY 2009-10	2nd Interim 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	144	228	263	325	375	400	400	400
Average Daily Attendance	137	217	251	309	356	380	380	380
Average Daily Attendance (%)	95%	95%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 1,304,711	\$ 1,916,291	\$ 2,477,109	\$ 2,705,958	\$ 3,124,940	\$ 3,123,991	\$ 3,184,631	\$ 3,240,038
Total Expenses Paid Before CSFP Payment	1,346,858	2,100,158	2,450,175	2,678,276	2,982,732	2,691,489	2,748,553	2,794,858
Accounting Adjustments	23,546	20,060	9,761	37,481	37,481	37,481	37,481	37,481
Net Revenues Available for CSFP Payment	\$ (18,601)	\$ (163,807)	\$ 36,695	\$ 65,163	\$ 179,689	\$ 469,983	\$ 473,559	\$ 482,661
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 366,006	\$ 366,006
Net Revenues After CSFP Payment	\$ (18,601)	\$ (163,807)	\$ 36,695	\$ 65,163	\$ 179,689	\$ 469,983	\$ 107,553	\$ 116,655
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ (18,601)	\$ (163,807)	\$ 36,695	\$ 65,163	\$ 179,689	\$ 469,983	\$ 473,559	\$ 482,661
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	129.4%	131.9%
Contributions	\$ 10,080	\$ 10,022	\$ 15,300	\$ 5,200	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	128.3%	130.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	11.5%	11.3%
Contributions / Revenues	0.8%	0.5%	0.6%	0.2%	0.1%	0.1%	0.1%	0.1%
Net Revenues After CSFP Payment / Revenues	-1.4%	-8.5%	1.5%	2.4%	5.8%	15.0%	3.4%	3.6%
Revenues / ADA	\$ 9,523	\$ 8,831	\$ 9,869	\$ 8,764	\$ 8,772	\$ 8,221	\$ 8,381	\$ 8,526
Expenses / ADA	\$ 9,831	\$ 9,678	\$ 9,762	\$ 8,675	\$ 8,373	\$ 7,083	\$ 8,196	\$ 8,318
Surplus (Deficit) / ADA	\$ (308)	\$ (847)	\$ 107	\$ 90	\$ 399	\$ 1,138	\$ 184	\$ 208
Net Working Capital	\$ 327,216	\$ 126,603						
Net Working Capital / Expenses	24.3%	6.0%						

MORMS' financial projections and projected debt service coverage are based upon the following assumptions: (1) an interest rate of 3.0% on the CSFP local matching share amortized over 30 years; (2) total project cost of \$14,347,748 (based on combination of rehabilitation and new construction costs, as provided by the Office of Public School Construction); (3) project occupancy in 2013-14; (4) increases in enrollment as set forth above under "Student Enrollment and Retention Rates"; (5) projected ADA rates of 95% for 2011-12 through 2015-16; (6) general purpose block grant funding rates for 2010-11 of \$5,128 and \$5,278 for grades 4-6 and 7-8, respectively; (7) cost of living adjustments (COLAs) to the block grant funding rates of 0.0%, 0.0%, 1.5%, 2.0%, and 2.5% for 2011-12 through 2015-16, respectively; (8) COLAs on certificated salaries of 0.0% for 2011-12 and 1.0% for 2012-13 through 2015-16; and (9) COLA of 2.0% on all other expenses for each of 2011-12 through 2015-16.

MORMS' financial projections also assume that the school will be able to reduce pupil transportation usage from two buses to one bus in 2011-12, representing an initial reduction of approximately \$60,000. However, given the uncertainty in the future site location and residence of prospective students relative to the site, staff does not consider this

assumption to be reasonable. Therefore, staff's analysis assumes continuation of pupil transportation with two buses throughout the projected years with a COLA of 2.0% per year and 2010-11 expenses of \$124,655 based on MORMS' second interim budget report.

Long Term Debt: Based on the review of the 2009-10 audited financial statements, MORMS' only long term debt is a CDE revolving loan of \$250,000, which, as of June 30, 2010, reflected a long-term debt portion of \$150,000.

Financial Performance/Change in Net Assets: For 2007-08, the first year of operations, MORMS recorded net revenues of \$129,587 on \$930,275 in revenues and \$800,688 in expenses. For 2008-09, MORMS recorded a net deficit of \$18,601 on \$1.30 million in revenues and \$1.35 million in expenses. For 2009-10, MORMS recorded a net deficit of \$163,807 on \$1.92 million in revenues and \$2.10 million in expenses. For the current 2010-11 year, MORMS anticipates net revenues of \$36,695 on \$2.48 million in revenues and \$2.45 million in expenses. For the projected years, MORMS is anticipating net revenues prior to the projected CSFP lease payment, of \$65,163, \$179,689, \$469,983, \$473,559, and \$482,661 for 2011-12 through 2015-16, respectively. The most significant factor contributing to MORMS' substantial increase in net revenues is the termination of its rent lease obligation in 2013-14, the anticipated first year of project occupancy.

Projected Debt Service Coverage of CSFP Payments: It should be noted that, because the Office of Public School Construction has determined that the rehabilitation and new construction project components can only be achieved in combination; staff is only evaluating financial soundness for the combined projects. Given a projected CSFP payment of \$366,006, MORMS' net revenues of \$473,559 would provide debt service coverage of 129.4% in 2014-15. In 2015-16, MORMS' projected net revenues of \$482,661 would provide debt service coverage of 131.9%. The CSFP payment would represent 11.5% and 11.3% of projected revenues for 2014-15 and 2015-16, respectively. MORMS does not materially rely on contributions to meet the debt service coverage requirement. Contributions constitute 0.1% of total projected annual revenue in 2014-15 and 2015-16.

Liquidity: Liquidity is measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. MORMS' NWC for 2008-09 was \$327,216, or 24.3% of total expenses, while MORMS' NWC for 2009-10 was \$126,603, or 6.0% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. As of June 30, 2010, MORMS reported holding \$43,505 in cash. In addition to MORMS relatively weak cash position, MORMS ended 2010 with a net deficit of unrestricted assets. Including restricted assets, MORMS maintained net assets of only \$3,570. The Executive Director for YPI Charter Schools, Inc. informed staff that the organizational consolidation that took place in July 2010 (refer to "Organizational Information" above) is intended to provide economies of scale and to improve the financial status of the individual schools that it oversees, both MORMS and Bert Corona Middle School.

Strengths, Weaknesses and Mitigants:

- + MORMS is projecting debt service coverage ratios of 129.4% and 131.9% for the first two years after occupancy, 2014-15 and 2015-16.

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- + MORMS does not rely on contributions to meet the Program's debt service coverage requirement.
- + MORMS' enrollment growth projections appear reasonable given MORMS' current enrollment of 263, its anticipated enrollment of 325 students for 2011-12, the capacity of the CSFP facility, and its current waitlist of 132 students.
- +/- Although MORMS had a low year-to-year retention rate of 70.3% for 2009-10, MORMS achieved retention rates of 95% in 2008-09 and 91% for the current 2010-11 school year.
- MORMS failed to meet all AYP criteria and its API growth targets during both 2008-09 and 2009-10, and MORMS is currently in its first year of Program Improvement status per the No Child Left Behind Act of 2001. MORMS submitted a detailed action plan to address academic performance.
- Net working capital as a percentage of expenses in 2008-09 was strong at 24.3% but sharply declined to 6.0% in 2009-10. In addition, as of June 30, 2010, MORMS showed a net deficit of unrestricted net assets.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Monseñor Oscar Romero Middle School is financially sound for the purpose of the Charter School Facilities Program Advance Apportionments for both New Construction and Rehabilitation, but not for Final Apportionment. This determination as it relates to 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.