CHARTER SCHOOL FACILITIES PROGRAM
STAFF SUMMARY REPORT – APRIL 2015

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. 1st 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:	$20,269,344
State Apportionment (50% Project Cost):	$10,134,672
Lump Sum Contribution:	$0
Total CSFP Financed Amount:	$10,134,672
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	$517,063
First Year of Occupancy of New Project:	2016-17

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Alliance College-Ready Public Schools (Alliance), on behalf of Alliance Media Arts and Entertainment Design High (Media) is financially sound for the purposes of the Charter School Facilities Program (Program) Final Apportionment. This recommendation is contingent upon Alliance electing to have its CSFP payments for Media intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. This determination as it relates to Final 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.

Background: In 2008, Alliance received preliminary apportionments to fund new construction projects for Media and Health Services Academy (“Health”) in the amounts of $34,172,028 and $33,050,312, respectively, representing a combined funding amount of $67,222,340 under CSFP Proposition 1D. Alliance has subsequently reduced the project cost for Media from $34,172,028 to $20,269,344. This would result in annual payments of $1,360,165 based on a 30-year funding agreements with an interest rate of 3%. The Authority found Alliance, on behalf of Media, financially sound for Advance Apportionment both in 2009 and 2011, and Alliance, on behalf of Media, received an Advance Release for design in the amount of $3,009,255.40 on May 22, 2009 and an Advance Release for site acquisition of $2,991,370 on May 31, 2011. Alliance, on behalf of Media, is now seeking conversion to Final Apportionment in order to complete the project. Alliance is anticipating that first full year of project occupancy of 2016-17.

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	1. For the current 2014-15 academic year, Alliance operate 26 charter schools within the greater Los Angeles area, representing approximately 10,000 students from low-income households. 2. Alliance's overall enrollment has grown approximately 55% over the past four years, or approximately 14% per year, with the addition of nine new schools. 3. Alliance plans to continue to grow its network of schools at the rate of about two new schools per year over the next four years, and projected student enrollment growth of approximately 65% over four years, or approximately 16% per year.
Debt Service Coverage	Based on Alliance's financial projections, the projected debt service coverage levels for the anticipated combined CSFP lease payment in 2017-18 and 2018-19 are 401.9% and 768.6%, respectively. Alliance does not anticipate reliance on contributions in projected years to meet the 100% debt service coverage requirement.
Other Financial Factors	1. Measured as a percentage of total revenues, contributions from 2014-15 through 2018-19 are projected to average 3.5% annually, which is below the 15.0% threshold level employed by staff. 2. Alliance's net working capital (NWC) at June 30, 2014 was $73.4 million, or 71.4% of total expenses. Staff considers NWC representing less than 5.0% of total expenses to be a weak liquidity indicator. Alliance maintained a cash balance of $41.1 million at June 30, 2014.
School Information	
Eligibility Criteria	Media has met all eligibility criteria: (1) Media commenced operations in 2009-10; (2) Media's charter was originally approved May 2007 and through renewal is in place through June 2018; (3) Media is in good standing with its chartering authority, Los Angeles Unified School District, and in compliance with the terms of it charter.
Student Performance	Notwithstanding the limitation in the availability of data due to implementation of Common Core Standards, Media met all AYP criteria during the most recent year reported, 2012-13, and met its API growth target in two of the past three most recent years reported, 2010-11 and 2012-13.

Demographic Information	1. Media has shown consistent growth since its inception, growing from 134 students in grade 9 in 2009-10 to 348 students in grades 9-12 for the current 2014-15 year. 2. Alliance is projecting growth for Media to 400 in 2015-16, 422 students in 2016-17, 497 students in 2017-18, and 572 students in 2018-19, all in grades 9-12, representing overall growth of 65% over four year or approximately 16% per year, which is moderately aggressive compared to the historical trend. 3. Based on the 2013-14 P-2 report, Media's ADA rate was 96%.

Program Eligibility: On February 4 2015, verification was received from Los Angeles Unified School District (District), Office of Innovation and Charter Schools, confirming that Media is (1) in compliance with the terms of their charter agreements, and (2) in good standing with their chartering authorities. Media's charters is effective through June 30, 2018.

Legal Status Questionnaire: Staff reviewed Alliance's responses, on behalf of Media, to the questions contained in the Legal Status portion of the application. Alliance answered "No" to all LSQ questions for Media.

Project Description: Media's proposed project is for new construction of a 9-12 school facility consisting of 18 classrooms and a multipurpose room on a 1.3 acre site to be located at 3648 E. 1st Street, Los Angeles. This new facility will accommodate up to approximately 600 students with anticipated project occupancy in January 2016.

School Organizational Information: Media's original charter was approved by the District on May 22, 2007, and the school began operations in 2009-10 with 134 students, primarily in grade 9. Media increased its enrollment by adding a new grade each year and currently serves 347 students in grades 9-12.

The mission of Alliance Media Arts and Entertainment, a College-Ready Academy High School, is to successfully prepare all students for entrance into and graduation from a four-year college or university. The small learning community provides a rigorous and personalized, standards-based curriculum in a supportive environment that nurtures students professional interests while building their character for success in an ever evolving and challenging global community.

Management Experience for Schools Open Less than Two Years: Due to Media beginning operations in 2009-10, Alliance meets the two years of instruction requirement.

Educational Management Organization: Alliance was formed as a non-profit 501(c)(3) charter management organization in 2004 to serve public charter schools. Alliance began charter school operations with Alliance Gertz-Ressler High School in 2004 and currently serves 26 charter schools within the greater Los Angeles area, with the District as the chartering authority, and serving approximately 10,000 low-income students. The mission of Alliance is to open and operate a network of small, high-performing high schools and middle schools in low income communities in California with historically under-performing schools, which annually demonstrate student academic achievement growth and graduate students ready for success in college.

Alliance is 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 the District 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.

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.

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.

Mr. Arthur Sanchez has served as Principal since 2013. Prior to this position, Mr. Sanchez served as Principal of Eisenhower High School, Rialto Unified School District (2011-13), Principal of Silverado High School, Victor Valley Union School District (2008-11), Director of Secondary Education, Jurupa Unified School District (2005-08),and Principal of Schurr High School, Montebello Unified School District (2000-06). Mr. Sanchez holds a M.A in Educational Administration and a California Clear Administrative Credential from Azusa Pacific University.

EMO Management: Dan Katzir joined the Alliance as new CEO and President in March 2015. Most recently, Katzir has been an independent strategic education advisor to CEOs and boards of directors in school districts, charter management organizations, state departments of education, and education for-profit and non-profit organizations. He has helped numerous clients across the country in curriculum design, operational planning, executive/board training, and many other issues educational institutions and organizations face today. Prior to serving as an independent consultant, Katzir was the founding Managing Director at the Eli & Edythe Broad Foundation, where he served for eleven years. During his time at the Broad Foundation, he designed and implemented four national flagship initiatives, including the Broad Prize for Urban Education and the Broad Institute for School Boards.

In his more than two decades of leadership in the education sector, Katzir has also been Regional Director for Sylvan Learning Systems, the Executive Director for UCLA School Management Program, and Chief Operating Officer for Teach for America. He began his career as a consultant for Bain & Company, an international management consulting firm. Katzir has served on many education boards, including The Broad Center for the Management of School Systems, the Nelson A. Rockefeller Center for Public Policy at Dartmouth College, and the advisory board of the Los Angeles Alliance for College-Ready Public Schools. He was also a founding board member of Caliber Schools, a blended learning charter management organization from Northern California. Katzir has an MBA from Harvard Business School, and received a bachelor's degree in history from Dartmouth College. In his spare time, he lectures at Stanford's Graduate School of Business and is a Volunteer Leader at Dartmouth College and Harvard Business School.

David Hyun has been Chief Financial Officer since 2009. Prior to this position, Mr. Hyun served as Vice President of Finance/Controller for JSM Capital, LLC (2007-09), and Financial Manager for Playa Capital Company (2002-07). David Hyun is responsible for overseeing the accounting, finance, operations, and facilities department for the Alliance. Prior to joining the Alliance, Mr. Hyun worked for the real estate industry for over twelve years. Mr. Hyun has worked for companies such as Westfield and TrammelCrow Company. His accounting and finance background and industry experience include real estate investments, property management, construction and development. Mr. Hyun holds an M.B.A. from Pepperdine University.

Board Experience: The Board of Directors consists of 29 active members representing 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. The Board members have staggered terms, with expiration dates ranging from 2015 to 2019.

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	Former CEO, Alliance for College-Ready Public Schools
Maria A. Casillas	President of Families in Schools
David S. Cunningham, III	L.A. Superior Court Judge
Joseph Drake	Co-founder and President of Good Universe, an independent motion-picture financing, production, and sales company
Luis de la Fuente	Associate Director at the Broad Foundation
David I. Fisher	Chairman of the Board of Capital Group International, Inc.
Antonia Hernandez	President, California Community Foundation and former President, Mexican-American Legal Defense and Educational Fund
Paul Hudson	President and CEO, Broadway Federal Bank
Erik Kronstadt	Consultant with Wilson Perumal & Company, a boutique management consulting firm
Stewart Kwoh	President of the Asian Pacific American Legal Center of Southern CA
Meyer Luskin	President of Scope Industries
Richard Merkin, M.D.	CEO and Founder of Heritage Provider Network
Dale Okuno	Chairman, Pasadena Jazz Institute, former CEO of software development firm
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
Dr. Darlin Robles	Professor of Clinical Education, University of Southern California
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
Rachel Kaganoff Stern	Vice President, The Junior Statesmen Foundation
Ronald Sugar	Chairman Emeritus of Northrop Grumman Corporation
C. Frederick Wehba	Chairman of Bentley Forbes
Robert Wycoff	Former President and COO, ARCO

Student Performance: Pursuant to SB X51 (2010), a designated California State Commission was given the authority to review the Common Core State Standards (Standards), as promulgated by the U.S. Department of Education, and make recommendations to the California Board of Education (Board). This resulted in the Board's adoption of the Standards for purposes of statewide accountability on academic performance. Although this adoption does not directly require all local educational agencies (LEAs) to adopt the Standards, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through LCFF, school districts must submit "Local Control and Accountability Plans (LCAPs) to their respective county offices of education that address State and local educational priorities, and pursuant to Education Code, Section 52060(d)(2), these priorities must include Common Core State Standards.

Assessments based on the Standards are derived from the "Smarter Balanced Assessment System," a test planned for initial implementation in spring 2015 for purposes of establishing a baseline for comparing academic performance between schools, and subsequent improvement. As such, the standards do not currently provide metrics for comparing academic performance between schools.

It is noteworthy that as a result of the change to Common Core Standards, CDE's Accountability Progress Reporting has significantly changed. Among the changes are that Growth Academic Performance Index (API) reporting has been temporarily suspended, API rankings will no longer be reported, and Adequate Yearly Progress (AYP) reporting pursuant the No Child Left Behind Act of 2001 is currently limited to public high schools receiving Title 1 funding when they meet specific enrollment criteria. As such, student performance information for purposes of the financial soundness determination is limited to API and AYP up until 2012-13 with the exception of specific high schools receiving Title 1 funding.

Nonetheless, because of its implications for student enrollment stability and growth, and because staff views student performance as a leading indicator of a charter school's financial position, staff continues to evaluate student performance for purposes of financial soundness, with the limitation of reporting only through 2012-13 at this time.

The following tables summarize Media's student performance for the four most recent years reported by CDE, 2009-10 through 2012-13.

Alliance Media Arts and Entertainment Design High	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	No	No	Yes
Criteria Met / Required Criteria	9 / 17	9 / 17	2 / 5	5 / 5
Met API Indicator for AYP?	Yes	Yes	No	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	N/A	Yes	No	Yes
Met Comparable Improvement Growth Target?	N/A	Yes	No	No
Met Both Schoolwide & CI Growth Targets?	N/A	Yes	No	No
API Base Statewide Rank (10 = best)	N/A	2	3	2
API Base Similar Schools Rank (10 = best)	N/A	4	6	2
School's Actual Growth	N/A	44	-22	10
Similar Schools Median of Actual Growth	N/A	N/A	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A	N/A	N/A

Although Media only met all AYP during one of the four most recent years reported, that year, 2012-13, was the most recent year reported and required that approximately 89% of student demonstrate a proficient level in mathematics and English-language arts. Media met its API growth target in two of the past three most recent years reported, 2010-11 and 2012-13. Media had API growth scores of 706, 684, and 694 for 2010-11, 2011-12, and 2012-13, respectively. Although not in the above table, for 2013-14, Media had statewide and similar school rankings based on API of "3" and "4", respectively ("10" = best).

In recognizing the limitation with the lack of current academic performance information, staff does not believe that any negative reports on academic performance should impede a recommendation of financial soundness. In addition, staff considers the AYP and API performance results for Media as supportive of a recommendation for financial soundness.

Enrollment Trends and Projections: The table below depicts Alliance's growth in enrollment over the past five years. Alliance has shown substantial and consistent growth since 2010-11, growing from 6,471 students in 2010-11 across 17 schools to 10,973 students across 26 schools in 2014-15, representing growth of 70% over four years, or an average of 17.5% per year. A substantial proportion of the enrollment growth was due to the addition of nine new schools. Alliance is projecting enrollment growth to 12,925 in 2015-16, 14,255 in 2016-17, the first full-year of project occupancy, 15,555 in 2017-18, and 16,505 in 2018-19, representing growth of about 65%, or average annual growth of about 16%, which is slightly less aggressive but closely consistent with its historical growth. During the projected years, Alliance is anticipating adding two new schools each year, each beginning with the lowest grade and augmenting its enrollment through the addition of a new higher grade each year, resulting in the addition of eight new schools over four years. Given Alliance's trend in the addition of two new schools and the addition of new grades each year, staff considers Alliance's enrollment projections with the addition of eight new schools to be reasonable.

School Name	Fiscal Year Opened	2010-11	2011-12	2012-13	2013-14	2014-15
Alliance Gertz-Ressler HS	2005	530	535	526	523	525
Alliance Judy Ivie Burton Technology Academy HS	2006	586	594	574	575	604
Alliance Marc and Eva Stern MASS	2007	523	566	608	624	613
Alliance Collins Family College-Ready Academy HS	2006	534	573	594	609	617
Alliance Dr. Olga Mohan HS	2007	435	444	458	456	458
Alliance Patti and Peter Neuwirth Leadership Academy	2008	568	621	607	643	661
Alliance William and Carol Ouchi HS	2007	471	515	545	575	571
Alliance Health Services Academy HS	2010	276	407	474	481	488
Alliance Media Arts and Entertainment HS	2010	232	300	335	303	348
Alliance Environmental Science and Technology HS	2010	286	455	549	545	549
Alliance Cindy and Bill Simon Technology Academy	2011	137	314	406	489	521
Alliance Tennenbaum Family Technology Academy HS	2012		232	412	384	394
Alliance Susan and Eric Smidt Technology HS	2013			142	258	346
Alliance College-Ready Academy HS #16	2012		97	187	263	305
Alliance Renee and Meyer Luskin Academy	2013			435	475	555
Alliance Margaret M. Bloomfield Technology Academy HS	2015					103
Alliance Alice M. Baxter College-Ready HS	2015					91
Alliance Richard Merkin MS	2006	445	471	468	478	470
Alliance Jack H. Skirball MS	2008	423	446	442	442	450
Alliance Christine O'Donovan Middle Academy	2009	436	440	451	450	455
Alliance College-Ready Middle Academy #4	2010	322	484	500	480	465
Alliance College-Ready Middle Academy #5	2010	172	259	282	377	382
Alliance College-Ready Middle Academy #7	2011	95	292	444	460	462
Alliance College-Ready Middle Academy #8	2015					132
Alliance College-Ready Middle Academy #9	2015					133
Alliance College-Ready Middle Academy #12	2015				130	275
Grand Total		**6,471**	**8,045**	**9,439**	**10,020**	**10,973**

Alliance's average daily attendance rates for 2012-13 and 2013-14 were 95% and 96%, respectively, which are consistent with the assumed ADA in the multi-year projections of 95%.

Media has shown consistent growth since its inception, growing from 134 students in grade 9 in 2009-10 to 232 students in grades 9-10 in 2010-11, 300 students in grades 9-11 in 2011-12, 335 students in grades 9-12 in 2012-13, 303 students in grades 9-12 in 2013-14, and 348 students in grades 9-12 for the current 2014-15 academic year. This represents total growth of approximately 50% over the past five years, or approximately 10% growth per year. Alliance is projecting growth for Media to 400 students in 2015-16, 422 students in 2016-17, 497 students in 2017-18, and 572 students in 2018-19, all in grades 9-12, representing overall growth of 65% over four year or approximately 16% per year, which is moderately aggressive compared to the historical trend. Media's retention rates for 2013-14 and 2014-15 are 84% and 82%, respectively. Based on the P-2 Report, Media's ADA rate for 2013-14 was 96%. Media does not maintain a wait list.

Upon inquiring with Alliance's Controller, Michael Krutz, regarding the basis for its projections for Media, Mr. Krutz provided in the following response.

> "Media Arts was limited in the past by facilities issues and perhaps by former leadership at the school. The school was previously concurrently at a Prop 39 site and a secondary non-neighboring site. A couple years ago the school moved which

> may have also affected enrollment. Since then a new principal was brought in to the school who has done a much better job engaging with the community. The school is currently on an Alliance site that neighbors Media's future permanent site. Media will move into its permanent site during the next school year. We've previously seen upticks in enrollment after our schools have entrenched themselves into the community with a permanent school building. In short, we believe the combination of new school leadership and the new school building (a beautiful building, by the way, which incorporates historical murals which have been part of the community for many years) will have a significant impact on future enrollment."

Although staff considers the enrollment projections for Alliance to be slightly aggressive and for Media to be moderately aggressive, staff considers the projections to be within a standard range for purposes of the financial soundness review. Further, in light of the factors set forth in Mr. Krutz's response, including the impact of the principal's engagement with the community and the impact of the new building, staff considers the projections to be within reasonable limits. While staff has concerns regarding Media's lack of a wait list and Media's low retention rate (90% or greater is considered reasonable), overall, staff considers Alliance's and Media's overall consistent enrollment growth to be supportive of a recommendation for financial soundness.

Financial Analysis: Staff's review of Alliance's financial performance is based on three years of audited financial statements (2010-11 through 2013-14), and financial projections from 2014-15 through 2019-20 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 from 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, 2014, Alliance had outstanding long-term liabilities of $217.22 million. These debt obligations took the forms of nine revenue bond series sold from 2007 through 2014, new market tax credit financings, promissory notes from various lenders; California Department of Education loans; and subordinated loans, 35 debt transactions in all. 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 for each financing is provided in Alliance's financial audit.

For 2014-15, Alliance anticipates closing on an additional bond issue of $57 million in the near term. While the majority of the new bond proceeds will be used to refinance outstanding debt (including new market tax credit bullet maturities), Alliance anticipates using roughly $21 million to finance construction completion of two schools.

All of Alliance's outstanding debt financings funded construction of new schools and/or renovation to existing facilities. No current debt transactions are in relation to cash flow borrowings. Each schools finances are managed in order to repay debt service payments associated with said school's facility. As an internal financial policy, facilities costs are limited to $1,100 per student (i.e. $660,000 for the standard 600 student Alliance school). Alliance maintains an internal inter-loan company that allows start-up schools to borrow funds from the system during the school's initial years. After a school has established its enrollment base and operations, they then are able to support the inter-loan company as a source of monies to be lent to Alliance's new schools.

Short-Term Liabilities: Alliance has one line of credit with a bank that allows borrowings up to $5.0 million. The line of credit bears an interest at the bank's index rate plus 1.5%. To date, Alliance has not drawn down on the line of credit and no amounts are outstanding. The Alliance just recently renewed the line of credit agreement with a new maturity date of March 31, 2017.

School Facilities – Alliance anticipates operating 28 charter schools with a projected enrollment of 12,925 students by 2015-16, and 30 schools in 2016-17 with an enrollment of 14,255. The facility costs consist of capital leases, new market tax credits, 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 - $843,102; Media - $517,063.

Alliance is also party to two ground leases. 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 rights, 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.

During the year ended 2011-12, Alliance entered into another ground lease agreement with a third party for the use of a lot on which Alliance built a school facility. Lease payments required under the lease are payable at a rate ranging from $12,000 to $13,200 per month. For 2014-15 through FY 2048-49, the lease payment is subject to an inflation factor.

Alliance is obligated under various non-cancelable operating lease agreements for office and school facilities. The leases require monthly payments ranging from $12,000 to $50,628 and expire through December 31, 2020. 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 $814,030 in 2014-15 to $735,473 in 2018-19.

Non-Operating Revenues from Contributions - Over the last three years, Alliance received the following total amounts of private grants and contributions, averaging $9.5 million per year: $13.04 million (2011-12), $7.60 million (2012-13), and $7.95 million (2013-14). The financial projections estimate donations to average $5.5 million per year. Historically, fundraising annual receipts were 7.5% and 6.8% of revenues in 2012-13 and 2013-14, but this average is expected to decrease to 3.5% from 2014-15 through 2018-19. 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. Alliance projects approximately $27.53 million in contributions from 2014-15 through 2018-19. Alliance's strong contribution history supports their ability to receive a large percentage of expected contributions, lessening 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.

Factoring in the contribution revenues, Alliance experienced net revenues in 2012-13 and 2013-14 of $13.78 million and $14.83 million, respectively. However, Alliance projects a relatively slight deficit of $2.13 million in 2014-15. Projected financial results for 2015-16 through 2018-19 vary between small positive margins ($58,224 in 2015-16) and to relatively high increases to net assets ($10.45 million in 2018-19). From 2017-18 and 2018-19, Alliance projects net revenues available after the CSFP lease payments to be $3.75 million and $8.74 million, respectively.

The financial projections assume 2014-15 LCFF Entitlement funding rates and projections incorporating COLA's of 1.50% in 2015-16 and 2.00% thereafter. Staff views Alliance's revenue projection assumptions to be very conservative due to projections excluding expected GAP funding increases over the next few years. Projected expenses are calculated on a per pupil basis and are anticipated to increase by 2.0% in 2015-16 and 2.5% thereafter.

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 $5.47 million in 2017-18 and $10.45 million in 2018-19.

Assuming a 3.00% interest rate and 30-year repayment period, Alliance's annual CSFP payments for Health and Media would total to $1,360,165 commencing in 2017-18. Alliance's net revenues available for CSFP Payments in 2017-18 and 2018-19 are projected to provide debt service coverage of 401.9% and 768.6%, respectively. Contributions are projected to represent 2.3% of total revenues in 2017-18 and 2018-19. Alliance does not anticipate reliance on contributions in projected years to meet the 100% debt service coverage requirement.

Alliance College Ready Public Schools	Actual FY 2012/13	Actual FY 2013/14	Budget FY 2014/15	Projected FY 2015/16	Projected FY 2016/17	Projected FY 2017/18	Projected FY 2018/19
ENROLLMENT PROJECTIONS							
Enrollment	9,439	10,020	10,973	12,925	14,255	15,555	16,505
Average Daily Attendance	9,012	9,577	10,424	12,279	13,542	14,777	15,680
Average Daily Attendance (%)	95%	96%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS							
Total Revenues Available for CSFP Payment	$100,902,967	$117,618,982	$129,987,676	$152,979,291	$166,318,840	$180,988,471	$194,428,094
Total Expenses Paid Before CSFP Payment	87,123,017	102,789,813	132,113,684	152,921,067	162,418,663	175,522,360	183,973,973
Accounting Adjustments	-	-	-	-	-	-	-
Net Revenues Available for CSFP Payment	$ 13,779,950	$ 14,829,169	$(2,126,008)	$ 58,224	$ 3,900,177	$ 5,466,111	$ 10,454,121
CSFP Payment	$ -	$ -	$ -	$ -	$ -	$ 1,360,165	$ 1,360,165
Net Revenues After CSFP Payment	$ 13,779,950	$ 14,829,169	$(2,126,008)	$ 58,224	$ 3,900,177	$ 4,105,946	$ 9,093,956
FINANCIAL INDICATORS							
Net Revenues Available for CSFP Payment	$ 13,779,950	$ 14,829,169	$(2,126,008)	$ 58,224	$ 3,900,177	$ 5,466,111	$ 10,454,121
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	401.9%	768.6%
Contributions	$ 7,610,765	$ 7,953,863	$ 7,233,749	$ 7,144,527	$ 4,650,000	$ 4,250,000	$ 4,250,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	89.4%	456.1%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	0.8%	0.7%
Contributions / Revenues	7.5%	6.8%	5.6%	4.7%	2.8%	2.3%	2.2%
Net Revenues After CSFP Payment / Revenues	13.7%	12.6%	-1.6%	0.0%	2.3%	2.3%	4.7%
Revenues / ADA	$ 11,197	$ 12,281	$ 12,470	$ 12,459	$ 12,281	$ 12,248	$ 12,400
Expenses / ADA	$ 9,667	$ 10,733	$ 12,674	$ 12,454	$ 11,993	$ 11,970	$ 11,820
Surplus (Deficit) / ADA	$ 1,529	$ 1,548	$ (204)	$ 5	$ 288	$ 278	$ 580
Net Working Capital	$ 39,638,147	$ 73,405,016					
Net Working Capital / Expenses	45.5%	71.4%					

Liquidity – For 2013-14, Alliance maintained a cash balance of $41.14 million. Cash balances increased substantially from $22.38 million at the end of 2012-13. Liquidity markedly improved largely from the Alliance schools conservatively managing expenditures while the State funding via LCFF increased revenues. Liquidity is also measured in terms of net working capital (NWC), calculated by subtracting current liabilities from current assets. Alliance's NWC at June 30, 2014 was $73.41 million, or 71.4% of total expenses, an increase from 2012-13 ($39.64 million as of June 30, 2013, or 45.5% of total expenses). Staff considers NWC equivalent of at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

+ Alliance's overall enrollment has grown approximately 55% over the past four years, or approximately 14% per year, with the addition of nine new schools. In addition Media has shown consistent growth since its inception, growing from 134 students in grade 9 in 2009-10 to 348 students in grades 9-12 for the current 2014-15 year.

+ Media met all AYP criteria during the most recent year reported, 2012-13, and met its API growth target in two of the past three most recent years reported, 2010-11 and 2012-13.

+ Staff projects debt service coverage ratios for 2017-18 and 2018-19 of 401.9% and 768.6%, respectively. Alliance does not anticipate reliance on contributions in projected years to meet the 100% debt service coverage requirement.

+ Alliance has a history of strong management and leadership with support of local districts.

+ Alliance has a strong fundraising track record raising an average of $9.54 million per year from 2011-12 through 2013-14.

+ Alliance has a manageable debt burden with outstanding long-term liabilities of $217.22 million as of June 30, 2014.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Alliance College-Ready Public Schools, on behalf of Alliance Media Arts and Entertainment Design High, is financially sound for the purposes of the Charter School Facilities Program (Program) Final Apportionment. This recommendation is contingent upon Alliance electing to have its CSFP payments for Media intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. This determination as it relates to Final 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.