

**Charter School Facilities Program
 Proposition 1D Funding Round
 Staff Summary Report – March 2022
 Item 11 - Resolution 22-20**

Applicant/Obligor:	Los Angeles Academy of Arts and Enterprise
Project School:	Los Angeles Academy of Arts and Enterprise
CDS (County – District – School) Code:	19-64733-0110304
School Address:	1200 W. Colton St. Bldg. 3 Los Angeles, 90026
Proposed Site:	1215 Miramar St., Los Angeles, 90026
Type of Project:	Succession of Existing CSFP Facility
Type of Apportionment:	Final Apportionment
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified
Charter Authorizer:	Los Angeles Unified
Total OPSC Project Cost:	N/A
State Apportionment (50% Project Cost):	N/A
Total CSFP Financed Amount:	\$8,083,564
Length of CSFP Funding Agreement:	22 years
Assumed Interest Rate:	2.00%
Estimated Annual CSFP Payment:	\$457,784
First Year of Occupancy of New Project:	2022-23

Pursuant to Education Code Section 17078.62, in the event a charter school is no longer using a facility funded under the Charter School Facility Program (Program), a qualifying successor charter school may meet its facility needs by occupying the Program-funded facility on equal terms as the prior occupant. A charter school located on a Los Angeles Unified School District (District) site, and occupying a Program facility, voted to cease operation on June 30, 2021.

Staff recommends that the California School Finance Authority (Authority or CSFA) Board determine that Los Angeles Academy of Arts and Enterprise (LAAAE or School) is financially sound for the purposes of the Program Final Apportionment. This determination, as it relates to Final Apportionment, shall remain in effect for twelve months and assumes no financial, operational, or legal material findings within this time. This recommendation is contingent upon LAAAE electing to have its CSFP payments intercepted at the state-level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction (OPSC) and the State Allocation Board (SAB) regarding this determination.

Background: The facility located at 1215 Miramar St., Los Angeles, CA 90026 was constructed between May 2011 and July 2013 using CSFP funds apportioned to Camino

Nuevo Charter High (CNCH or Former Occupant). In late 2020 CNCH informed CSFA that they intended to vacate the facility and cease making payments by June 2021. Because title to the facility is held by Los Angeles Unified School District (LAUSD), CNCH requested that LAUSD and CSFA begin a timely succession process as provided under CSFP regulations. This financial soundness analysis of LAAAE was conducted after LAUSD certified their Notice of Intent had been received in keeping with established State and District requirements to be considered.

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

Criteria	Comments
School Information	
Demographic Information	In 2021-22, LAAAE served 304 students in grades 6-12 with an average daily attendance (ADA) rate of 88.9%, which staff finds reasonable. In 2021-22 LAAAE's unduplicated pupil count (UPP) as a percentage of ADA was 95.3%.
Debt Service Coverage	LAAAE's debt service coverage from adjusted net income on this CSFP loan is projected to average 211.8% over the first five years that payments are due.
Eligibility Criteria	LAAAE has met all eligibility criteria: (1) the School began operation in 2005; (2) the school's most recent charter was approved March 24, 2020 and is in place through June 30, 2025; (3) LAUSD has certified LAAAE is in good standing.
Student Performance	LAAAE student's test scores over the period examined fall short of similar local schools and the District average. Academic comparisons should be interpreted carefully due to small sample sizes.

Program Eligibility: As of March 7, 2022, LAUSD has certified that LAAAE is active and operating in good standing (in compliance with their charter authorization, no pending corrective actions, or revocation proceedings). The school has confirmed their charter was last approved on March 24, 2020 and is valid through June 30, 2025.

Legal Status Questionnaire: Staff reviewed LAAAE's responses to the questions contained in the Legal Status portion of the application. Nothing disclosed in LSQ response would lead staff to question the financial or legal integrity of the applicant.

Project Description: LAAAE proposes to succeed and assume the financing obligations of the charter school property located at 1215 Miramar St., Los Angeles, CA, 90026. The facility consists of approximately 30,000 square-foot multi-level building with 22 classrooms. The site does not include physical education facilities. Upon full approval of this financing, LAAAE will enter into an arrangement with Miguel Contreras Learning Complex for use of their physical education facilities.

LAAAE currently serves 304 students and has a need for an improved long-term facility. The charter is sharing a Prop 39, LAUSD campus with the traditional public high school Edward R. Roybal Learning Center, located at 1200 West Colton Street, Los Angeles, CA 90026, approximately one mile away from the subject property at 1215 Miramar Street. The current co-location arrangement has led to significant difficulties for LAAAE staff and students resulting in decreasing enrollment and safety concerns.

School Organizational Information: LAAAE is a public charter high school authorized by and located within the boundaries of LAUSD. The school is a direct-funded independent charter school incorporated and operating under the same name as a California public benefit corporation with IRS approved 501(c)(3) status.

LAAAE's UPP indicates an average of 95.3% of students served by the school were eligible to receive Free or Reduced-Price Meals (FRPM), and/or classified as English Learners, and/or classified as Foster Youth during the period examined. For reference, an estimated 82.5% of students in LAUSD, and 62.4% of students in California met this classification during the same period.

The mission of LAAAE is to prepare students for leadership in the arts and business, where creativity, academic knowledge and financial literacy are essential for success. LAAAE aims to develop a generation of diverse, educated, compassionate leaders in the arts and business by providing a dynamic, innovative education that integrates the four lenses of learning: Academics, Arts, Enterprise, and Personal Growth.

- **Academics:** The LAAAE curriculum fully addresses the core academic content standards of the California State Board of Education and meets the University of California A-G admission requirements.
- **The Arts:** LAAAE provides comprehensive courses in the visual and performing arts.
- **Enterprise:** LAAAE provides business education courses that teach core and advanced principles of enterprise, economics, and entrepreneurship.
- **Personal Growth:** LAAAE focuses on personal growth and responsibility to self and others, through character education and community service.

Staff has reviewed the credentials of key board members and staff and determined all have the proper background and experience to govern and effectively oversee the operations of LAAAE. The 2020-21 ACPS Board consists of the following:

2021-22 Los Angeles Academy of Arts and Enterprise Board Members

Name	Position	Term Expiration
Moctesuma Esparza	Chair	2023
Hector Orci	Vice Chair	2023
Julio Vallejo	Secretary/Treasurer	2024
David Calvo	Member	2024
Victoria Castro	Member	2024
Tonantzin Esparza	Member	2022
Norma Orci	Member	2023
Otto Padron	Member	2023

School Academic Performance: The following tables present the 2015-2021 academic testing results for LAAAE; two similar local traditional public schools: Edward R. Roybal Learning Center and Belmont Senior High; as well as LAUSD. The results provided are from the annual California Assessment of Student Performance and Progress (CAASPP) testing data. These tests are administered annually to students in grades three through eight, and grade 11. Due to the COVID-19 pandemic, CAASPP tests were not administered in FY 2019-20.

Staff note that due to serving students in grades 6-12 and having limited room for growth in their current facility, LAAAE’s sample size for these comparisons is significantly smaller than otherwise similar local schools. In the years reviewed, LAAAE tested an average of 40 11th grade students per year, compared to 186 per year at Edward R. Roybal, and 168 per year at Belmont Senior High.

English Language Arts – Comparison

Standard Met or Exceeded						Academic Factors			
	FY16	FY17	FY18	FY19	FY21*	Grade Span	2020-21 Enrollment	Pupil-Teacher Ratio	UPP
LAAAE	33%	30%	27%	29%	23%	6-12	304	11.3	95.3%
Edward R. Roybal	40%	43%	64%	67%	35%	9-12	856	15.6	97.4%
Belmont Senior High	53%	39%	38%	35%	37%	9-12	690	14.4	98%
LAUSD	39%	40%	42%	44%	54%	K-12	574,996	19	82.5%

*These tests were not administered in FY 2019-20 due to the COVID-19 pandemic, and testing participation in 2020–21 varied. Care should be used when interpreting results.

Mathematics – Comparison

Standard Met or Exceeded						Academic Factors			
	FY16	FY17	FY18	FY19	FY21*	Grade Span	2018-19 Enrollment	Pupil-Teacher Ratio	UPP
LAAAE	16%	7%	21%	13%	0%	9-12	304	11.3	95.3%
Edward R. Roybal	16%	15%	36%	36%	17%	9-12	856	15.6	97.4%
Belmont Senior High	24%	11%	14%	13%	11%	9-12	690	14.4	98%
LAUSD	28%	30%	32%	33%	29%	K-12	574,996	19	82.5%

*These tests were not administered in FY 2019-20 due to the COVID-19 pandemic, and testing participation in 2020–21 varied. Care should be used when interpreting results.

Enrollment Trends and Projections: Enrollment projections are relied upon for the debt service coverage element of the cash flow analysis. The following tables present enrollment information for LAAAE from FYs 2018-2019 through 2026-2027.

Staff notes that while LAAAE’s cash flow and balance sheet are commendably healthy at their current enrollment levels, the school has developed an aggressive recruitment plan to increase enrollment going into the 2022-23 school year. This plan is largely driven by the District’s desire for prospective site occupants with minimum enrollment of 425 students, or a plan to meet that enrollment by 7/1/2022. The District has stipulated this number based on the site’s maximum occupancy of 500 students. The school believes their projections will be achievable if granted the 1215 Miramar site based on prior enrollment levels before they relocated to their present, shared facilities, where they have experienced declining enrollment year over year due to Prop 39 limitations and other factors.

Decreases in Average Daily Attendance (ADA) rates during the 2020-21 and 2021-22 school years are reflective of national trends related to student engagement during peak COVID conditions which necessitated increased remote and/or hybrid instruction.

LAAAE Student Enrollment and Average Daily Attendance

Year (FY)	2018	2019	2020	2021	2022	2023	2024	2025	2026
Enrollment	348	287	291	275	304	430	430	430	430
ADA	94.2%	94.5%	95.9%	82.1%	88.9%	95%	95%	95%	95%

Financial Analysis: The facility at 1215 Miramar Street was originally constructed utilizing a CSFP grant and matching local share in the form of a state loan. LAAAE’s intention is to assume responsibility and operation of the facility by taking on the remainder of the original occupant’s loan. At this time, the balance of the remaining loan amount is \$8,083,564.

Financial Data Sources: This financial analysis is based on the consideration and review of the following for LAAAE: (1) audited financial statements for FYs 2017-18 through 2020-21; (2) adopted budget for FY 2021-22; and (3) budget projections for FYs 2022-23 through 2026-27 along with assumptions.

Assumptions: Staff’s financial analysis of LAAAE is based upon the following assumptions: (1) occupancy of the new facility in August 2022; (2) the repayment of LAAAE’s CSFP matching share loan in the amount of \$8,083,564 at 2% interest commencing in FY 2022-23; (3) school enrollment and ADA projections as provided above under Enrollment Trends and Projections.

Long-Term Liabilities: At the time of this analysis, EBCP does not have any long-term liabilities that could impact the schools’ financial soundness. Additionally, obligors are required to notify the Authority before taking on additional debt that exceeds certain thresholds.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff’s analysis regarding EBCP’s financial soundness. Where a threshold has

been established based on industry standards or practice, the listing indicates whether the threshold was met.

OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS											
	Actual FY 2018	Actual FY 2019	Actual FY 2020	Actual FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027	AVERAGE
OPERATIONAL & FINANCIAL											
Enrollment	348	287	291	275	304	430	430	430	430	430	
Average Daily Attendance (ADA)	328	271	279	226	270	409	409	409	409	409	
Average Daily Attendance (%)	94.2%	94.5%	95.9%	82.1%	88.9%	95.0%	95.0%	95.0%	95.0%	95.0%	93.1%
Retention Rate	0.0%	92.9%	94.7%	93.6%	94.4%	92.4%	92.4%	92.4%	92.4%	92.4%	83.8%
FTE Teachers	17	31	27	27	27	30	30	30	30	30	28
Pupil-Teacher Ratio	20.5	9.3	10.8	10.2	11.3	14.3	14.3	14.3	14.3	14.3	13.4
LCFF Sources/ADA	\$ 10,883	\$ 11,778	\$ 12,004	\$ 14,882	\$ 12,993	\$ 13,007	\$ 12,972	\$ 12,981	\$ 12,952	\$ 12,906	\$ 12,736
% Change		8.2%	1.9%	24.0%	-12.7%	0.1%	-0.3%	0.1%	-0.2%	-0.4%	2.3%
Operating Revenues/ADA	\$ 14,892	\$ 16,724	\$ 22,498	\$ 27,319	\$ 18,979	\$ 16,984	\$ 16,886	\$ 16,088	\$ 15,863	\$ 15,866	\$ 18,210
% Change		12.3%	34.5%	21.4%	-30.5%	-10.5%	-0.6%	-4.7%	-1.4%	0.0%	2.3%
Operating Expenses plus CSFP Lease/ADA	\$ 14,391	\$ 19,551	\$ 18,749	\$ 23,519	\$ 17,242	\$ 14,858	\$ 15,198	\$ 15,420	\$ 14,862	\$ 15,208	\$ 16,900
% Change		35.9%	-4.1%	25.4%	-26.7%	-13.8%	2.3%	1.5%	-3.6%	2.3%	2.1%
Free Cash Flow/ADA	\$ 502	\$ (2,827)	\$ 3,749	\$ 3,801	\$ 1,737	\$ 2,125	\$ 1,689	\$ 669	\$ 1,001	\$ 658	\$ 1,310
DEBT SERVICE COVERAGE											
Total Operating Revenues	\$ 4,884,245	\$ 4,537,538	\$ 6,278,446	\$ 6,169,802	\$ 5,128,761	\$ 6,937,936	\$ 6,898,112	\$ 6,572,029	\$ 6,479,888	\$ 6,481,436	
Total Operating Expenses	4,719,721	5,304,589	5,232,144	5,311,439	4,659,404	5,611,904	5,750,542	5,841,111	5,613,317	5,754,805	
Total Other Sources/Uses	-	-	-	-	-	-	-	-	-	-	
Net Income Available for CSFP Lease Payment	164,524	(767,051)	1,046,302	858,363	469,357	1,326,032	1,147,570	730,918	866,571	726,631	
Add Back Capital Outlay	-	-	-	-	-	-	-	-	-	-	
Add Back Depreciation	15,121	15,121	15,120	15,120	-	15,476	15,476	13,442	3,072	2,643	
Adjusted Net Income Available for CSFP Lease Pymt.	179,645	(751,930)	1,061,422	873,483	469,357	1,341,508	1,163,046	744,360	869,643	729,274	
CSFP Lease Payments	-	-	-	-	-	457,784	457,784	457,784	457,784	457,784	
Free Cash Flow	\$ 179,645	\$ (751,930)	\$ 1,061,422	\$ 873,483	\$ 469,357	\$ 883,724	\$ 705,262	\$ 286,576	\$ 411,859	\$ 271,490	\$ 439,089
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	293.0%	254.1%	162.6%	190.0%	159.3%	211.8%
DSC from LCFF Sources subject to CSFA Intercept						0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	6.6%	6.6%	7.0%	7.1%	7.1%	6.9%
FUNDRAISING											
Fundraising for Operations	\$ -	\$ 502	\$ 183,113	\$ 115,800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,942
Fundraising/Oper. Revenues	0.0%	0.0%	2.9%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%
DSC without Fundraising	N/A	N/A	N/A	N/A	N/A	293.0%	254.1%	162.6%	190.0%	159.3%	211.8%
LIQUIDITY											
Current Assets	\$ 2,787,167	\$ 1,772,175	\$ 3,569,789	\$ 3,691,349							
Current Liabilities	468,547	275,914	499,112	434,415							
Net Working Capital	\$ 2,318,620	\$ 1,496,261	\$ 3,070,677	\$ 3,256,934							
Net Working Capital/Oper. Expenses	49.1%	28.2%	58.7%	61.3%							49.3%
Unrestricted Cash & Cash Equivalents	\$ 2,421,922	\$ 1,103,836	\$ 1,069,303	\$ 2,422,929							
Unrest. Cash & CE/Oper. Expenses (Days)	187	76	75	167							
Unrest. Cash & CE/All Expenses (Days)	187	76	75	167							126

Benchmark Summary:

- Enrollment – Fluctuation in ADA rate during FY 21 and 22 related to COVID circumstances. Enrollment growth projections going into FY 23 based on prior levels combined with aggressive plan to expand if granted access to new site with higher capacity.
- Student to FTE teacher ratio excellent, projections continue to be excellent, even presuming significant enrollment growth.
- Free Cash Flow and/or per ADA – School operates with historically positive cash flow; projections account for increased expenditures in accordance with enrollment growth.
- Debt Service Coverage from Adj. Net Income – Exceeds minimum threshold of 110%.
- CSP Lease Payment/Open. Revenues: Met – Averaging less than 7% of annual operating revenues; proposed CSFP lease payment unlikely to present any difficulties.

- Net Working Capital as Portion of Operating Expenditures – Substantially exceeds minimum threshold of 5%.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Los Angeles Academy of Arts and Enterprise (LAAAE) is financially sound for the purposes of the Charter School Facilities Program (CSFP) Final Apportionment. This determination, as it relates to Final Apportionment, is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon LAAAE electing to have its CSFP payments intercepted at the state-level, pursuant to Sections 17199.4. Staff recommends that the CSFA Board direct staff to immediately notify the Los Angeles Unified School District of its findings.