CHARTER SCHOOL FACILITIES PROGRAM
STAFF SUMMARY REPORT
DATED MARCH 21, 2007

Applicant:	Aspire Public Schools
Project School:	Rosa Parks Academy
Educational Management Organization:	Aspire Public Schools
Guarantor/Co-Borrower:	Aspire Public Schools
Project Location:	1930 South D Street, Stockton, CA
County:	San Joaquin County
Chartering Authority:	Stockton Unified School District
Charter Expiration Date:	June 30, 2010
Final Eligible Project Cost:	$10,500,000
Grant / Loan Amount:	$5,250,000
Estimated Annual Program Payment:	$361,228
Estimated Project Occupancy Date:	2007-08

Background: California Code of Regulations, title 4, section 10154(h), authorizes and directs staff to conduct a review of the charter school's financial status at the time of the application for a final apportionment to determine whether the charter school is financially sound. For purposes of reviewing Aspire Public School's (Aspire) financial soundness prior to a final apportionment for its Stockton campus, Rosa Parks Academy (RPA), staff conducted its review of Aspire as a whole rather than each individual charter school/campus.

In July 2003, Aspire Public Schools' Oakland campus and Stockton campus received preliminary apportionments of $17,360,000 and $20,811, 386, respectively from the State Allocation Board through the Proposition 47 funding round of the Charter School Facilities Program (Program).

In February 2005, Aspire also received a preliminary apportionment of Proposition 55 funds from the State Allocation Board for Aspire's planned secondary (6-12) school in the Los Angeles Unified School District.

The release of any funds is contingent on the execution of all Program agreements – the Memorandum of Understanding, the Funding Agreement, and a Facility Use Agreement. Staff notes that discussions are underway with the Stockton Unified School District regarding the Program agreements.

Project Description

In July 2003, Aspire received a preliminary apportionment of Proposition 47 funds for $20,811,386 by the State Allocation Board to construct a K-5 elementary school in Stockton.

In October 2004, Aspire entered into a purchase agreement with the Asociacion Campesina Lazaro Cardenas (ACLC) for the purchase of a four-acre parcel located in Stockton for $600,000. In July 2006, ACLC changed its corporate name to Visionary Home Builders (VHB). In March 2005, Aspire entered into a purchase agreement for an additional 0.34 acres for $50,498 rendering a total purchase price of $650,498. Close of escrow was expected to be on or before March 31, 2006. Since escrow did not close on March 31, 2006, Aspire requested and obtained an additional extension to December 31, 2006 from VHB for a $250,000 increase in purchase price thereby rendering a new total purchase price of $900,998. In November 2006, Aspire obtained bridge financing from Wells Fargo Bank to purchase the property and commence site work. Escrow closed on December 1, 2006.

In August 2005, Aspire entered into a purchase agreement with a homeowner whose property is adjacent to the school site to purchase their home and approximately 0.19 acres of land for a purchase price of $450,000. Escrow closed on this property on October 26, 2006.

Construction of the school facility for Rosa Parks Academy (RPA) commenced on December 6, 2006. Construction will be completed in two phases: 1) the classroom portion of the project will be completed in August 2007 with instructional operations commencing in the 2007-08 school year, and 2) the multi-purpose building will be completed in October 2007. To date, Aspire has covered all soft costs including architectural and consultant fees with pay-as-you-go funding and with the proceeds from the bridge loan from Wells Fargo. RPA opened at a temporary site in 2005-06 with enrollment of 176 students; a temporary facilities lease has been entered into with Trinity Lutheran Church.

Organizational Information: RPA's charter was approved by the Stockton Unified School District (SUSD) in April 2003, and the school began operations in August 2005. The charter expires April 30, 2008.

The charter was also amended to allow Aspire to operate a satellite campus on the California State University-Stanislaus campus beginning in FY 2006-07.

Educational Management Organization: Aspire Public School is a nonprofit, public benefit corporation and is considered as an educational management organization. The Aspire organization opened its first charter school in 1998. Since that time, Aspire has grown significantly, operating 17 charter schools in California in the current school year. Aspire locates schools in low-income neighborhoods where a high percentage of students are eligible to receive free or reduced priced meals, and where many existing schools are overcrowded and have low relative API rankings.

According to information provided by Aspire representatives, Aspire implements curriculum packages created by other parties, complementary to the Aspire system and aligned to the California State standards. The school's educational program, simultaneously rigorous and relevant to the students, will emphasize interdisciplinary thinking across subject areas.

Management: Aspire had some changes to its board and management structure since the last report in January 2006.

Board Changes: Aspire reported that Marie Washington left and Joanne Weiss joined in January 2007, Steve Poizner took a leave of absence starting on March 2006, and Walt Hanline joined the board in May 2006. Members serve one or two year terms on the Aspire board but there are no term limits.

Tom Peraic, Director of Legal Affairs, left in February 2006. Eric Frothingham, General Counsel, joined Aspire in May 2006 and left on December 2006 because it was determined that full-time counsel was not needed. Karen Chernoff, who is the Vice President of Human Resources, joined Aspire in December 2006 and will be leaving Aspire in April 2007 to return to the private sector.

Management Experience for Schools Open Less than Two Years: Not applicable.

Student Performance: Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school's financial position. Schools with improving student performance trends are viewed favorably, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by the CDE. The API is also used as an indicator for measuring AYP per the No Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of federal Title I funds.

In the January 2006 report, staff noted that Aspire has had some difficulty in meeting its AYP student performance goals, but also noted the improving trend in this category. Based on materials received from Aspire, in 2003-04, three of nine eligible schools failed to meet AYP criteria. In 2004-05, two of nine eligible schools failed to meet AYP criteria. In 2005-06, only two out of the thirteen eligible schools failed to meet their AYP criteria. Management and local administrators within the Aspire organization are cognizant of this issue, and have been working to remedy this trend.

Staff continues to closely monitor API data at Aspire's seventeen campuses. The chart below demonstrates measurable improvements in student performance at Aspire's seventeen campuses.

Charter School	FY 03-04	FY 04-05	FY 05-06
East Palo Alto			
East Palo Alto Charter School (K-8)	721	777	821
Los Angeles			
Antonio Maria Lugo Academy (K-5)	N/A	N/A	N/A
AMLA- St. Martha's (K-3)	N/A	N/A	N/A
Centennial College Preparatory Academy (4-6)	N/A	N/A	N/A
Menlo Park			
EPACS Secondary (9)	N/A	N/A	N/A
Modesto			
Summit Charter Academy (K-8)	683	733	781
University Charter School (K-5)	851	880	884
Oakland			
Berkley Maynard Academy (K-5)	N/A	N/A	645
California College Preparatory Academy (6-8) In partnership with the University of California, Berkeley	N/A	N/A	650
Lionel Wilson College Preparatory Academy (6-12)	545	614	665
Millsmont Academy** (K-8)	N/A	635	643
Monarch Academy (K-5)	625	663	713
Sacramento			
Capitol Heights Academy* (K-8)	558	626	675
Stockton			
River Oaks Charter Academy (K-5)	701	770	821
Rosa Parks Academy (K-6)	N/A	N/A	N/A
The Benjamin Holt College Preparatory Academy (6-12)	723	751	824
University Public School (K-5)	797	844	868

** Capitol Heights' API was calculated for a small school, defined as having between 11 and 99 valid Standardized Testing and Reporting (STAR).*
*** Millsmont Academy was founded in 2004-05, but was considered a satellite of Monarch Academy. FY 2006 was the first year it received its own separate score.*

Student Retention Rates: *Section 10158 of Program regulations directs staff to review student retention information prior to a final apportionment. Staff is currently reviewing retention data sent by Aspire; an updated report will be sent out to members once this information has been analyzed and incorporated into this report.*

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate Aspire's ability to meet its CSFP obligations for the Oakland and Stockton schools receiving funds from Proposition 47*. Staff's financial analysis is based on information for Aspire as an organization and not for each applicant school on a stand-alone basis.

*The Aspire Public School (Secondary School) that received preliminary apportionment under Proposition 55, and was to be located in the Los Angeles Unified School District, may not be able to afford to construct on its proposed site due to the constraints of the Program. According to Aspire representatives, Aspire continues to explore options that will allow the school to be built, but the likelihood appears to be no better than 50%. As such, the financial projections associated with the operation of this school are not factored into this analysis.

Financial Performance: Staff's review of Aspire's financial performance is based on audited financial statements for FY 2002-03, FY 2003-04, FY 2004-05 and FY 2005-06, the FY 2006-07 budget and financial projections from FY 2007-08 through FY 2011-12 as provided by Aspire's Chief Financial Officer.

Currently, Aspire has outstanding long-term liabilities of $36.4 million in the forms of one capital lease ($21.0 million), a California Department of Education loan ($200,000), a publicly offered revenue bond ($9.4 million), a line of credit ($1.5 million) from Wells Fargo, a bridge line of credit ($4.0 million) also from Wells Fargo and a loan from NCB Capital Impact ($310,000). Annual payments due under these obligations will be paid before annual payments are made on the CSFP leases. The capital lease has a term of January 1, 2005 through August 1, 2032. Average annual payments due under the capital lease approximate $1.4 million per year over the term.

The California Department of Education loan of $200,000 became effective August 2, 2005, bearing an interest rate of 3.11%. The loan is expected to be repaid in three annual installments of $66,667.

The Series 2001A Revenue Bonds outstanding in the amount of $9.4 million carry a fixed interest rate of 7.25% through final maturity of 2031; repayment is secured by a pledge of all assets and revenues of Lionel Wilson Prep. Annual principal installments on this debt range from $110,000 to $760,000, with average annual debt service payments of $815,000 per year over the term.

Aspire also maintains a $1.5 million line of credit with Wells Fargo Bank, effective as of June 30, 2006 and carries a zero balance. This line of credit bears interest at 0.25% below the Prime Rate in effect with interest only payments due monthly with the outstanding principal balance due June 30, 2007. This line of credit is secured by all revenues, accounts and general intangibles.

Aspire has also obtained a separate bridge line of credit with Wells Fargo for up to $4.0 million on October 1, 2006 to fund the acquisition and development of the Organization's Stockton Proposition 47 property. The current amount that Aspire is able to borrow under this line of credit is $2,750,000; upon OPSC's approval of the funding request to the SAB, the limit increases to $4.0 million. This bridge line of credit bears interest at a rate of 2.25% above the London Inter Bank Market Offered Rate ("LIBOR") in effect on the first day of the applicable fixed rate term with interest only payments due on the last day of each month. The outstanding principal shall be due and payable on June 30, 2007 and is similarly secured by all revenues, accounts and general intangibles.

Aspire can draw upon a loan from NCB Capital Impact up to $310,000 to fund tenant improvements for the Langston Hughes school. Repayment of this obligation starts in FY 2006-07 and concluding in FY 2011-12. The loan bears interest at a rate of 3.00% above the Federal Reserve Statistical Release, rounded to the nearest 0.125%. Principal and interest payments are due monthly on the first of each month with average annual principal repayments approximately $76,000.

Aspire leases land and buildings for an administrative office in Oakland and school sites in Stockton, Oakland, Modesto, Menlo Park, Los Angeles and Sacramento under various operating leases. The financial audit notes that it is unlikely that Aspire will cancel any of these leases before they expire. The aggregate rental payments required under the terms of their operating leases ranges from a high of $2.1 million in FY 2006-07 to a low of $656,216 in FY 2010-11 with total operating lease payments approximating $567,276 thereafter.

For FY 2007-08, Aspire anticipates operating 19 charter schools with an aggregate enrollment of 5,619 students. Through the addition of four schools per year through FY 2011-12, Aspire expects to operate 35 schools by June 30, 2012, with an aggregate enrollment of 11,175. These schools would be located primarily in the Oakland, Sacramento, Stockton and Los Angeles areas. Aspire's CFO projects facility costs to average 9.74% of per-pupil revenue over this period. Staff believes that these levels are at the upper bounds of the affordability range where such sizeable commitments start to reduce an organization's flexibility to fund unforeseen costs.

FISCAL YEAR	2007-08	2008-09	2009-10	2010-11	2011-12
Number of Schools	19	23	27	31	35
Enrollment	5,619	6,943	8,331	9,763	11,175

Aspire's historical and projected financial operations are characterized by sizeable, negative net operating losses. As a percentage of revenues, these net losses have ranged from a historical high of (35.18%) in FY 2002-03 to a projected low of (6.53%) in FY 2011-12. The annual operating losses have been and are projected to be mitigated by Aspire's donation revenues which have averaged 20.93% of expenditures from FY 2002-03 through FY 2005-06 year, but drop to an average of 9.06% of expenditures from the budgeted FY 2006-07 through projected FY 2011-12. For FY 2005-06, Aspire received $4.8 million in contributions which, when netted against their operating loss, results in a decrease in net assets of ($640,706). For FY 2006-07, the organization projects the net operating loss of ($4.9 million) to be partially offset by expected donations of $2.9 million, but a $1.9 million fund balance transfer will be necessary to cover all expenditures.

Staff notes that Aspire has been able to maintain positive ending fund balances because of their sizeable philanthropic contributions. As Aspire endeavors to reach full scale with their projected number of schools and student enrollment, they will attempt to alleviate this reliance on donations through cost reductions in their home and regional offices and by realizing the operational efficiencies of opening additional schools.

Projected Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, Aspire's annual CSFP lease payments for the Stockton and Oakland facilities will be $361,228 and $597,231, respectively, beginning in the first years of project occupancy, which are FY 2007-08 for Stockton and FY 2008-09 for Oakland. Staff's estimated lease payment for Stockton incorporates a project cost reduced from $20.8 million to $10.3 million due to lower than expected land cost.

Debt service coverage ratios on the CSFP leases are calculated using net revenues available after payment of debt service on existing and projected indebtedness. Because Aspire's projected amounts of revenue-funded capital outlays and donation revenues are both above the averages of charters participating in CSFP, projected debt service coverage ratios have been computed using three levels of net revenues (see table below). First, net revenues including the add-back of capital outlays are used to calculate debt service coverage since it is likely that Aspire would reduce these expenditures to make CSFP lease payments should financial operations be pressured. Second, projected debt service coverage is calculated using the more standard computation of level of net revenues, which are net of capital outlays. And lastly, projected debt service coverage is calculated using net revenues after the outlays for capital projects and assuming a lower percentage of philanthropic contributions are received by Aspire. (According to Aspire's CFO, the organization categorizes their projected philanthropic contributions into three levels indicating their certainty of these contributions – "Committed" (100% certain), "Anticipated" (95% certain) and "In-negotiations" (75% certain). Using these philanthropic contribution categories, net revenues were reduced by assuming only 95% of anticipated contributions and 75% of In-negotiation contributions are received.)

Projected Debt Service Coverage of CSFP Lease Payments with Stress Tested Net Revenues

Fiscal Year	2007-08	2008-09	2009-10	2010-11	2011-12
1.) Net Revenues After Adding Back Capital Outlay	262%	303%	346%	353%	358%
2.) Net Revenues	***156%***	***122%***	***137%***	***150%***	***144%***
3.) Net Revenues with Reduced Donations	44%	76%	41%	56%	73%

Focusing on the second measure of net revenues, Aspire's financial projections indicate that they will be able to afford the annual CSFP lease payments due for both facilities, as evidenced by the debt service coverage ratios ranging from 122% to 156%. However, using the third measure (worst-case) of net revenues, which is net of capital outlay and assumes reduced contribution levels, projected debt service coverage ratios are significantly impacted to where they are below the 100% minimum in each year. Staff notes that this financial "scenario" is unlikely as Aspire, in the event their received contributions are well below expectations, would likely re-program revenues targeted for capital outlay for the funding of CSFP lease payments.

Liquidity: As of June 30, 2006, Aspire held $233,342 in cash and cash equivalents which decreased from $829,264 on June 30, 2005, a drop of 71.9%. While debt service coverage levels appear robust and projected net revenues sufficient to cover the CSFP lease payments, this decline in liquidity has reduced Aspire's financial flexibility.

Strengths, Weaknesses and Mitigants

- **+** Strong improvement in meeting AYP criteria

- \+ Continued improvement in API scores
- \+ Debt service coverage ratios ranging from 122% to 156%
- \+ Strong management and leadership, local district support
- \- Aspire's heavy dependence on contributions (Aspire has been able to maintain positive ending fund balances because of their sizeable philanthropic contributions)
- \- Aspire's historical and projected financial operations are characterized by sizeable, negative net operating losses
- \- Aspire has outstanding long-term liabilities of $36.4 million
- \- Release of final apportionment contingent on the execution of Program Agreements (between State, charter, EMO and SUSD)

Staff Recommendation: Staff recommends that the Authority members determine that Aspire Public Schools – Rosa Parks Academy, Stockton is financially sound for purposes of final apportionment as authorized under the Charter School Facilities Program. Staff recommends that the Members direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.