

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – MAY 2009**

Applicant/Obligor:	Green Dot Public Schools
Project School:	Oscar De La Hoya Ánimo Charter High School
CDS (County – District – School) Code:	19-64733-0101675
Proposed Project Location:	1114 South Lorena 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:	Proposition 55: \$19,255,392 <u>Proposition 1D: \$9,967,216</u> Total: \$29,222,608
State Apportionment (50% Project Cost):	\$14,611,304
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	Proposition 55: \$9,627,692 <u>Proposition 1D: \$4,983,608</u> Total: \$14,611,304
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	2.00%
Estimated Annual CSFP Payment:	\$449,037 (Proposition 55) <u>\$222,518 (Proposition 1D)</u> \$671,555 (Combined)
First Year of Occupancy of New Project:	2009-10

Staff Recommendation: Green Dot Public Schools (Green Dot), on behalf of Oscar De La Hoya Ánimo Charter High School (Ánimo De La Hoya) is seeking an additional \$9.97 million of Proposition 1D financing to supplement the \$19.26 million of Proposition 55 financing Ánimo De La Hoya received. Ánimo De La Hoya received its Proposition 55 Advance Apportionment of \$842,421 in March 2006 and its Final Apportionment in the amount of \$18,412,971 in June 2008.

Staff recommends that the California School Finance Authority (CSFA) Board determine that Ánimo De La Hoya is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) for Final Apportionment for Proposition 1D. This determination as it relates to a Final Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period.

Green Dot, an educational management organization (EMO) serves as co-borrower on eight CSFP projects.

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

Criteria	Comments
Eligibility Criteria	Ánimo De La Hoya met all eligibility criteria. The school has been open since September 2003, meeting the Program's requirement for two years of charter school experience in California. Ánimo De La Hoya's current charter will expire in June 2013.
Demographic Information	Ánimo De La Hoya serves 9 th through 12 th grade students in Los Angeles. At 554 students in 2008-09, Ánimo De La Hoya exceeds targeted capacity of approximately 525 students. Enrollment is not expected to grow as a result of CSFP facilities occupation.
Debt Service Coverage	Debt Service Coverage from school revenues is projected to be 88.7% in 2010-11, the first year of CSFP lease payment, and 63.3% in 2011-12. Removing the school's management fee to Green Dot, which would be subordinate to lease payment, coverage rises to 134.3% and 107.5% in 2010-2011 and 2011-2012.
Other Financial Factors	<ol style="list-style-type: none"> 1. Lease as % of Projected Revenues: 13.8% in 2010-11. 2. Projected Contributions as % of Revenues: Less than 1%. 3. CSFP lease would be supported by Green Dot, as EMO and co-borrower.
Student Performance	Ánimo De La Hoya met AYP and API growth targets in three of the last four years. The school's API statewide rank was 3 (out of 10) and its similar schools rank was 9 in 2008.

Program Eligibility: Ánimo De La Hoya received its initial charter in May 2003, with an expiration date in October 2008. At its May 13, 2008 board meeting, the Los Angeles Unified District renewed Ánimo De La Hoya's charter for a five-year term (set to expire in 2013). In May 2009, at CSFA staff's request, verification was received from the Superintendent's Office of Los Angeles Unified School District, confirming that Ánimo De La Hoya is (1) in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority.

Ánimo De La Hoya opened in September 2003 and is currently in its sixth year of operations. Green Dot's management team has more than two years of experience in charter school management and operations in California.

Legal Status Questionnaire: Staff reviewed the applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead the staff to question the financial or legal integrity of this applicant.

Project Description: Green Dot has identified property at 1102 S. Lorena St., Los Angeles, CA 90023 for the new facilities. Green Dot expects that the facilities will consist of between 30,000 and 45,000 square feet, for a maximum student population of approximately 525 students in grades nine through twelve.

The property is owned by the Oscar De La Hoya Foundation in East Los Angeles, and has been leased by Green Dot at \$0 per year for ten years, with the option to purchase the site.

Green Dot utilized the option to purchase the site with Proposition 55 funds. Green Dot has received Final site approval from the California Department of Education (CDE), and final design approval from Department of the State Architect (DSA). Green Dot began construction of the CSFP facility and plans to complete construction by September 2009.

Ánimo De La Hoya is currently leasing temporary space at 350 S. Figueroa St. in Los Angeles, approximately 5 miles southeast of the proposed permanent facilities. Green Dot reports that it is in a long-term lease for the temporary facilities through 2012, at an annual cost of \$680,000. Once Ánimo De La Hoya moves to its permanent facilities, Green Dot intends to use the existing facilities for other charter schools.

Ánimo De La Hoya is Green Dot's third school, following Green Dot's basic high school model in which each school opens with a ninth grade of approximately 140 students, adds a new grade in each year, and reaches a maximum of approximately 525 students in grades 9-12 in the fourth year of operations. Green Dot targets individual school self-sufficiency from State revenues by the fifth year, requiring an estimated \$1 million per school of fundraising revenue through that point. Green Dot identifies the following as key sensitivities in this unit model: (a) State apportionment revenues per average daily attendance (ADA); (b) ADA as a percent of total enrollment; (c) teacher salaries; and (d) facility costs.

Educational Management Organization, if applicable: Green Dot (legal name Green Dot Educational Project, Inc.) is a 501(c)(3) nonprofit public benefit California Corporation, incorporated in 1999. Green Dot currently operates 18 charter high schools in the Los Angeles area. Green Dot anticipates rapid growth to 31 high schools by 2010-11.

Green Dot has listed itself as co-borrower on all its schools' applications. In the event of lease default, the State would have recourse first to the school assets and then recourse on parity with other creditors to Green Dot as an EMO. Other creditors would have first recourse to schools with associated obligations under the Green Dot umbrella.

School Management: Harris Luu served as a teacher at Ánimo De La Hoya from the school's opening in 2003 through 2005, and has served as vice principal from 2005 through 2008. He is currently in his first year as the principal. Prior to joining Green Dot, Mr. Luu worked in the Hawthorne School District for five years as a math and science teacher, department chair, and soccer coach. Mr. Luu also served as a graduate research assistant and a clinical professor at Loyola Marymount University. At California State University at Dominguez Hills, he taught Educational Psychology, Secondary Methods, and Classroom Management. He completed his undergraduate studies at the University of California Los Angeles, and graduate studies at Loyola Marymount University and the University of Southern California.

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.

Ánimo De La Hoya showed an average Academic Performance Index (API) growth score of 698 for the past four years, showing increases in 2004-05, 2005-06, and 2007-08 and a decline in 2006-07. Ánimo De La Hoya's API Base Statewide Rank rose from 3 (out of 10) in 2004-05 to 6 in 2005-06 and since has fallen back to 3 in 2007-08. Ánimo De La Hoya's Similar School Rank, however, has remained strong at 9, 10, 10, and 9 from 2004-05 through 2007-08, respectively. The school met API targets in three of the past four years. Ánimo De La Hoya failed in meeting its Adequate Yearly Progress (AYP) in 2004-05, but has met all requirements in every year since.

Oscar de la Hoya Animo Charter H.S.	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	Yes	Yes	Yes
Criteria Met / Required Criteria	17 / 18	14 / 14	18 / 18	18 / 18
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	No	Yes	Yes	Yes
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	Yes	No	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	No	Yes
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	No	Yes
API Base Statewide Rank (10 = best)	3	6	5	3
API Base Similar Schools Rank (10 = best)	9	10	10	9
School's Actual Growth	74	11	-33	64
Similar Schools Median of Actual Growth	36	13	-3	13
Did School's Growth Exceed Median?	Yes	No	No	Yes

School Enrollment: Ánimo De La Hoya began operations in 2003-04, with an initial class of 140 ninth graders. Ánimo De La Hoya added successive grades in each following year, reaching near-full enrollment of 518 students in grades nine through twelve in 2006-07. Enrollment of 554 in the 2008-09 school year appears to be operating above capacity. Projected student enrollment of 525 students is used in staff's financial model.

Green Dot reports that Ánimo De La Hoya's ADA as a percent of total enrollment was 94-96% for the last four years, which supports the school's 95% ADA assumption in its financial forecasts. Ánimo De La Hoya's waitlists indicate strong ongoing student demand for the school.

Financial Performance: Below we have highlighted selected financial data and credit indicators to evaluate Ánimo De La Hoya's ability to meet its CSFP obligation.

Oscar de la Hoya Animo Charter H.S.	Actual FY 2006-07	Actual FY 2007-08	Budgeted FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12
ENROLLMENT PROJECTIONS						
Enrollment	518	524	554	525	525	525
Average Daily Attendance	490	493	526	499	499	499
Average Daily Attendance (%)	95%	94%	95%	95%	95%	95%
FINANCIAL PROJECTIONS						
Total Revenues Available for CSFP Lease Payment	\$ 5,240,652	\$ 5,640,086	\$ 4,585,983	\$ 4,755,558	\$ 4,854,653	\$ 4,793,087
Total Expenses Paid Before CSFP Lease Payment	5,192,265	4,930,690	4,373,681	4,518,466	3,956,703	4,075,404
Accounting Adjustments	6,148	13,639	3,608	4,844	3,828	3,943
Net Revenues Available for CSFP Lease Payment	\$ 54,535	\$ 723,035	\$ 215,910	\$ 241,936	\$ 901,778	\$ 721,626
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ 671,555	\$ 671,555
Net Revenues After CSFP Lease Payment	\$ 54,535	\$ 723,035	\$ 215,910	\$ 241,936	\$ 230,223	\$ 50,071
FINANCIAL INDICATORS						
Net Revenues Available for CSFP Lease Payment	\$ 54,535	\$ 723,035	\$ 215,910	\$ 241,936	\$ 901,778	\$ 721,626
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	134.3%	107.5%
Contributions	\$ -	\$ -	\$ 25,750	\$ 19,010	\$ 16,700	\$ 16,700
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	131.8%	105.0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	13.8%	14.0%
Contributions / Revenues	N/A	N/A	0.6%	0.4%	0.3%	0.3%
Net Revenues After CSFP Lease Payment / Revenues	1.0%	12.8%	4.7%	5.1%	4.7%	1.0%
Revenues / ADA	\$ 10,695	\$ 11,440	\$ 8,714	\$ 9,535	\$ 9,734	\$ 9,610
Expenses / ADA	\$ 10,596	\$ 10,001	\$ 8,310	\$ 9,060	\$ 9,280	\$ 9,518
Surplus (Deficit) / ADA	\$ 99	\$ 1,439	\$ 403	\$ 475	\$ 454	\$ 92
Net Working Capital	\$ 131,805	\$ 606,691				
Net Working Capital / Expenses	2.5%	12.3%				

The school plans to occupy the CSFP-financed facilities in 2009-10. The projected enrollment at occupancy is projected to be 525 students, a decrease from the current level of 554 students.

As of June 30, 2008, Ánimo De La Hoya's audited financial statements did not show any long-term debt outstanding for the school. The school's projections do not indicate that any additional long-term debt will be incurred except for the Program lease.

Performance/Change in Net Assets: Staff's review of Ánimo De La Hoya's financial performance is based on audited financial statements for fiscal years 2004-05 through 2007-08, 2008-09 budget and financial projections from 2009-10 through 2011-12, as provided by Green Dot. The school plans to occupy the project by the 2009-10 school year, based on its financial projections. Enrollment at occupancy is projected to be 525 students, effectively the same as current levels.

In its first two years of operations, Oscar De La Hoya had net operating deficits, such that the school's net asset position as of June 30, 2005 was at \$-243,142. In 2005-06, the school increased enrollment from 276 to 405 students as the third class of ninth graders matriculated and the first class of eleventh graders was served. Total revenues before transfers increased from \$2.10 million to \$3.52 million (\$9,180 per ADA) while total expenses, before depreciation expense, grew from \$2.30 million to \$3.75 million (\$9,573 per ADA) for a recorded operating loss of \$231,323. After accounting for a net transfer in of \$577,304 from its parent organization, Green Dot, Ánimo De La Hoya increased net assets by \$426,685 to an ending balance of \$183,543. In the following fiscal year, Ánimo De La Hoya added its first class of twelfth graders, reaching its maximum targeted ADA of slightly under 500 students. The school's revenues increased to \$5.22 million before transfers in (\$5.24 million including transfers in, or \$10,695 per ADA), and expenditures increased to \$4.84 million before transfers out and Green Dot's management fee (\$5.19 million after

these transfers, or \$10,596 per ADA). Ánimo De La Hoya increased net assets by \$48,387 to \$231,930 as of June 30, 2007. 2006-07 marks the first year in which Ánimo De La Hoya paid a management fee to Green Dot; staff notes that the school achieved a slight surplus in its first year of full targeted enrollment even after its management fee. However, this surplus followed three consecutive years in which sizeable operating losses were recorded as the school grew to full targeted enrollment. In 2008, Amino Oscar De La Hoya continued to increase net assets by \$709,396 net of transfers with revenues of \$5.64 million and \$4.91 million in expenditures.

Based on the continued enrollment of approximately 550 students in 2008-09, the school anticipates receiving \$4.74 million in total revenue and incurring \$4.23 million in total expenditures, for an increase to net assets of \$502,275. In the following three fiscal years, based on (1) continued ADA at approximately 525 students, (2) projected annual revenue growth of less 1% from 2009-10 to 2011-12 and expenditure increases at a 3% COLA in all projected years, and (3) CSFP facility occupancy in 2009-10, the school is projecting increases in net assets of \$212,302, \$237,092, \$591,924 and \$420,901 from 2008-09 through 2011-12, respectively, net of transfers. The net asset increases in 2011 and 2012 prior to transfers were \$881,250 and \$700,983. Staff notes that Ánimo De La Hoya's projected annual financial performance includes approximately \$275,000 per year in annual management fees to Green Dot, as EMO. Green Dot has stated that this fee would be subordinate to any CSFP facility lease payment.

Asset Position and Liquidity: As of June 30, 2008, Ánimo De La Hoya had net assets of \$606,691, including \$50,300 in cash. The school's current assets of \$21.43 million were higher than current liabilities of \$20.83 million. Green Dot as co-borrower also provides an additional source of liquidity. Net working capital as a percentage of expenses for 2006-07 were low at 2.5% but increased to 12.3% in 2007-08.

Debt Service Coverage: Given that Ánimo De La Hoya has come in for its final apportionment under Proposition 1D, and will likely lock in the terms of its CSFP loan shortly, staff reviewed recent PMIA rates to determine the most realistic interest rate for the Proposition 1D funds. Staff's analysis of Ánimo De La Hoya's Proposition 1D lease is based on a projected 2.00% rate.

Using the above assumptions and a 30-year repayment period, Ánimo De La Hoya's total annual CSFP lease payment (including Proposition 55 and Proposition 1D Allocations) will be \$671,555 beginning 2010-11. This payment would represent, on average, 13.9% of projected revenues in the first two years of project occupancy. A facility cost of 10-15% is seen by staff as a typical charter school facility cost, although such costs vary by area. Ánimo De La Hoya's projected 2009-10 net revenues of \$591,924 would provide debt service coverage of only 88.7% in its first year of occupancy. For 2010-11, Ánimo De La Hoya's projected debt service coverage decreases to 63.3%, still well below 100% debt service coverage. Accounting for Green Dot's subordination of its management fee to payment of the CSFP lease, the projected debt service coverage levels for 2009-10 and 2010-11 would increase to 134.3% and 107.5%, respectively.

Strengths, Weaknesses and Mitigants

- +/- Debt service coverage is below 100% before subordination of management fee to Green Dot. After subordinating the EMO management fee, coverage is above 100%.
- + Facility land cost expected to be minimal due to Oscar De La Hoya Foundation support.
- + Support of Green Dot as co-borrower to supplement debt service payments.
- + Reasonably strong student demand; minimal additional school growth required to meet projections.
- With eight CSFP projects, CSFP-debt burden for Green Dot as co-borrower could be significant.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Ánimo De La Hoya is financially sound for the purposes of the Charter School Facilities Program Final Apportionment for Proposition 1D. This determination is contingent upon a co-borrower agreement being executed by Green Dot Public Schools prior to any funds being released. This determination as it relates to a 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 notify the Office of Public School Construction and the State Allocation Board regarding this determination.