

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2008**

Applicant/Obligor:	Green Dot Public Schools Ánimo Watts #1 Charter High School Ánimo Watts #2 Charter High School
Project Schools:	(aka Ánimo Jefferson #5, #6) 19-64733-0111617 19-64733-0111625
CDS (County – District – School) Code:	Not yet determined; Jefferson High School area (South Los Angeles)
Proposed Project Location:	
Type of Project:	New Construction
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost (per school):	\$25,503,656*
State Apportionment (50% Project Cost):	\$12,751,828
Lump Sum Contribution (per school):	\$0
Total CSFP Financed Amount (per school):	\$12,751,828
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	5.50%
Estimated Annual CSFP Payment (per school):	\$877,394
First Year of Occupancy of New Project:	2010-11

Staff Recommendation: Green Dot Public Schools (Green Dot), on behalf of Animo Watts #1 & #2 Charter High Schools (Animo Watts #1, Animo Watts #2, and together, the Animo Watts Schools) is seeking facilities financing of \$25.5 million per school under Proposition 1D. Green Dot opened both schools in 2007-08, with each having effectively uniform financial and enrollment projections based on Green Dot's standard school model. Staff recommends that the California School Finance Authority ("CSFA") Board determine that the Animo Watts Schools are financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Preliminary and Advance Apportionment, but not for purposes of Final Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.

The Animo Watts Schools initially applied for CSFP facilities under the names "Animo Jefferson Charter High School #5" and "Animo Jefferson Charter High School #6" respectively. Animo Watts #1 is identified as Animo Locke Tech on Green Dot's website.

* The schools' project costs originally generated by OPSC were \$42,369,446 each. At Green Dot's request, OPSC reduced the project cost to the current amount by removing the urban grant request, lowering the request for site acquisition, and lowering the amount requested for hazardous material clean up.

Green Dot, as education management organization (EMO) and co-borrower, has applied for CSFP Preliminary Apportionment under Proposition 1D for a total of eighteen schools (including additional funding for four schools which previously received Preliminary Apportionment under Proposition 47 and 55). Green Dot has received funding under Proposition 55 for a further school, for a total of nineteen potential CSFP-financed facilities. With this in mind, staff has reviewed Green Dot as an organization and guarantor under separate cover.

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

Criteria	Comments
Eligibility Criteria	The Animo Watts Schools has been open since September 2007, less than two years of charter school experience in California. However, Green Dot has operated charter schools in California since 2000-01. The Animo Watts Schools' current charter will expire in April 2011.
Demographic Information	The Animo Watts Schools currently serve 9 th grade students in Los Angeles. Enrolling 124 students (Animo Watts #1) and 139 (Animo Watts #2) in 2007-08, the Animo Watts Schools intend to grow through the addition of a 10 th , 11 th , and 12 th grade in 2008-09 through 2010-11, to meet their maximum targeted capacity of approximately 525 students in the first year of CSFP facilities occupation.
Debt Service Coverage	Debt Service Coverage from each school's revenues is projected to be 97.9% in 2010-11, the first year of CSFP lease payment, and 101.0% in 2011-12 (see "Project Description" below). Removing the school's management fee to Green Dot, which would be subordinate to lease payment, coverage rises to 130.7% in 2010-11.
Other Financial Factors	1. Lease as % of Projected Revenues: 18.2% 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	Since the Animo Watts Schools opened in 2007-08, no State student performance metrics are available for these schools. Student performance for Green Dot's existing schools is provided under separate cover

Program Eligibility: The Animo Watts Schools received their initial charters in April 2006, with an expiration date in April 2011. In February 2008, verification was received from the Superintendent's Office of Los Angeles Unified School District, confirming that each school is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority.

Both Animo Watts Schools opened in September 2007, and are currently in their first year of operations. Green Dot's management team has more than two years of experience in charter school management and operations in California, and therefore meets this Program eligibility requirement.

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, on behalf of the Animo Watts Schools, has requested funding for acquisition of land and new construction of two permanent high school facilities to accommodate a maximum of 525 students each, in grades 9 through 12. The sites for the new facilities have not yet been identified, but are expected to be located within a three-to-four mile radius around Locke High School, located at 325 East 111th Street, Los Angeles, CA 90061. Green Dot anticipates that the facilities will each consist of between 30,000 and 45,000 square feet. The Animo Watts Schools opened in 2008-09 in temporary facilities, and plan to occupy the CSFP-financed facilities in the 2010-11 school year. The schools' lease payment obligation would begin in 2010-11. Based on materials provided by Green Dot, temporary facilities have not yet been acquired for the schools in the interim.

The Los Angeles Board of Education voted in September 2007 to give control of LAUSD's Locke High School to Green Dot beginning fall 2008 for Green Dot's second large "school transformation," discussed further in staff's separate review of Green Dot as an EMO. The Animo Watts Schools were established before this transformation; Green Dot is also seeking CSFP facilities (under separate cover) for up to eight additional planned schools to be part of this transformation. The transfer is currently opposed by United Teachers Los Angeles, who have filed a grievance to block the transfer. Depending on the success of effort, Green Dot may or may not gain access to the existing Locke High School campus to house a portion of Locke's enrollment base, and may face potential competition for students from the existing traditional public school.

The Animo Watts Schools will follow Green Dot's standard 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's fundraising efforts to meet these start-up costs are discussed in staff's review of Green Dot as an EMO. 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: 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 twelve charter high schools in the Los Angeles area, including the two Animo Watts Schools which began operations in fall 2007. Green Dot anticipates rapid growth to 31 high schools by 2010-11.

Although Green Dot has listed itself as guarantor on all its schools' applications, Green Dot is formally a co-borrower rather than guarantor, since the organization is not legally separated from the school. In the event of lease default, Green Dot has indicated that the CSFA 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.

Green Dot’s management has over two years of charter school management experience. Green Dot’s management is discussed in staff’s review of Green Dot as an EMO, under separate cover.

School Management: *Animo Watts #1:* Dinah Consuegra, principal of Animo Watts #1, previously taught English and Film for seven years in the Los Angeles Unified School District. She also served as Dean of Students at Franklin High School for three years. Ms. Consuegra graduated with honors from Occidental College, receiving her Bachelor of Arts degrees in English and Comparative Literary Studies, and also completed her Masters of Arts degree at Claremont Graduate University and received her Masters of Education from UCLA’s Principal Leadership Institute.

Animo Watts #2: Vanessa Morris, principal of Animo Watts #2, previously worked at Locke High School from 2000-2007 as a science teacher and science department chair. With several colleagues, Ms. Morris created and ran The School of Math and Science, a small school within Locke. Ms. Morris received two undergraduate degrees in Marine Biology and Environmental Studies and a Masters of Education from the University of California, Los Angeles.

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.

As relatively new schools, the Animo Watts Schools do not yet have State performance metrics. The Green Dot schools for which such information is available, based on Academic Performance Index (API) results, have performed well relative to similar schools, but relatively poorly with regards to statewide rankings. Summarized below is a summary of API similar schools information for schools managed by Green Dot which have operated long enough to have such data. These results are discussed in more detail in staff’s separate review of Green Dot as an EMO. Green Dot’s existing schools have large wait-lists, and do not appear to have experienced any major problems in attracting students to meet their growth schedules.

API Base Rank (10=Best): Similar Schools/Statewide				
School	2003	2004	2005	2006
Animo Leadership	NA/5	9/3	7/3	7/3
Animo Inglewood	10/4	10/7	10/5	10/6
Oscar De La Hoya Animo		9/3	10/6	10/5
Animo South L.A.			9/3	10/6
Animo Venice			10/5	9/5

School Enrollment: The Animo Watts Schools began operations in 2007-08, with an initial class of 124 (Animo Watts #1) and 139 (Animo Watts #2) ninth graders. The Animo Watts Schools intend to add a tenth grade in 2008-09 (for enrollment of 280 students), a tenth grade in 2009-10 (for enrollment of 420 students), and a twelfth grade in 2010-11, the first year of CSFP occupancy, reaching a maximum projected growth of 525 students.

Green Dot's schools averaged an ADA of 95.0%-95.9% in the past three years, providing some support for the schools' 95% ADA assumption in financial forecasts. Green Dot's existing schools had substantial 9th grade waitlists at the end of 2006-07, indicating reasonably strong ongoing student demand for the EMO's schools.

Financial Performance: Below we have highlighted selected financial data and credit indicators to evaluate the Animo Watts Schools' ability to meet its CSFP obligation. Each school's projected financials are nearly identical, since all schools will open in the same area and year, and will follow Green Dot's standard school growth model. The two schools' projections below vary only with regards to 2007-08 budget (as reported by Green Dot) and enrollment (as reported by the State) and projected expenditures for 2009-10.

Green Dot Public Schools - Animo Watts 1 Charter H.S.	Actual FY 2006-07	Budgeted FY 2007-08	Projected FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12
ENROLLMENT PROJECTIONS						
Enrollment	-	124	280	420	525	525
Average Daily Attendance	-	118	266	399	499	499
Average Daily Attendance (%)	N/A	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS						
Total Revenues Available for CSFP Lease Payment	\$ -	\$ 1,505,194	\$ 2,428,770	\$ 3,754,857	\$ 4,822,992	\$ 4,967,680
Total Expenses Paid Before CSFP Lease Payment	-	1,805,194	2,397,205	3,165,966	3,917,578	4,035,108
Accounting Adjustments	-	1,299	(48,467)	(48,233)	(46,465)	(46,359)
Net Revenues Available for CSFP Lease Payment	\$ -	\$ (298,701)	\$ (16,902)	\$ 540,658	\$ 858,949	\$ 886,213
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ 877,394	\$ 877,394
Net Revenues After CSFP Lease Payment	\$ -	\$ (298,701)	\$ (16,902)	\$ 540,658	\$ (18,445)	\$ 8,819
FINANCIAL INDICATORS						
Net Revenues Available for CSFP Lease Payment	\$ -	\$ (298,701)	\$ (16,902)	\$ 540,658	\$ 858,949	\$ 886,213
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	97.9%	101.0%
Contributions	\$ -	\$ 8,209	\$ 5,291	\$ 10,582	\$ 21,165	\$ 21,800
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	95.5%	98.5%
Management Fee to EMO	\$ -	\$ 43,847	\$ 145,409	\$ 224,657	\$ 288,109	\$ 296,753
Debt Service Coverage by Net Revenues (w/out Mgmt Fee)	N/A	N/A	N/A	N/A	130.7%	134.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	18.2%	17.7%
Contributions / Revenues	N/A	0.5%	0.2%	0.3%	0.4%	0.4%
Net Revenues After CSFP Lease Payment / Revenues	N/A	-19.8%	-0.7%	14.4%	-0.4%	0.2%
Revenues / ADA	N/A	\$ 12,778	\$ 9,131	\$ 9,411	\$ 9,670	\$ 9,960
Adjusted Expenses / ADA	N/A	\$ 15,313	\$ 9,194	\$ 8,056	\$ 9,707	\$ 9,943
Net Revenues After CSFP Lease Payment / ADA	N/A	\$ (2,536)	\$ (64)	\$ 1,355	\$ (37)	\$ 18
Net Working Capital	\$ -					
Net Working Capital / Expenses	N/A					

Animo Watts #1 and #2 Charter High Schools

Green Dot Public Schools - Animo Watts 2 Charter H.S.	Actual FY 2006-07	Budgeted FY 2007-08	Projected FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12
ENROLLMENT PROJECTIONS						
Enrollment	-	139	280	420	525	525
Average Daily Attendance	-	132	266	399	499	499
Average Daily Attendance (%)	N/A	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS						
Total Revenues Available for CSFP Lease Payment	\$ -	\$ 1,496,985	\$ 2,428,770	\$ 3,754,857	\$ 4,822,992	\$ 4,967,680
Total Expenses Paid Before CSFP Lease Payment	-	1,796,986	2,397,205	3,280,966	3,917,578	4,035,108
Accounting Adjustments	-	1,299	(48,467)	(48,233)	(46,465)	(46,359)
Net Revenues Available for CSFP Lease Payment	\$ -	\$ (298,702)	\$ (16,902)	\$ 425,658	\$ 858,949	\$ 886,213
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ 877,394	\$ 877,394
Net Revenues After CSFP Lease Payment	\$ -	\$ (298,702)	\$ (16,902)	\$ 425,658	\$ (18,445)	\$ 8,819
FINANCIAL INDICATORS						
Net Revenues Available for CSFP Lease Payment	\$ -	\$ (298,702)	\$ (16,902)	\$ 425,658	\$ 858,949	\$ 886,213
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	97.9%	101.0%
Contributions	\$ -	\$ -	\$ 5,291	\$ 10,582	\$ 21,165	\$ 21,800
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	95.5%	98.5%
Management Fee to EMO	\$ -	\$ 39,417	\$ 145,409	\$ 224,657	\$ 288,109	\$ 296,753
Debt Service Coverage by Net Revenues (w/out Mgmt Fee)	N/A	N/A	N/A	N/A	130.7%	134.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	18.2%	17.7%
Contributions / Revenues	N/A	N/A	0.2%	0.3%	0.4%	0.4%
Net Revenues After CSFP Lease Payment / Revenues	N/A	-20.0%	-0.7%	11.3%	-0.4%	0.2%
Revenues / ADA	N/A	\$ 11,337	\$ 9,131	\$ 9,411	\$ 9,670	\$ 9,960
Adjusted Expenses / ADA	N/A	\$ 13,599	\$ 9,194	\$ 8,344	\$ 9,707	\$ 9,943
Net Revenues After CSFP Lease Payment / ADA	N/A	\$ (2,262)	\$ (64)	\$ 1,067	\$ (37)	\$ 18
Net Working Capital	\$ -					
Net Working Capital / Expenses	N/A					

Each school plans to occupy the CSFP-financed facilities in 2010-11. The projected enrollment at occupancy is projected to be 525 students, based on the addition of a tenth, eleventh, and twelfth grade in the next three school years.

Each school's financial projections include a \$250,000 State revolving fund loan in 2007-08, due over the following five years at \$50,000 per year. The schools' projections do not indicate that any additional long-term debt will be incurred except for the Program lease. Green Dot reports that these State revolving fund loans have not yet been implemented. If the schools do not in fact enter into these loans, the schools' forecasted expenditures would decrease by \$50,000 per year.

Performance/Change in Net Assets: Staff's review of the Animo Watts Schools' financial performance is based on financial projections from 2007-08 through 2011-12, and mid-year financial reports as of 2/29/2008, as provided by Green Dot as EMO. The school plans to occupy the project in 2010-11.

Green Dot opened both Animo Watts Schools in 2007-08 with a targeted 9th grade of 140 students, for budgeted revenues of \$1.5 million and expenditures of \$1.8 million for each school. Based on State enrollment data, Animo Watts #2 has substantially met that enrollment figure; Animo Watts #1 only achieved enrollment of 124 students. The very high budgeted revenues and expenditures per ADA (\$11,300 to \$15,300) appear to be due to initial start-up and administrative costs, supported by one-time federal implementation grant revenues of \$324,000 per school. The schools also anticipate receiving \$250,000 in State revolving fund loans, although as of early April 2008 such loans have not been made. Although Green Dot has budgeted \$300,000 deficits for each school in 2007-08, as of 2/29/2008 Animo Watts #1 was approximately break-even for the year-to-date, and Animo Watts #2 had a \$120,000 surplus. These mid-year results were based on unbudgeted

foundation grants of \$230,000 per school, and reductions/delays in computer hardware expenditures.

In 2008-09, Green Dot anticipates growing each Animo Watts School to 280 students, for revenues of \$2.43 million and expenditures (including revolving fund debt service) of \$2.45 million, resulting in a slight deficit of \$(17,000). These results are based on a very low \$102,000 per annum lease cost (\$383 per ADA in 2008-09), rising to \$250,000 in 2009-10 (\$627 per ADA). Green Dot has subsequently indicated a higher \$204,000 lease cost in 2008-09, which would increase that year's deficit to \$(117,000). Green Dot's history of start-up fund-raising and net asset position mitigates staff concerns that higher-than-expected initial facility costs would significantly impact school operations. In 2009-10, Green Dot projects that the Animo Watts Schools will each increase enrollment to 420 students (grades 9 through 11). Animo Watts #1 forecasts 2009-10 revenues of \$3.75 million, expenditures of \$3.21 million, and a net surplus of \$541,000. Animo Watts #2 forecasts 2009-10 revenues of \$3.75 million, expenditures of \$3.33 million, and a net surplus of \$426,000, based on higher projected facility costs.

The Animo Watts Schools are anticipated by Green Dot to enter into the CSFP-financed facilities in 2010-11, the same year in which the schools are projected to reach maximum occupancy of 525 students. Based on a 5.5% lease interest rate, each Animo Watts School would face a CSFP annual lease cost of \$877,394, or \$1,799 per ADA. This lease payment is equivalent to approximately 18% of projected revenues, high compared to the 10% - 15% facility cost typical for charter schools. Based on this facility lease cost, Green Dot's projections for each Animo Watts School would produce revenues of \$4.82 million and expenditures of \$4.84 million in 2010-11, for a slight deficit of \$(18,000). In 2011-12, each Animo Watts School projects revenues of \$4.97 million and expenditures of \$4.96 million, for a small net surplus of \$9,000. Staff notes that each Animo Watts School's projected annual financial performance includes approximately \$290,000 per year in annual management fees to Green Dot once the school reaches maturity. Green Dot has stated that this fee would be subordinate to any CSFP facilities lease payment.

Green Dot's projections are based on reasonable per ADA State block grants of slightly under \$7,000 per ADA in 2007-08, with 3% annual COLAs thereafter on revenues and expenditures. The Animo Watts Schools projections include annual management fees to Green Dot of 6% of revenues.

Debt Service Coverage: Assuming a 5.5% interest rate and 30-year repayment period, each Animo Watts School's total annual CSFP lease payment will be \$877,394 beginning 2010-11. This payment would represent, on average, a relatively high 18% of projected revenues in the first two years of project occupancy. Each Animo Watts School's projected 2010-11 net revenues of \$858,949 would provide debt service coverage of 97.9% in its first year of occupancy. For 2011-12, each Animo Watts School's projected debt service coverage increases to 101.0%. Accounting for Green Dot's subordination of its management fee to payment of the CSFP lease, the projected debt service coverage levels for 2010-11 and 2011-12 would increase to 130.7% and 134.8%, respectively.

Asset Position and Liquidity: As of June 30, 2006, the Animo Watts Schools had not yet opened and therefore had no net assets. Green Dot will act as co-borrower and additional source of liquidity for each Animo Watts School.

Strengths, Weaknesses and Mitigants:

- +/- Schools' projected debt service coverage is at or slightly below 1x before subordinating EMO management fee; lease is a high 18% of projected revenues.
- + Support of Green Dot as co-borrower/guarantor.
- + Strong student demand; reasonably conservative financial projections; proven school growth model.
- With eighteen prospective CSFP projects, CSFP-debt burden for Green Dot (co-borrower/guarantor) could be significant.
- +/- Although following Green Dot's school model, the school has a short track record for financial, enrollment, and academic performance review.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that the Animo Watts (#1 and #2) Schools are financially sound for the purposes of the Charter School Facilities Program Preliminary and Advance Apportionment, but not for purposes of Final Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.