

**CHARTER SCHOOLS FACILITIES PROGRAM
PROPOSITION 55 FUNDING ROUND
STAFF SUMMARY REPORT – MAY 2013**

Applicant:	The Accelerated Schools
Project School:	Accelerated Charter Elementary School
Proposed Project Location:	101 E. Martin Luther King Jr. Blvd.
County:	Los Angeles
Type of Project:	New Construction
School District:	Los Angeles Unified School District
Chartering Entity:	Los Angeles Unified School District
OPSC Project Cost:	\$21,546,670
Total State Apportionment:	\$10,773,335
Lump Sum Contribution:	\$0
Total CSFP Lease Amount:	\$10,773,335
Length of CSFP Lease Payments:	30 years
Assumed Interest Rate on Lease:	2.0%
Estimated Annual CSFP Lease Payment:	\$481,029
First Year of Occupancy of New Project:	2015-16

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that The Accelerated Schools (“Accelerated”) on behalf of the Accelerated Elementary School (“ACES”) is financially sound for the purposes of the Charter School Facilities Program (“Program” or “CSFP”) Final Apportionment. This recommendation is contingent upon Accelerated having 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 Authority members direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.

Background: In 2004, Accelerated requested funding, and was approved for a preliminary apportionment of \$11,756,256 to construct a facility for its second elementary school in South Los Angeles. Accelerated was found financially sound in March 2011 for its request for an advance of \$655,626 for Design, and \$5,200,000 for Site Acquisition. Accelerated is now requesting the remaining \$15,691,044 for Final Apportionment.

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

Criteria	Comments
Eligibility Criteria	Accelerated meets all eligibility criteria including two years of operations, a charter in place through June 2014, and good standing with its chartering authority and compliance with its charter.

Demographic Information	Accelerated serves grade levels K-12 and has current enrollment of 1,379 students for the 2012-13 school year. Accelerated projects enrollment to be 1,779 by the time of CSFP facility occupancy in 2015-16.
Debt Service Coverage	Debt service coverage for 2016-17 and 2017-18 are projected to be 149.2% and 152.9%. This indicates adequate coverage of the CSFP payment.
Other Financial Factors	The CSFP payment as a percentage of revenues in 2016-17 through 2017-18 is on average projected to be 2.7% of revenues.
Student Performance	ACES had met all AYP criteria since 2006-07, but did not meet AYP in 2011-12. Statewide rankings increased to 4 from 3 in 2010-11 and 2011-12, but are still noted for having not enough student participation for an accurate similar school ranking.

Program Eligibility: In May 2013, at CSFA staff’s request, verification was received from the Los Angeles Unified School District Innovation and Charter School Division, confirming that ACES is (1) in compliance with the terms of its charter agreement, and (2) in good standing with its charter authority. ACES’ current charter is good through June 30, 2014.

Legal Status Questionnaire: In March 2013, staff received Accelerated’s response to the requests for disclosure contained in the Legal Status Questionnaire (LSQ), which included signatures of the ACES’s CEO, Jonathan Williams, and Chair of Accelerated’s Governing Board, Eric C. Johnson. Accelerated did not disclose any material information relating to legal or regulatory proceedings or legal action in which it or any of its affiliates is a named party.

Project Description: The Accelerated School (or Accelerated) is a group of schools that serve grades Pre-K through 12 in South Los Angeles. The Schools are clustered around the intersection of Martin Luther King Jr. Blvd. and Main Street. The original Accelerated School, also named The Accelerated School, was a K-6 charter that was established in 1994. In 1997-98, The Accelerated School served 140 students grades kindergarten through 6; the proposed idea was to add a seventh grade for the 1998-99 school years and then increase the population slowly year by year. The model of growth used by the organization now has well over 1,400 students in grades Pre-K through 12th attending 4 different schools (The Accelerated School, Accelerated Charter Elementary School, The Wallis Annenberg High School, and the W.M. Keck Early Learning Center). Currently, Accelerated has a waiting list of over 2,500 students.

ACES is a Pre-K – 6th grade dual language immersion model school that has 231 students enrolled in the 2012-13 year. ACES currently serves grades Kindergarten through 1st grade in a rented facility located at 119 E. 37th Street in South Los Angeles where it occupies the classrooms adjacent to St. Stephen’s Catholic Church. ACES also serves grades 2nd through 6th grade in a rented church facility at 1010 E. 34th Street in South Los Angeles belonging to Saint Patrick’s Catholic Church. The site location for the construction of the new ACES facility has been identified as 101 E. Martin Luther King Jr. Blvd in Los Angeles.

The construction of this facility would take approximately 18 months beginning in June 2014 and ending in December 2015; the first year of occupancy of the facility would be 2015-16.

ACES commenced instructional operations in September 2004 with 59 students in Kindergarten and first grade. Subsequently, the school has added a grade level per year for a current total student population of 132; 2008-09 brought the first graduating class of ACES 5th graders. Accelerated seeks to serve 462 students with the construction of the aforementioned ACES facility project located on 101 E. Martin Luther King Jr. Blvd. Accelerated expects to complete the project for the 2015-16 school year; its lease payment obligation would commence in 2016-17.

Organizational Information: Accelerated is a nonprofit, public-benefit corporation with 501(c)(3) status. All of Accelerated's schools, including ACES, base their program on the Accelerated School Model developed in 1986 by Dr. Henry Levin. All Accelerated schools rely upon involved parents, committed and talented teachers, high expectations for students and parents, strong school leadership, supportive and experienced board members, shared decision-making, and accountability.

A primary goal of ACES is to prepare students to succeed in rigorous college preparatory middle and high schools. The curriculum is based on the Accelerated Schools Model, a rigorous, nationally recognized, standards-based curriculum dedicated to the idea that all children can accelerate their progress and achieve at high levels. Other goals include providing students with better educational opportunities than what are typically available in their areas; providing additional student seats in an impacted area; training local educators in the use of effective teaching practices; and encouraging innovation in other public schools that serve educationally disadvantaged students.

Educational Management Organization, if applicable: Not Applicable.

School Management: The resumes of the school's personnel and management team demonstrate professional, experienced, and qualified individuals serving in key capacities within the organization.

Jonathan Williams co-founded and implemented Accelerated as a charter school in 1994. Mr. Williams began teaching in 1990. His experiences combined with a background in sales and banking inspired him to become a pioneer in education reform. Mr. Williams is also the President of Accelerated's Board of Trustees and has extensive experience in the field of education. He has served on the California State Board of Education, the Los Angeles City Board of Recreation and Parks Commission and currently serves on the boards of the Black Alliance for Education Options (BAEO), California Charter Schools Association (CCSA), and the National Alliance for Public Charter Schools (NAPCS).

ACES is organized and run by Susan Raudry, who has served as the Principal since 2009. Susan is an experienced bilingual educator with a successful track record of providing leadership with administration, school personnel, and parents. Before her post as Principal of ACES, Susan held the position of Assistant Principal and Elementary Instructional Specialist at Arlington Heights Elementary School from March 2008 to June 2009. She holds a Bachelor of Arts degree in Psychology from Loyola Marymount University and a Master in Education degree from the University of California, Los Angeles.

Board Experience: Accelerated’s Board of Trustees is responsible for ensuring the School’s legal and fiscal viability. The Board meets six times a year. Specific decisions that require Board approval include budgets, audits, legal authorizations and expulsions. The Board also evaluates the Chief Executive Officer. The Board is made up of parent representatives, school community representatives, and representatives from the business and education communities.

Member	Role	Occupation/Employer
Eric C. Johnson	Board President; Chair, ACES Site Development Committee	Victex Inc./Crail Johnson Foundation
Dr. Simeon P. Slovacek	Board Vice President; Chair, Audit Committee Professor of Education	Applied & Advanced Studies in Education California State University, Los Angeles
Michael J. López	Board Treasurer; Chair, Finance Committee	Booz Allen Hamilton
Peter B. Morrison	Member	Skadden, Arps, Slate, Meagher & Flom LLP
Dr. Juli P. Quinn	Member	President, FREEducation, LLC
Leonard Rabinowitz	Member	Vice Chair, Audit Committee StudioCL
John W. Ward	Member of Finance Committee and Audit Committee	Wells Fargo & Company
Marivia Torres	Parent Representative – TAS	N/A
Alma A. Rodriguez	Parent Representative – WAHS	N/A
Sarah Yetter	Parent Representative Alternate – ACES	N/A

Enrollment: Accelerated currently enrolls 1,3,79 students at its three schools, serving grades K-12. Accelerated anticipates future enrollment growth at The Accelerated School (“TAS”) and Wallis Annenberg High School (“WAHS”), with both schools projected to reach maximum enrollment levels in 2015-16. Current enrollment for TAS and WAHS are 773 and 359 students, respectively. ACES currently enrolls 247 students and anticipates maintaining this level of enrollment through 2014-15. In 2015-16, when ACES anticipates occupying the CSFP facility, Accelerated projects a marked increase in enrollment from 328 students to 462. The substantial increase in enrollment is supported by ACES’ current waitlist along with Accelerated’s sizable 2,500 student main waitlist. Many parents put their students on the main waitlist assuming their student is in line to attend ACES as well. Accelerated anticipates meeting its enrollment projections due to the capacity of the CSFP facility meeting the current student demand of ACES.

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 sustainability. In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) per the No Child Left Behind Act of 2001.

The Accelerated School Community of Schools API Growth Scores/ Met API Growth Target								
School	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Accelerated Elementary (ACES)	N/A	510/N/A	625/Yes	674/Yes	723/Yes	749/Yes	784/Yes	760/No
Accelerated (TAS)	702/Yes	684/No	717/Yes	715/No	701/No	776/Yes	746/No	763/Yes
Wallis (WAHS)	634/Yes	623/No	689/Yes	711/Yes	716/Yes	740/Yes	750/Yes	742/No

The Accelerated School Community of Schools API Base Rank: Statewide/Similar Schools								
School	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Accelerated Elementary (ACES)	N/A	N/A	1/N/A	1/N/A	1/N/A	2/N/A	3/N/A	4/N/A
Accelerated (TAS)	N/A	4/7	2/8	3/9	2/6	2/1	4/7	2/9
Wallis (WAHS)	N/A	3/8	3/8	5/10	5/9	5/7	5/6	5/10

The Accelerated School Community of Schools Met All AYP Criteria								
School	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Accelerated Elementary (ACES)	N/A	No	Yes	Yes	Yes	Yes	Yes	No
Accelerated (TAS)	No							
Wallis (WAHS)	Yes	Yes	Yes	Yes	No	No	Yes	No

The base API score for ACES in FY 2005-06 was 508. ACES achieved API growth scores of 625, 674, 723, 749, 784, and 790 for the years of 2006-07 through 2011-12. Additionally, the school has met all AYP criteria from 2006-07 through 2010-11, but did not meet AYP in 2011-12. With respect to academic rankings, during 2006-07 through 2010-11, out of a best possible rank of 10, ACES ranked 1, 1, 1, 2, 3, and 4 from 2006-07 through 2010-11 statewide, respectively. In recording ACES API statewide rankings, CDE notes not having enough student participation for an accurate state ranking.

While Accelerated’s other schools have struggled to consistently meet all AYP criteria, API growth scores have shown marked improvement over the past seven years. WAHS and TAS achieved API growth scores of 742 and 763 in 2010-11, respectively. This resulted in total API growth score improvement of 108 and 61 points from 2004-05 for both schools.

Staff notes that the percent-proficient threshold requirement for AYP, both for English-language arts and mathematics, in accordance with the Elementary and Secondary Education Act (ESEA), reflects increases each year and will continue to reflect increases until 2014. Therefore, with each successive year, charter schools are increasingly challenged in “making AYP” (meeting all AYP criteria). This requirement applies to both school wide performance and performance of each numerically significant subgroup within any school. As an example, since 2002, the percent-proficient requirements for English-language arts (elementary schools, middle schools, and elementary school districts) are as follows: 13.6% for each of 2001-02, 2002-03, and 2003-04; 24.4% for each of 2004-05, 2005-06, and 2006-07; 35.2% for 2007-08; 46.0% for 2008-09; and 56.8% for 2009-10. This specific requirement will increase up until 2014 with the following percent-proficient thresholds: 67.6% for 2010-11; 78.4% for 2011-12; 89.2% for 2012-13; and 100.0% for 2013-14. The English-language arts percent-proficient requirement for high schools shows a similar trend, as do the percent-proficient requirements for mathematics for both

elementary schools and high schools. Given that each numerically significant subgroup within a school must meet the percent-proficient requirement in English-language arts and mathematics in order for the school to make AYP, and given the high prevalence of English-language learners in California, charter schools are faced with increasing difficulty in making AYP¹.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the applicant’s ability to meet its CSFP obligations. The following table excerpted from the financial model summarizes key aspects of the school’s past and projected financial performance.

Staff’s financial review of Accelerated is based on four years of audited financial statements (2008-09 through 2011-12), 2012-13 revised budget, and financial projections through 2017-18 as provided by Accelerated. Accelerated expects to occupy the project in 2015-16, by which time enrollment will have increased to 1,779 students from 1,379 students (grades K-12) in the current year, and does not anticipate any future increases in enrollment.

The Accelerated Schools	Actual FY 2008-09	Actual FY 2009-10	Actual FY 2010-11	Actual FY 2011-12	Budgeted FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16	Projected FY 2016-17	Projected FY 2017-18
ENROLLMENT PROJECTIONS										
Enrollment	1,347	1,288	1,332	1,316	1,379	1,501	1,590	1,779	1,779	1,779
Average Daily Attendance	1,306	1,248	1,272	1,281	1,324	1,441	1,526	1,708	1,708	1,708
Average Daily Attendance (%)	97%	97%	95%	97%	96%	96%	96%	96%	96%	96%
FINANCIAL PROJECTIONS										
Total Revenues Available for CSFP Lease Payment	\$ 15,671,114	\$ 13,344,008	\$ 13,775,370	\$ 12,532,466	\$ 13,320,068	\$ 14,160,172	\$ 14,929,743	\$ 17,150,208	\$ 17,505,618	\$ 17,843,331
Total Expenses Paid Before CSFP Lease Payment	13,782,917	14,659,636	13,275,928	13,609,803	14,722,668	14,715,599	15,707,574	17,415,557	18,417,781	18,097,344
Accounting Adjustments	995,165	995,165	973,500	974,114	979,316	980,712	982,712	984,712	1,629,738	989,712
Net Revenues Available for CSFP Lease Payment	\$ 2,883,362	\$ (320,463)	\$ 1,472,942	\$ (103,223)	\$ (423,284)	\$ 425,285	\$ 204,881	\$ 719,363	\$ 717,575	\$ 735,699
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 481,029	\$ 481,029
Net Revenues After CSFP Lease Payment	\$ 2,883,362	\$ (320,463)	\$ 1,472,942	\$ (103,223)	\$ (423,284)	\$ 425,285	\$ 204,881	\$ 719,363	\$ 236,546	\$ 254,670
FINANCIAL INDICATORS										
Net Revenues Available for CSFP Lease Payment	\$ 2,883,362	\$ (320,463)	\$ 1,472,942	\$ (103,223)	\$ (423,284)	\$ 425,285	\$ 204,881	\$ 719,363	\$ 717,575	\$ 735,699
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	149.2%	152.9%
Contributions	\$ 147,705	\$ 286,500	\$ 140,000	\$ 229,405	\$ 251,027	\$ 211,500	\$ 226,000	\$ 255,000	\$ 255,000	\$ 255,500
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	96.2%	99.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.7%	2.7%
Contributions / Revenues	0.9%	2.1%	1.0%	1.8%	1.9%	1.5%	1.5%	1.5%	1.5%	1.4%
Net Revenues After CSFP Lease Payment / Revenues	18.4%	-2.4%	10.7%	-0.8%	-3.2%	3.0%	1.4%	4.2%	1.4%	1.4%
Revenues / ADA	\$ 11,999	\$ 10,692	\$ 10,830	\$ 9,783	\$ 10,062	\$ 9,827	\$ 9,781	\$ 10,042	\$ 10,250	\$ 10,448
Expenses / ADA	\$ 10,554	\$ 11,747	\$ 10,437	\$ 10,624	\$ 11,121	\$ 10,212	\$ 10,291	\$ 10,197	\$ 11,066	\$ 10,878
Surplus (Deficit) / ADA	\$ 1,446	\$ (1,054)	\$ 393	\$ (841)	\$ (1,059)	\$ (385)	\$ (510)	\$ (155)	\$ (816)	\$ (430)
Net Working Capital	\$ 6,001,705	\$ 5,866,594	\$ 12,198,924	\$ 9,654,897						
Net Working Capital / Expenses	43.5%	40.0%	91.9%	70.9%						

Financial Performance – Staff’s analysis of financial performance includes expense adjustments for capital outlay and loan repayment; therefore, our results may differ from audited figures.

Accelerated long-term obligations consist of an outstanding loan from LAUSD. As of June 30, 2012, the outstanding loan balance was \$5,033,718. Accelerated anticipates making annual principal payments of \$465,840 along with interest payments through 2023-24.

Accelerated’s financial projections and projected debt service coverage are based upon the following assumptions: (1) an interest rate of 2.0% on the CSFP local matching share amortized over 30 years; (2) total project costs of \$21,546,670, as provided by the Office of Public School Construction; (3) project occupancy by the 2015-16 school year; (4) increases in enrollment from 1,379 students for the current 2012-13 academic year to 1,779 students for 2015-16 (first year of project occupancy); (5) projected ADA rates of 96% for

¹ Information regarding AYP requirements are derived from the California Department of Education’s “2010 Adequate Yearly Progress Report Information Guide”.

2013-14 through 2017-18 and ; (6) revenue growth (cost of living adjustments) to the general purpose block grant funding rate of 0.0% for 2013-14 and 2014-15, and 2.5% for each year from 2015-16 through 2017-18.

Based on the audited financial statements for 2008-09, Accelerated recorded contributions of \$147,705 but showed increases in net assets of \$1.9 million from revenues and expenses of \$15.5 million and \$13.8 million, respectively. The 2008-09 audit did note that Accelerated's past financial statements overstated current net assets by \$1.6 million. Accelerated modified its approach to calculating depreciation which resulted in this one-time adjustment. In the following 2009-10 year, Accelerated operated at a net loss of \$1.3 million. Accelerate experienced a drop in revenues while seeing an increase in expense categories such as salaries and operating services. In 2010-11, Accelerated increased net assets by \$449,442, including contributions of \$140,000, however, in 2011-12; Accelerated posted a net deficit of \$1.1 million, including \$229,405 in contributions.

On total revenues and expenses of \$13.3 million and \$14.7 million, Accelerated's second interim budget estimate for 2012-13 indicates a decrease in net assets by \$1.4 million. As Accelerated's enrollment is expected to increase from year to year, the organization anticipates increases to both revenue and expenses. With enrollment expecting to grow by an average of 9% to a maximum 1,779 students by the first year of project occupancy in 2015-16, Accelerated projects increasing total revenues to an average of \$15.4 million, and average expenses to \$15.9 million, and after accounting adjustments have been made, Accelerated will see a net increase of \$2.76 million from 2013-14 through 2015-16. In 2016-17, the first payment year, Accelerated is projecting total revenues of \$17.8 million and total expenses of \$18.1 million, and after accounting adjustments, Accelerated will show net revenues of \$717,575, before CSFP lease payments are expensed. For 2017-18, total revenues are projected at \$17.8 million, and total expenses of \$18.1 million, and after accounting adjustments, net revenues increase by \$735,699 before payment of CSFP obligations.

Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liability from current assets. Accelerated's NWC for 2011-12 was \$9.7 million. NWC as a percentage of expenses in 2011-12 was 70.9%, which is above the preferred threshold of 5.0%.

Projected Debt Service Coverage – Accelerated's financial projections indicate that they will be able to afford the projected annual CSFP lease payment of \$481,029 as evidenced by the debt service coverage ratios of 149.2% and 152.9% projected for 2016-17 and 2017-18. Contributions are projected to be a small percentage of Accelerated's budget at approximately 1.5% of total revenue in 2016-17 and 2017-18. Without contributions, Accelerated's debt service coverage ratios for the first two years of CSFP payments would not meet the minimum 100.0% required by Program regulations. However, Accelerated is projecting contributions of \$255,000 annually, and when looking at Accelerated's historical average and future projections in regards to their contributions, it seems reasonable that the school will easily be able to raise approximately 7% of their projected contributions in the future, which will make them sufficient to cover the 100% coverage required by Program regulations. With CSFP payments to be on average 2.7% of projected revenues for 2016-17 and 2017-18 staff believes that the CSFP payment will not significantly reduce the school's flexibility to fund unforeseen costs during the term of repayment.

Strengths, Weaknesses and Mitigants:

- + Accelerated’s financial projections indicate that they will be able to afford the annual lease payments, as evidenced by the debt service coverage ratios of 149.2% and 152.9% projected for 2016-17 and 2017-18.
- + Good student performance, with ACES having met all AYP in four of the last five years. However, statewide rankings of API growth scores remain relatively low.
- + Accelerated maintains a strong liquidity position, including cash balances of \$10.6 million and \$8.1 million in 2010-11 and 2011-12, respectively, and NWC as a percentage of expenses at 70.9%.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that The Accelerated Schools on behalf of the Accelerated Elementary School is financially sound for the purposes of the Charter School Facilities Program Final Apportionment. This recommendation is contingent upon Accelerated having 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 Authority members direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination