

**CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)  
 APPROVAL OF A CHARTER SCHOOL REVOLVING LOAN FUND PROGRAM LOAN IN AN AMOUNT  
 NOT TO EXCEED \$250,000 FOR EDNOVATE – COLLEGE PREP 6 LOCATED IN LOS ANGELES  
 COUNTY  
 ITEM #11 - RESOLUTION 24-32  
 STAFF SUMMARY**

EXECUTIVE SUMMARY			
<b>Applicant/Borrower:</b>	Ednovate Inc. (Ednovate)	<b>Par Amount Requested:</b>	Not-to-Exceed \$250,000
<b>Loan Term:</b> 3 years (Maximum of 5 years)		<b>Interest Rate:</b> Projected 3.00%	
<b>Applicant Description:</b> Ednovate, a California nonprofit public benefit corporation described under section 501(c)(3) of the Internal Revenue Code.			
<b>Type of Financing:</b> Loan			
<b>Loan User:</b>	<b>Ednovate – College Prep 6</b>	<b>County Served:</b>	Los Angeles
<b>District in Which Project is Located:</b>	Los Angeles Unified School District	<b>Charter Authorizer:</b>	Los Angeles Unified School District
<b>School Site:</b> 4545 Dozier St., Los Angeles, CA 90022-1118			
<b>CSFA Analysts:</b> Steven Theuring and Colin Smith			
<b>Date of CSFA Board Meeting:</b> July 25, 2024		<b>Resolution Number:</b> 24-32	
<b>Staff Recommendation:</b> Staff recommends the Board adopt Resolution No. 24-32, approving Ednovate Inc, in the amount of \$250,000. Once approved, staff will notify the organization of the conditional loan approval, confirm the school meets all funding criteria before releasing funds, distribute and execute the loan agreement, and carry out all other necessary steps to disburse funds to this charter school.			

**BACKGROUND AND HISTORY**

Ednovate Inc., (Ednovate) is the parent organization for all Ednovate schools located within Los Angeles Unified School District (LAUSD) and Orange County. Ednovate - College Prep 6 (ECP6) will be an independent, site-based charter school using an educational model to serve high needs students in grades 9-12. ECP6 will be the seventh charter school operated by Ednovate, Inc., a California nonprofit public benefit corporation founded in partnership with the University of Southern California Rossier School of Education (USC Rossier). Ednovate originally was established to facilitate the development of USC Hybrid High School, which was authorized by the Los Angeles Unified School District (LAUSD) and opened in 2012. Today, Ednovate operates six public charter schools (collectively, Ednovate Schools):

1. Ednovate - USC Hybrid High: opened in 2012, currently serves 527 students in grades 9-12 in downtown Los Angeles
2. Ednovate - East College Prep: opened in 2015, currently serves 332 students in grades 9-12 in downtown Los Angeles
3. Ednovate - Legacy College Prep: opened in 2016, currently serves 421 students in grades 9-12 in Santa Ana

4. Ednovate - Brio College Prep: opened in 2017, currently serves 496 students in grades 9-12 in downtown Los Angeles
5. Ednovate – Esperanza College Prep: opened in 2017, currently serves 505 students in grades 9-12 in East Los Angeles
6. Ednovate – South LA College Prep: opened in 2020, currently serves 372 students in grades 9-12 on South Los Angeles

Combined, across the network, 99% of enrolled students are non-white, 85% qualify for FRPM, 10% are current English Learners (EL) (with another 51% Reclassified Fluent-English Proficient (RFEP)), 11% are Special Education and 1% are Homeless/Foster Youth

Ednovate was founded in partnership with USC Rossier; the Dean of USC Rossier, Dr. Karen Gallagher, was the Ednovate Founding Board Chair and remains in that position today, providing an important link with the partners at the University. USC Hybrid High was approved by the University's Provost Council and given the right to brand as "USC," along with myriad in-kind supports and collaborations that continue to benefit our schools. For example, seniors now have access to all University of Southern California Libraries, to facilitate work on their senior theses. Also, two faculty researchers at USC Rossier have been conducting a longitudinal study of alumni – at no cost to Ednovate -- to determine whether the high school model does, in fact, better prepare educationally disadvantaged students to persist in college and what qualities of the model best achieve this goal. Like the Ednovate schools before it, ECP6 will benefit greatly from its affiliation with this world-class research institution.

All six of the Ednovate schools have received loans under the Revolving Loan Fund Program (RLF). The first loan was issued in 2012-13 through the California Department of Education, with the remaining five loans funded by the Authority. Below is a table showing the previous loans under RLF.

School	Open Date	Charter #	County	Funding Round	Loan Amount	Loan Status
Ednovate – South LA College Prep	7/1/2020	2087	Los Angeles	2020-21	\$250,000	Active
Ednovate Brio College Prep	8/7/2017	1843	Los Angeles	2016-17	\$250,000	Paid Off
Ednovate East College Prep	8/10/2015	1702	Los Angeles	2014-15	\$250,000	Paid Off
Ednovate Esperanza College Prep	8/7/2017	1842	Los Angeles	2016-17	\$250,000	Paid Off
Ednovate Legacy College Prep	8/8/2016	1798	Los Angeles	2015-16	\$250,000	Paid Off
USC Hybrid High	9/4/2012	1401	Los Angeles	2012-13	\$250,000	Paid Off

## SCHOOL DESCRIPTION

According to information provided by the applicant, ECP6 will expand the successful Ednovate Schools model to serve students in East LA who are educationally underserved. The school offers a unique educational experience focused on digital arts and media, using cutting-edge technology to prepare students for leadership roles in the rapidly evolving fields of arts and media. The hands-on, project-based curriculum empowers students to develop technical skills, artistic vision, and the entrepreneurial mindset needed to become captains of industry.

Aligned with Ednovate's overarching mission of positive multigenerational change, the school not only prioritizes academic excellence but also cultivates a culture of empathy, resilience, and social responsibility. The school attempts to equip the students to become well-rounded individuals who are prepared for college and beyond, ready to make meaningful contributions to their communities and the world. Through innovative learning experiences and a supportive environment, Ednovate sets the stage for students to turn their creative passions into fulfilling, impactful careers.

ECP6 students will benefit from a rigorous, highly personalized curriculum that helps them develop a sense of purpose and fosters belonging in a supportive school community. Each Ednovate school is supported and held accountable by the Ednovate staff, with consistent practices across the network including: a focus on talent and a commitment to teamwork with intensive and personalized professional development, coaching and structured collaboration; caring and accountable school culture that is consistent and transparent; operational excellence in which all staff are held to high standards for performance; and our six Annual College-Readiness Indicators (ACRIs), a whole student measure for college success (academics, ACT interim benchmark targets, service/work hours, performance tasks, discipline and attendance).

Demand for Ednovate Schools is high: the existing schools received more than 2,500 applications, for approximately 600 spots. USC Hybrid High currently enrolls students from more than 90 feeder schools, while the newest schools, Brio and Esperanza, both enroll students from 20+ middle schools. Ednovate intentionally locates their schools in communities where the existing public school options are struggling to achieve success, and offers a crucial alternative for some of LAUSD’s and Orange County’s most underserved families and communities. Further evidence of the capacity to operate strong schools and replicate the educational model with fidelity is evidenced by annual attendance rates across the organization are quite strong, averaging 95-96% over each of the last three years. Student retention rates are generally strong, ranging from 83-86% each of the last three years, though facilities, and moves, have impacted enrollment.

Owed to the sustained population in the Los Angeles, their working relationship with USC and LAUSD, ongoing grade matriculation, and the above-mentioned ongoing community outreach, staff is comfortable with the school meeting the conservative current enrollment projections.

**ECP6 Opening and Enrollment**

Ednovate submitted the school charter petition for consideration, and was approved by LAUSD in Spring 2019, with a projected opening of Summer 2020. Staff reached out to Ednovate to clarify why the school delayed the opening to Summer 2024. Ednovate stated that the delay was tied to the desire to focus organizational support on the existing schools during the pandemic. Ednovate opened one school in 2020 instead of the originally planned two, and now that the populace are on the other side of the pandemic, the organization decided to move forward again with the opening of this campus.

The school plans to enroll an initial class of 56 ninth graders in year one while adding 56 students each subsequent year. The school will reach an initial capacity in 2027-28 although this is currently restricted by facility availability. As Ednovate tries to identify a permanent site, they anticipate growing the school to 500 students, similar to other Ednovate schools. At full capacity, ECP6 will serve approximately 500 students across grades 9-12.

<b>Projected Enrollment – 2025-2029</b>					
	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>
<b>Grade 9</b>	56	56	56	56	56
<b>Grade 10</b>		56	56	56	56
<b>Grade 11</b>			56	56	56
<b>Grade 12</b>				56	56
<b>Total Students</b>	<b>56</b>	<b>112</b>	<b>168</b>	<b>224</b>	<b>224</b>

## STAFF RECOMMENDATION

Staff recommends the Board adopt Resolution No. 24-32, approving Ednovate Inc. in the amount of \$250,000. The staff's recommendation is based on the methodology outlined in Exhibit B of this staff summary. Once approved, staff will notify the organization of the conditional loan approval, confirm the school meets all funding criteria before releasing funds, distribute and execute the loan agreement, and carry out all other necessary steps to disburse funds to this charter school.

1. **Applicant / Borrower:** Ednovate Inc.
2. **Amount of Loan:** Not-to-exceed \$250,000
3. **Loan Term:** 3 years (Maximum of 5 years)
4. **Repayment/Security:** Loan Payments
5. **Interest Rate:** Projected 3%
6. **Not an Unconditional Commitment:** The CSFA resolution shall not be construed as unconditional commitment to finance the loan, but rather CSFA's approval pursuant to the resolution conditioned upon entry by CSFA and the Borrower into a loan agreement, in form and substance satisfactory to CSFA and its counsel.
7. **Limited Time:** The Board's approval expires at the end of the 2024-25 Fiscal Year. Thus, CSFA must enter into the loan agreement no later than June 30, 2025. Once the approval has expired, the item must return to the Board for new approval.

## EXHIBIT A Program Information

### Loan Information

The California School Finance Authority (Authority) opened the application period for the 2023-24 Funding Round of the Charter School Revolving Loan Fund Program (Program) in August 2023. The Program has approximately \$25 million available to award for this funding round. The Authority has received five (5) applications, thus far, with a funding request totaling \$1.15 million.

Authority staff has assessed the application from the ECP6 in accordance with the framework established by statute and regulations. ECP6 is a Priority One School that is opening in August 2024.

### LOAN OVERVIEW

In an effort to reduce losses to the Program, Staff will continue to reduce loan defaults by (1) increasing the frequency of attendance monitoring in the year of loan award, and (2) limiting loan disbursements to borrowers with attendance certified at levels consistent with previously submitted projections. For any loan amount approved by the board for lower risk applicants, the first of two potential loan disbursements would occur after loan documents are executed, up to a maximum amount of 40% of loan amount. A subsequent disbursement of the remaining 60% will occur once CDE certifies the applicant's attendance, typically in mid to late December. Borrowers reporting attendance at levels which are not adequate to repay the loan will have future disbursements downsized or eliminated.

For your review and consideration, Staff provides summary findings for each recommended school in the attached Exhibit B – RLF Board Matrix. In order to receive funding through the Program, schools must meet the following criteria, once approved by the Authority board:

- Continue to meet all eligibility criteria;
- Have an approved charter in place;
- Have a Charter Number from CDE;
- Have been assigned a County-District-School Code from CDE; and
- Provide an executed loan agreement and related governing board resolution to the Authority.

### APPLICATION REVIEW

#### Due Diligence Undertaken to Date:

1. **Application Eligibility & Package Review:** Confirmed the submittal complied with application terms such as:
  - Met application deadline;

- Eligibility requirements set forth in regulations (Section 10170.18);
- Submitted required documentation with signatures, where applicable;
- Requested a loan amount equal to or less than \$250,000; and
- Requested a loan repayment period of five years or less.

1. **Operational Analysis:** Determined whether minimum qualifications were met such as:

- Articles of Incorporation are in place;
- Approved charter is in place or is in process;
- Projected enrollment and ADA are supported by student enrollment and/or waiting lists;
- Student population was deemed representative of the demographic in the school's proposed location; and
- A facility has been secured or is in the process of being secured.

2. **Financial Analysis:** Conducted fiscal evaluation based on a variety of indicators and critically analyzed financial data and ratios against benchmarks and industry practice using an internally created financial model to identify fiscal strengths and weaknesses such as:

- Availability of other sources of funding;
- Reasonableness of budget assumptions (Staff applied uniform LCFF funding rates to all applicants);
- Alignment of revenue and expenditure projections with comparable data available from the California Department of Education (CDE);
- Consideration of sale of apportionments to third parties ("factoring"); and
- Adequacy of debt service coverage (DSC) metrics relative to threshold levels, with and without net assets.

Staff's financial analysis utilizes three DSC metrics: (1) DSC from total state aid subject to CSFA intercept; (2) DSC from net revenues; and (3) DSC from net revenues plus beginning net assets. Threshold levels are set for each of these three metrics. If the applicant attains these threshold levels during the years of loan repayment, then a maximum 70 points are recorded. The applicant may receive up to an additional 30 points, for a maximum score of 100 points, if the DSC threshold levels are attained under a scenario wherein projected attendance levels are reduced by 25% (the stress test). Applicants that meet or exceed the 50-point threshold qualify as passing in the context of the Program's loan underwriting standards. Staff also reduced loan amounts for applicants that do not otherwise meet the threshold underwriting DSC standards, with a minimum \$100,000 loan.

The financial model also determines the risk profile of an applicant with a passing score. Applicants with scores ranging from 50.0 to 75.0 are viewed as "higher risk", while applicants with scores ranging from 74.9 to 89.9 are deemed "medium risk", and applicants with scores ranging from 90.0 to 100.0 are considered "lower risk". Schools assessed as medium risk and lower risk have attained DSC threshold levels in some or all years under the stress test scenario. Additionally, any application, which includes a loan guarantee from an affiliated organization deemed credible by Staff, has its risk profile improved by one level, to "higher risk" from "medium risk".

3. **Amount and Term:** Furthermore, Staff used Section 10170.21(b)(1) of the Program regulations to identify the recommended loan amount and repayment period of each loan. The regulations state the Authority shall consider the term of the charter as well as the loan amount in determining the repayment period.

To further mitigate default risk, Staff based the recommended loan amount and repayment period on the school's charter term. Staff recommended each applicant have a repayment period that does not exceed the school's charter term. Additionally, staff recommended each applicant be awarded a loan that can be repaid within the loan term based on the results of the financial analysis described above.



## EXHIBIT B Program Information

### RLF Board Matrix

No.	School (Obligor)	Affiliated Organization (Guarantor)	Chartering Authority	County	Priority (1 or 2)	Approved Loan Amount	First Disbursement Amount	Loan Term (Years)	Total Points (Out of 100)	Risk Level	Risk Level Improvement
1	California Republic Leadership Academy Yorba Linda	CRLA Southern California	Orange County Board of Education	Orange	1	\$250,000	\$250,000	Four	71.3	High	Medium
2	Explore Academy	ExploreK12	Orange County Board of Education	Orange	1	\$250,000	\$100,000	Three	61.7	High	High
3	Ednovate - College Prep 6	Ednovate, Inc.	Los Angeles Unified School District	Los Angeles	1	\$250,000	\$250,000	Three	61.7	High	Medium
		Number of Schools Approved	3	<b>Total</b>		<b>\$750,000</b>			Any application, which includes a loan guarantee from an affiliated organization deemed credible by staff, has its risk profile improved by one level, such as from "higher risk" to "medium risk".		
* All staff recommendations are contingent upon complete verification of all legal documents, including but not limited to: loan agreement, lease agreement(s), an affirmative Good Standing Letter, etc.										RISK PROFILE	
										Pass	Minimum score of 50.0 out of 100
										Higher Risk	Score ranges from 50.0-75.0
										Medium Risk	Score ranges from 75.1-90.0
										Lower Risk	Score ranges from 90.1-100

