

### **The Murray Avenue Academy**

Our Neighborhood Development Corporation (“ONC”) aims to dramatically improve the quality of public education in Los Angeles through the tool of community-based charter secondary schools, with an emphasis on technology. ONC’s first charter school, the Murray Avenue Academy (“MAA”), will be based in Los Angeles at 100 East Murray Avenue.

The school will be a public charter school, which means that it is free of charge to all, granted a charter by the school district, but operates independent from the school district. The state funds flow directly to the school.

The educational model is designed to help high school students who enter the school with skills significantly below grade level to improve dramatically and reach college-ready levels. MAA’s primary goal is to turn the focus of under-performing inner-city Los Angeles secondary school students towards graduation and a college education. MAA will use technology as a tool to engage student learning and employ proven educational models for lower income students.

### **The Murray Avenue Academy Site**

The site is a 65,000 narrow block-long strip, which sits above Bluelake Blvd., just east of South Bird Street and is accessed off of East Murray Avenue. Currently there is a 7,000 square foot, two-story office building on the site and a 1940’s warehouse building. MAA and ONC plan to demolish the warehouse and 2,000 square feet of the administration building. To meet a tight time schedule, MAA and ONC will place eight two-story, prefabricated classroom units on the site, creating 16 classrooms, plus an additional two-story unit, which will include restrooms and a computer lab/library. The site will also include 28 on-site parking spaces, primarily for teachers and administrators, an outdoor courtyard for eating lunch, and an area for basketball.

The site is in a neighborhood that is on the border of several communities, including South Nelson Park and Evergreen neighborhood, and that has a large concentration of Salvadoran families. The neighborhood is also the home of the Laotian community in Los Angeles. The site is in a low-income census tract and one of the most overcrowded neighborhoods for high school students in the area. The median annual income for the census tract is \$29,688. In the census tract, 49% of the population is Latino and 30% is Asian. Nine percent is African American, 12% is White. This is a multi-family, dense neighborhood; 93% of the households are renters.

The closest high school is one of the most overcrowded high schools in Los Angeles with over 3,500 students on multi-track calendars. Another 1,500 high school students are bussed out of the neighborhood into other communities because there is no room at the local school where the drop out rate approaches 75%.

### **MAA Program**

MAA will be designed to address the needs of the students of this community. Over 90% of the students will qualify for Free and Reduced Lunch Program (indicating family income below \$30,000 per year). The first year, September 2004 - June 2005, will include 210 9th and 10th graders. An additional class will be added over each of the next two years; at capacity, enrollment will be 420. Academic course class size will be limited to 26 students.

The mission of MAA is to provide students with rigorous and relevant academic and workplace skills in our increasingly technological society; its goals are:

- To bring all students up to grade level in reading, writing, and math and increase the number of educationally disadvantaged students in math and engineering who succeed in high school and post secondary education;
- To implement challenging standards for its students, parents/guardians and staff;
- To foster the development of individual responsibility and character as the students prepare to contribute to the public good throughout their lives;
- To build strong partnerships, illustrated by a high level of commitment and involvements with families and a commitment to community service; and
- To provide a replicable model of educational success in an urban, inner city setting.

The school’s educational principles include personalization, project-based learning, real world immersion, and rigorous intellectual mission. Teachers, administrators and support staff will share the belief that inner city students can learn and succeed. Staff will be provided with continual professional development to ensure that the educational program reflects current research on successful teaching and learning.

MAA recognizes that the majority of the entering 9th and 10th grade students will not have the skills to perform in high school, and that students from this predominately lower income neighborhood face difficult social issues. The school approach will be to assist students in navigating family and social obstacles that hinder academic achievement via Advisors who will be assigned to students to serve as safe, confidential, caring adults.

MAA will have a seven member Board, seeded by two directors of ONC and other members of the community. The Principal of MAA, will report to the Board of Directors. The principal will be responsible for hiring/firing and evaluating the teachers. MAA and ONC will contract with a nonprofit technical assistance organization to provide the school with all back-office operations, such as budgeting, forecasting, accounting, bookkeeping, revenue retrieval, compliance, payroll, hiring processes, and other administrative functions for a financially efficient school.

### **Los Angeles Unified School District (“LAUSD”) Statistics (2001-02)**

- Over 720,000 students
- \$9.8 Billion budget
- 797 schools and centers
- 158,000 high school students
- Average high school size approximately 3,000
- Diverse student demographics: 71% Hispanic, 12% African American, 10% White, 7% Other
- Less than 25% of LAUSD passed the California High School Exit Exam in Math and less than 50% passed in English-Language Arts (Passing this test will be mandatory for graduation in the near future.); and
- By operating the “multi-track” system to accommodate for limited space and additional cost savings, LAUSD provides its students with 17 fewer days of education.

## **LOW INCOME INVESTMENT FUND UNDERWRITING CHARTER SCHOOLS OPERATING BUDGETS**

Below is a discussion of typical revenue and expenses categories, as well as expected levels and ranges, for the majority of California charter schools that LIIF will consider for financing. For a more detailed discussion of specific categories, please see [Attachment A](#).

### **Revenue**

- The majority of charter school revenue is calculated based on average daily attendance (“ADA”) – not on enrollment.
  - o For example, if a school has enrolled 100 students, but only 90 on average are in attendance, the school will receive funding for 90 students.
  - o ADA data is collected by the State in December and April. See [Attachment B](#) for additional data on the schedule by which charter schools receive the majority of their State aid funding.
- Every charter school in California will receive state funding:
  - o General block grant (i.e., “Revenue Limit”) funding of between \$4,400 and \$5,500 per ADA
    - The funding ranges by grade of child education (e.g., K-3, 4-6, 7-8, or 9-12).
    - Charter schools across the state will receive the same Revenue Limit funding for each grade educated.
    - A portion of Revenue Limit is paid by local property taxes; the State makes up the difference.
  - o Categorical block grant funding of between \$130 and \$177, depending on grade level
  - o Lottery funding of \$120 per ADA (one-year lag)
  - o Economic Impact/English Learners funding of \$92 per ADA, based on eligibility
- California also offers competitive start-up grants of up to \$450M per school. These are Federal funds that flow through the states.
- To ease cash flow, many charter schools apply for a low- or no-cost \$250,000 loan from the State. Repayment terms are flexible; however, repayment of the loan is withheld from ADA payments.
- Charter schools can independently apply for numerous categorical programs (e.g., tutoring support)
- Federal funds (e.g., through the Title I program) provide additional revenue for free/reduced lunch students (minus an administrative fee to home district)

### **Expenses**

- Charter school expenses involve the categories of personnel, program, and facility maintenance expenses normally associated with community facilities.
- Personnel expenses are the single-largest category of expenses, often representing 50% to 70% of expenses.
  - o Charter schools have some flexibility over public schools, because the same union and wage scales that affect public schools do not usually cover them.
  - o However, personnel budgets must be sufficient to attract talented teachers and administrators and to meet target teacher-pupil ratios.
  - o Salary costs will range depending on prevailing wages in a particular community.

- Charter schools often contract with non-profit or for-profit companies for the management of the financial and operational needs of the school. These fees can range from 5-20% of public revenue earned.
- Curriculum materials, books, computers, equipment (e.g., desks and chairs) and supplies are other important expenses that must be included in the budget. Such costs typically range from 5-10% of a school's budget.
- Facility costs will vary based on factors such as the nature of ownership or lease terms, age and size of the facility, etc.
  - o An adequate school facility requires 75-100 square feet per student; of this amount, about 50% should be allocated for classroom space.
  - o Occupancy costs should not exceed 20% of gross revenues; a 2001 study of charter schools nationwide indicated an average of 12%.
- State law requires districts to charge 1% administrative fee for services provided to charter schools; if the district provides space for the school, up to 3% can be charged.
- Many districts will also insist on the schools setting aside operating reserves. LIIF will typically also require a replacement reserve, in the range of \$0.50 - \$1.50 per square foot.

### **Debt Service Coverage**

LIIF will underwrite to a 1.10x debt service coverage on all debt. The calculation LIIF proposes to use in determining DSC is:

$$= [\text{Net Income (after replacement reserves and operating reserves as required by the School District) + Interest Expenses + Depreciation}] / [\text{Interest Expenses + Principal Payments}]$$