



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Leslye Corsiglia

**SUBJECT:** DOWNTOWN COLLEGE  
PREPARATORY LOAN

**DATE:** May 10, 2013

Approved

Date

5/10/13

## BACKGROUND

During the discussion of the Mayor's March Budget Message at the March 26, 2013 City Council meeting, Councilmember Rocha requested background information about the \$600,000 loan to Downtown College Preparatory (DCP), any available information about DCP's current fiscal condition, and the public benefit the City would receive in exchange for loan forgiveness. Further, the Mayor's March Budget Message, as approved by the City Council, directed the City Manager to bring forward for City Council consideration recommendations to forgive \$200,000 of the original loan for each year the DCP Alum Rock campus stays open.

Across the Bridge Inc., dba Downtown College Preparatory, was founded in 2000 and has opened two schools serving high-need communities. In November 2000, per direction in the 2000-2001 Mayor's March Budget Message as approved by the City Council, an interest-free loan in the amount of \$150,000 annually over a four year period (2000-2001 through 2003-2004), for a total commitment of \$600,000, to the DCP was approved and budgeted in the Anti-Tobacco Master Settlement Agreement Revenue Fund. The original agreement was an unsecured Line of Credit Agreement. A repayment schedule was established at the time of the final allocation, with payments beginning in December 2004 and ending in June 2009.

The loan was used to convert an athletic health club into a school, enabling DCP to move 400 students out of three church sites and to consolidate its operations to one location that was more appropriate for DCP students. This loan arrangement was made prior to Prop 39, which now requires school districts to provide equitable facilities for charter schools. The total cost of the renovation was \$1 million.

In April 2007, the loan repayment was retroactively extended five years with the first payment due June 2011. In April 2011, DCP requested an amendment to the contract due to decreasing revenues in addition to their desire to expand their program. Per City Council's approval of the 2011-2012 Mayor's June Budget Message, the repayment of the DCP loan was extended for an additional two years, with the first semi-annual payment of \$30,000 due June 2013. As part of that direction, the City Manager was further directed to review opportunities through incentives to encourage development of an east side campus.

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In 2011, DCP successfully opened DCP Alum Rock serving grades 6-7 in East San José. In August 2012, an 8<sup>th</sup> grade class was added. This school was the highest performing new middle school in the State of California in 2012. The school currently serves grades 6 through 8, with a goal to expand a grade level each year until they reach their 6-12 capacity. The cost to expand to the 9<sup>th</sup> grade level is estimated at \$1.2 million.

### **ANALYSIS**

Staff reviewed DCP's financial statements in 2011 and found that DCP experienced a 19% decrease in revenue generation. This reduction was primarily attributed to a significant decrease in public education funding, which accounted for 73% of DCP's revenue. DCP now reports that funding has stabilized. However, to achieve the planned expansion of the DCP Alum Rock to 9-12 grade levels, DCP needs an additional \$1.2 million per year. The majority of the expansion costs is covered with public funding, except for \$350,000 annually. Converting the loan to a forgivable performance based loan will support DCP's efforts to expand the Alum Rock campus over the next four years. The public benefit received would be the addition of each grade level up to the 12<sup>th</sup> grade.

DCP has a demonstrated track record of success in graduating underserved students and preparing them for college. DCP has graduated over 500 students, with 74% pursuing college degrees. Although the San José region boasts one of the highest college completion rates in the United States, San José's Latino population has a very low rate of college matriculation and completion. DCP's student body consists of 96% low-income, 92% Latino, and 85% first-generation college graduates.

The Administration intends to bring forward for City Council consideration by June 11, 2013 a recommendation to convert the current loan to a forgivable performance-based loan. This restructured loan will include a recommendation to forgive \$200,000 of the current loan per year to close the funding gap needed to support this east side expansion.

### **COORDINATION**

This MBA has been coordinated with the City Manager's Budget Office.

/s/  
LESLYE CORSIGLIA  
Director of Housing

For information, please call Jacky Morales-Ferrand, Assistant Director of Housing, at 408-535-3855.