

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2010**

Applicant/Obligor:	Language Academy of Sacramento
Project School:	Language Academy of Sacramento
CDS (County – District – School) Code:	34-67439-0106898
School Address/Proposed Site:	TBD - 4831 Perry Avenue, Sacramento CA 95820
Type of Project:	New Construction/Rehabilitation
County:	Sacramento
District in which Project is Located:	Sacramento City Unified School District
Charter Authorizer:	Sacramento City Unified School District
	NC: \$6,662,240
	<u>Rehab: \$1,878,376</u>
Total OPSC Project Cost:	Total: \$8,540,616
	NC: \$3,331,120
	<u>Rehab: \$939,188</u>
State Apportionment (50% Project Cost):	Total: \$4,270,308
Lump Sum Contribution:	\$0.00
	NC: \$3,331,120
	<u>Rehab: \$939,188</u>
Total CSFP Financed Amount:	Total: \$4,270,308
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
	NC: \$169,951
	<u>Rehab: \$47,917</u>
Estimated Annual CSFP Payment:	Total: \$217,868
First Year of Occupancy of New Project:	2011-2012

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Language Academy of Sacramento (LAS) is financially sound 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.

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

Criteria	Comments
Eligibility Criteria	LAS has met all eligibility criteria for the Program: 1) a charter is in place, 2) LAS has at least two years of instructional operations, and 3) LAS is in compliance with the terms of its charter and in good standing with its chartering authority, Sacramento City Unified School District.
Demographic Information	LAS commenced operations in 2004-05 serving K through 6 th grade with 237 students. LAS currently serves 336 K through 8 th grade students. By occupancy of the project in 2011-12, total student enrollment is projected at 413 students (an increase due to construction of new facility).
Debt Service Coverage	LAS is projected to have debt service coverage of 95.7% during 2012-13 (<i>see discussion in debt service coverage section</i>), the first year after project occupancy, and 139.9% during 2013-14.
Other Financial Factors	CSFP payments represent 7.6% of revenues, on average, for 2012-13 and 2013-14.
Student Performance	LAS recorded API growth scores of 685 for 2007-08 and 714 for 2008-09. LAS met 13 of 17 AYP criteria for 2008-09. LAS has failed to meet AYP for the last four academic years.

Program Eligibility: On November 2, 2009, staff received verification from the Superintendent of Sacramento City Unified School District confirming that LAS is currently 1) in compliance with the terms of its charter and 2) in good standing with its chartering authority.

LAS' charter was initially granted in 2004, renewed in 2009, and is currently valid through November 2014.

Legal Status Questionnaire: Staff reviewed LAS responses to the questions contained in the Legal Status portion of the application. LAS answered "None" to all LSQ questions.

Project Description: LAS has requested funding for new construction of a school facility, located on the south side of the campus which is shared with Fruit Ridge Elementary. The purpose for the new construction project is to build a permanent facility that would accommodate its K-8th grade program. The project involves installation of eight two-level classroom portables, ten second-level classroom portables, and elevators.

The other funding request is for the rehabilitation of existing classrooms to complete the multi-level structure on the current LAS site. It involves the remodeling and modernizing of existing classrooms and adding a second floor. This would include renovation of the current bathrooms as well. Most students who attend LAS reside in the Fruit Ridge attendance area, so it would not be in the best interest of the students and community to relocate the school to another area of Sacramento. Also, given the various schools and organizations that collaborate with LAS in order to complete community service hours, the space

proposed within this project would ensure proximity with these contributors. Combined, the renovation and new construction facilities will house 413 K – 8th grade students.

LAS anticipates funding its 50% local matching share of the OPSC calculated project cost of \$8.5 million through a 30-year lease agreement with the State. No upfront commitment is expected. LAS anticipates project occupancy by 2011-12.

Organizational Information: LAS is a 501(c)(3), non-profit public benefit corporation that is governed by a 9-member board consisting of community leaders, teachers, and parents.

LAS currently serves 336 students in grades K-8 and anticipates growing enrollment to 413 students in 2011-12. Based on the first interim report, LAS' average daily attendance (ADA) rate is 97%. LAS' financial projections assume an ADA rate of 96%. LAS maintains a wait list of 160 students. Student retention rates over the past four years were on average 93%.

According to information provided by the applicant, the LAS academic program is based on a Two-Way Spanish Immersion. Students in Kindergarten and first grade receive 90% of their daily instruction in Spanish and 10% in English. Each year, students receive more instruction in English and less in Spanish. By 5th grade, students receive 50% of their daily instruction in Spanish and 50% in English. This 50/50 model continues through 8th grade.

Primary age students are taught the California Standards in Spanish with an emphasis on concrete objects, first hand experiences, visual aids and hands-on cooperative group learning. English Language Development and English Language Arts are taught throughout all grades.

Parents are also part of the team. Several hands-on literacy training workshops will continue to be provided during the year so that parents also support the literacy at home. An eight week family literacy workshop is planned and will target primary grades. LAS administration and staff realize that the School is working towards meeting the AYP as per NCLB; structures are in place to continue the upward trend of academic achievement. Three six week sessions of after school interventions during the year are planned that will focus on vocabulary and comprehension. Summer school, one-on-one tutoring after school, during the day, and Saturday school will continue to be a way to provide additional services to students in the Far Below and Below Basic Performance categories. Equally important, has been the ongoing Lesson Study professional development practice for teachers which this year has focused on vocabulary development to ensure that best practices are implemented school wide.

Educational Management Organization: LAS is not managed by an EMO.

School Management: Martha Quadros has served as the Director/Principal of LAS since its inception in 2004. Prior to LAS, Ms. Quadros served two terms as the Vice Principal of Coyote Ridge Elementary School from 2002-04, and Fruit Ridge Elementary School from 1998-2002. Ms. Quadros has over ten years of teaching experience. Ms. Quadros has a B.A. in Child Development from California State University Sacramento (CSUS), a credential in Multiple Subject Teaching (Bilingual, Spanish), and a Professional Administrative Credential from CSUS.

LAS currently has two Co-presidents on the Governing Board, Ms. Susan Baker and Ms. Cynthia Suarez. Ms. Baker has a Ph.D. in Language, Learning and Policy from Stanford University. Ms. Baker has had extensive experience as an associate professor at CSUS in the Bilingual, Multicultural Education Department.

Board Experience: A nine-member Governing Board oversees LAS operations, and these members serve three-year terms. Current board composition includes: three members who are teachers at LAS, three members who are parents at the school, and three members from the community. All members reside in Sacramento, with the exception of one member who lives in Elk Grove.

Management Experience for Schools Open Less than Two Years: Not applicable; LAS has been in operations since 2004-05.

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 favorable, 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 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 1 funds.

LAS has shown steady progress in its Academic Performance Index (API) results, having increased scores from 668 in 2005-06 to 669 in 2006-07, and to 684 in 2007-08. However, the school has failed to meet all AYP criteria in the last academic year. Staff notes this as a concern given that the school's Title 1 funding could be impacted by a continuation of this trend, and the school's Program Improvement status.

School officials presented staff with the following explanation regarding student performance and the school's Program Improvement status:

"In practice, teachers in the Two-Way Spanish Immersion program have found that in the 90-10 model, English test scores in second and third grade do not reflect students' actual achievement. However, by the fourth and fifth grades, students in dual immersion begin to outscore their counterparts in English only programs. In fact, the real benefit of dual immersion instruction becomes evident in the sixth and seventh grades. That is precisely why the LAS school design incorporates kindergarten through eighth grade.

Research has shown that students need at least 7 years to fully develop both conversational and academic proficiency in the second language. For that reason, the Language Academy is a self-contained K through 8th grade program. The advantage of the link through middle school will permit the development of a clearly articulated program.

LAS Year 3 school-wide achievement results, indicate that its unique educational program is successfully fulfilling the needs of the neighborhood community. LAS outperform the neighborhood elementary schools and that it scores higher or is comparative to the feeder middle schools in the community.

The LAS Governing Board and staff have proactively responded to all the compliance mandates for being a Program Improvement school. During PI Year 1, the school notified parents of PI status of school and school choice; set aside a minimum of 5% for professional development to meet highly qualified staff requirements; provided families the choice to attend another public school in the LEA that is not PI; and established peer review process to review revised school plan.

In addition to meeting the previous year's requirements, LAS began providing supplemental educational services to all eligible students during PI Year 2. During PI Year 3, LAS researched the CDE's Recommended Corrective Actions, and instead of just choosing one action as mandated, LAS implemented changes in five of the six corrective action elements. Above and beyond the required corrective actions, the school used its own funding to establish an on-going intervention program to ensure success of at-risk students. This particular school-wide integrated effort led to the achievement of the highest API growth points in the school's history. Moreover, for the first time, LAS met the AYP school-wide and subgroups criteria for English Language Arts. Ironically though, LAS math results, which have been steadily meeting the federal benchmark for the first three years, dropped last year; hence, still placing LAS in continued PI status.

The school community has revisited its Corrective Actions from Year 3 and has updated its Single Plan for Student Achievement (SPSA) accordingly. Currently as a PI Year 4 school, LAS is collaborating with various stakeholders in planning its Alternative Governance Structure. The school has decided on Option 5 which entails "implementing any other major restructuring of the school's governance arrangement that makes fundamental reforms and leads to improved student achievement" (CDE, Year 4 Alternative Governance Protocol, pg. 63).

Overall, LAS remains in excellent standing with its charter authorizing agency, the Sacramento City Unified School District (SCUSD). SCUSD is cognizant of the uniqueness of the educational program LAS is offering one of its poorest communities. After careful comparative analysis, SCUSD recognizes that LAS students continue to outperform the students from other district schools in the neighborhood in English Language and Math achievements. Lastly, LAS also serves as the only school in the district that prepares middle school students to enter into Advanced Placement Spanish classes as early as their freshman year."

The following table illustrates LAS' student performance trends for the last four academic years.

Language Academy of Sacramento	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	No	No	No
Criteria Met / Required Criteria	14 / 17	14 / 17	12 / 17	13 / 17
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	No	Yes	No	Yes
Met Comparable Improvement Growth Target?	No	No	No	No
Met Both Schoolwide & CI Growth Targets?	No	No	No	No
API Base Statewide Rank (10 = best)	2	2	2	2
API Base Similar Schools Rank (10 = best)	4	3	2	2
School's Actual Growth	-1	12	1	19
Similar Schools Median of Actual Growth	-1	14	10	10
Did School's Growth Exceed Median?	No	No	No	Yes

Financial Analysis: Below we have highlighted selected financial data and credit indicators to evaluate LAS' ability to meet its CSFP obligation. Staff's analysis of financial performance includes expenses for capital outlay and loan repayment; therefore, our results may differ from audited figures presented by school representatives.

Language Academy of Sacramento	Actual FY 2007/08	Actual FY 2008/09	1st Interim FY 2009/10	Projected FY 2010/11	Projected FY 2011/12	Projected FY 2012/13	Projected FY 2013/14	Projected FY 2014/15
ENROLLMENT PROJECTIONS								
Enrollment	301	311	336	375	413	442	470	495
Average Daily Attendance	292	306	324	360	396	424	451	475
Average Daily Attendance (%)	97%	98%	96%	96%	96%	96%	96%	96%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 2,617,757	\$ 2,638,715	\$ 2,401,721	\$ 2,521,954	\$ 2,782,292	\$ 3,040,256	\$ 3,311,462	\$ 3,580,329
Total Expenses Paid Before CSFP Payment	2,442,576	2,577,854	2,555,510	2,523,432	2,710,298	2,837,796	3,012,702	3,263,881
Accounting Adjustments	40,197	26,057	4,785	4,785	16,785	6,000	6,000	12,000
Net Revenues Available for CSFP Payment	\$ 215,378	\$ 86,918	\$ (149,004)	\$ 3,307	\$ 88,779	\$ 208,460	\$ 304,760	\$ 328,448
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 217,868	\$ 217,868	\$ 217,868
Net Revenues After CSFP Payment	\$ 215,378	\$ 86,918	\$ (149,004)	\$ 3,307	\$ 88,779	\$ (9,408)	\$ 86,892	\$ 110,580
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ 215,378	\$ 86,918	\$ (149,004)	\$ 3,307	\$ 88,779	\$ 208,460	\$ 304,760	\$ 328,448
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	95.7%	139.9%	150.8%
Contributions	\$ -	\$ 61,856	\$ 65,000	\$ 55,610	\$ 55,722	\$ 55,837	\$ 55,953	\$ 56,072
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	70.1%	114.2%	125.0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	7.2%	6.6%	6.1%
Contributions / Revenues	N/A	2.3%	2.7%	2.2%	2.0%	1.8%	1.7%	1.6%
Net Revenues After CSFP Payment / Revenues	8.2%	3.3%	-6.2%	0.1%	3.2%	-0.3%	2.6%	3.1%
Revenues / ADA	\$ 8,965	\$ 8,623	\$ 7,413	\$ 7,005	\$ 7,017	\$ 7,165	\$ 7,339	\$ 7,534
Expenses / ADA	\$ 8,365	\$ 8,424	\$ 7,887	\$ 7,010	\$ 6,836	\$ 7,201	\$ 7,160	\$ 7,327
Surplus (Deficit) / ADA	\$ 600	\$ 199	\$ (475)	\$ (4)	\$ 182	\$ (36)	\$ 179	\$ 207
Net Working Capital	\$ 938,964	\$ 1,003,982						
Net Working Capital / Expenses	38.4%	38.9%						

Financial Performance – Staff's review of LAS' financial performance is based on four years of audited financial statements (2005-06 through 2008-09), 1st Interim Report for 2009-10, financial projections from 2010-11 through 2014-15 as provided by LAS' consultant, Patel & Associates. The school expects to occupy the project in 2011-12, by which time their enrollment will have increased to 413 students (grades K-8), up from 336 students this current academic year.

Assets/Liabilities: At June 30, 2009, LAS has no long-term liabilities nor substantial long-term assets. Since its inception, LAS' only liabilities have been payroll related.

Change in Net Assets: LAS recorded an increase in net assets of \$80,864, on revenues of \$1.74 million, expenses of \$1.86 million, and \$119,110 in accounting adjustments for 2005-06. LAS operated at a surplus prior to accounting adjustments in 2006-07. Operations for 2006-07 resulted in an increase net assets of \$426,011 on revenues and expenses of \$2.39 million and \$2.01 million, respectively, with \$42,800 in added back depreciation. Revenues of \$2.62 million and expenses of \$2.44 million in 2007-08 resulted in a surplus of \$215,378 including accounting adjustments. In 2008-09, revenues increased from the prior year but expenses grew by a larger margin. This resulted in net assets increasing by \$86,918 based on \$2.64 million in revenues and \$2.58 million in expenses. The first interim report for 2009-10 indicates that LAS will be operating at a deficit of \$149,004. Contributions have not constituted a significant portion of LAS' revenues at roughly 2.3% in 2008-09 and an estimated 2.7% for 2009-10.

LAS's financial projections are based upon the following assumptions: (1) project occupancy in 2011-12; (2) increases in enrollment as described above; (3) per ADA funding rates for general purpose block grants of \$4,947, \$5,020, and \$5,173, for grades K-3, 4-6, and 7-8, respectively, beginning in 2010-11; (4) revenue growth (cost of living adjustments on State Aid) of 0.7% in 2010-11, 2.5% in 2011-12, and 3.0% in subsequent years; (5) projected ADA rates of 96%; (6) growth in salaries and benefits of are held static in 2010-11 and 2011-12 on per teacher basis but increase at an average of 2% annually, beginning in 2012-13. Expense categories other than salaries and benefits, like books and supplies, services and miscellaneous expenses, while increased for the effects of enrollment growth, are adjusted for inflation over the five year term from 2010-11 through 2014-15. LAS' projected enrollment growth is accompanied by an increase in certificated personnel. LAS intends on maintaining an average student to teacher ratio of 18 to 1; and (7) LAS doesn't project contributions to represent more than, on average, 2.0% of its revenues in projected years.

Projected Debt Service Coverage – In its application, LAS stated that it would fund its upfront local matching amount with the lease option, repaying its 50% local matching share with a long term-lease. Debt service coverage ratios for CSFP are calculated using net revenues available after payment of debt service on any existing and projected indebtedness, with any expenses for capital outlay and depreciation added back as net revenues.

Assuming project costs \$9,518,516, an interest rate of 3.00%, and a 30-year repayment period, LAS' annual CSFP payment will be \$242,814 beginning in 2012-13, the first year after project occupancy. LAS' projected net revenues of \$208,460 for 2012-13 would provide debt service coverage of 85.9%, slightly below the program threshold coverage of 100%. If LAS is awarded a preliminary apportionment, CSFA staff is recommending that LAS set aside and reserve for purposes of CSFP payment \$10,000, or commit to raising an additional \$10,000 through the school's capital campaign. LAS projected net revenues of \$304,760 and \$328,448 for 2013-14 and 2014-15 would provide debt service coverage of 125.5% and 135.3%. The CSFP payments would represent 7.3% of projected revenues for 2012-13, and 6.8% in 2013-14.

Liquidity – As of June 30, 2009, LAS maintained \$514,419 in cash. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from

current assets. LAS' NWC for 2007-08 was \$938,964, or 38.4% of total expenses, and increased to \$1.0 million for 2008-09, or 38.9% of total expenses. LAS currently maintain a strong liquidity position as staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

- + LAS' financial projections indicate that they will be able to meet the combined debt service obligation for the renovation and new construction costs, but needs to augment its first year's debt service payment with designated funds.
- + LAS is providing an important and relatively unique dual-immersion learning environment in an underserved area of Sacramento.
- + LAS has shown steady progress in its Academic Performance Index (API) results, having API growth scores of 667, 681, 685, and 714 in 2005-06 through 2008-09.
- LAS has failed to meet all AYP criteria in each year from 2005-06 to 2008-09, and has been on Program Improvement status for the last four academic years.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Language Academy of Sacramento is financially sound for 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.