

CHARTER SCHOOL FACILITIES PROGRAM
2011 LOTTERY FUNDING ROUND
STAFF SUMMARY REPORT – JUNE 2011

Applicant/Obligor:	Language Academy of Sacramento
Project School:	Language Academy of Sacramento
CDS (County – District – School) Code:	34-67439-0106898
School Address/Proposed Site:	2850 49 th Street, Sacramento, CA 95817
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:	2012-13

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Language Academy of Sacramento (LAS) is financially sound for purposes of the Charter School Facilities Program (CSFP or the Program) Advance Apportionment, but not for purposes of Final Apportionment. This recommendation is contingent upon the establishment of a restricted reserve account of \$10,000 to meet debt service coverage in the first year of debt service payments. 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.

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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 384 K through 8 th grade students. By occupancy of the project in 2012-13, total student enrollment is projected at 446 students (an increase due to construction of new facility).
Debt Service Coverage	LAS is projected to have debt service coverage of 98.5% during 2013-14 (<i>see discussion in debt service coverage section</i>), the first year after project occupancy, and 119.8%, 163.7% during 2014-15 and 2015-16, respectively.
Other Financial Factors	CSFP payments represent 6.3% of revenues, on average, for 2013-14, 2014-15, and 2015-16.
Student Performance	LAS recorded API growth scores of 714 for 2008-09 and 748 for 2009-10. LAS met 13 of 17 AYP criteria for 2009-10. LAS has failed to meet AYP for the last five academic years (<i>see Student Performance section below</i>).

Program Eligibility: On March 7, 2011, 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 June 30, 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 originally requested funding for new construction of a school facility located on the south side of its current campus which is shared with Fruit Ridge Elementary. The location of the project has been moved, with the approval of OPSC, to the Marian Anderson Elementary school site, which is also located within the boundaries of Sacramento City Unified School District.

The Marian Anderson site currently houses 12 classrooms, main office, small multipurpose/cafeteria and small library which LAS plans to use. The north-east corner of the campus houses 8 portables classrooms and two single stall restrooms which LAS also plans to use. Although, the campus will have sufficient housing for LAS students for the 2011-12 year, it does not allow for long-term growth or middle school program accommodations such as a gym. Thus, LAS is planning to use the funding to create new space to be located on the south side of the Marian Anderson campus. The additional space would provide opportunity for the following project plan to be implemented: house

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eight (8) additional classrooms, resource Specialist Room with full capacity classroom, wet-Lab Science Room, computer and interactive media room, K-8 gymnasium with a boys and girls changing room and parent university center.

Moreover, the rehabilitation, which would involve remodeling and modernizing existing classrooms, would allow for student growth delineated within the charter and the in the Prop 1D proposal. Proposed changes to the current site include the following: project would support a K-8 academic program on one site instead of a continued split program, through “abandon and replace” the project would allow for rehabilitation of the four (4) portable classrooms on the Marian Anderson site, remodel and create a permanent middle school/staff bathroom.

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 2012-13.

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 384 students in grades K-8 and anticipates growing enrollment to 446 students in 2012-13. Based on the second interim report, LAS’ average daily attendance (ADA) rate is 94%. LAS’ financial projections assume an ADA rate of 95%. LAS maintains a wait list of 199 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: Eduardo de Leon has served as the Academic Director of LAS since 2010. Prior to this post, Mr. de Leon served as Assistant Principal at LAS from 2008-2010. Mr. de Leon began teaching in 2002 and has experience working with bilingual emerging academic programs. He holds a B.A. in Sociology, Multiple Subject Teaching Credentials, and an M.A. in Education from California State University, Sacramento.

Judith Morales has served as the Business Manager of LAS since 2010. Prior to this post, Ms. Morales served as an Administrative Assistant to the Director of LAS from 2004-2009. She holds a B.A. from California State University, Sacramento.

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.

Name	Type of Member	Occupation	City of Residence	Year Elected	Term July 1-June 30
Daniel León	Parent	Bookbinder	Sacramento	2009	3 year
Florencio Ramirez	Parent	Construction	Sacramento	2008	3 year
Diana Sarabia	Parent	County Employee	Sacramento	2010	3 year
Cynthia Suárez	Teacher	Teacher	Sacramento	2009	3 year
Xana Macías	Teacher	Teacher	Sacramento	2008	3 year
Teadora-Jean Bersola	Teacher	Teacher	Sacramento	2010	3 year
Eddie Salas	Community Member	Educator	Sacramento	2009	3 year
Guadalupe Castañeda	Community Member	Facilitator	Sacramento	2008	3 year
Sue Baker	Community Member	Professor	Sacramento	2010	3 year

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

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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.

Language Academy of Sacramento				FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
ADEQUATE YEARLY PROGRESS (AYP)								
Met All AYP Criteria?				No	No	No	No	No
Criteria Met / Required Criteria				14 / 17	14 / 17	12 / 17	13 / 17	13 / 17
Met API Indicator for AYP?				Yes	Yes	Yes	Yes	Yes
Met Graduation Rate?				N/A	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)								
Met Schoolwide Growth Target?				No	Yes	No	Yes	Yes
Met Comparable Improvement Growth Target?				No	No	No	No	Yes
Met Both Schoolwide & CI Growth Targets?				No	No	No	No	Yes
API Base Statewide Rank (10 = best)				2	2	2	2	2
API Base Similar Schools Rank (10 = best)				4	3	2	2	2
School's Actual Growth				-1	12	1	19	33
Similar Schools Median of Actual Growth				-1	14	10	10	10
Did School's Growth Exceed Median?				No	No	No	Yes	Yes

LAS has shown steady progress in its Academic Performance Index (API) results, having increased scores from 684 in 2007-08 to 714 in 2008-09, and to 748 in 2009-10. However, the school has failed to meet all AYP criteria in the last five academic years. 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 the past two years, LAS has increased its Academic Performance Index (API) by double digits, surpassing the target points. API increase in the last two years total 53 growth points, with the current year API at 748. These results are evidence of the greater concentrated effort of the LAS learning community to improve academic performance of all its students. LAS' school-wide achievement results for the last five years indicate that its unique educational program is making progress towards fulfilling the needs of Oak Park students. Data from the State of California's APR system provide evidence that LAS outperforms neighboring elementary schools and also, students from the Language Academy score higher or at a level comparable to students from the middle schools serving the Oak Park community. The APR data demonstrate that the Language Academy is making progress toward meeting its charter goals. However, the school has failed to meet 13 of the 17 Adequate Yearly Progress (AYP) criteria in the last academic year; hence, placing the school at Program Improvement Year 5 status.

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 these 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. As a PI Year 4 school, LAS collaborated with various stakeholders in planning its Alternative Governance Structure. The school 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). During this year, steps to restructure the school and emphasize the need to increase academic achievement have taken place. One significant component included within the plan for major restructuring is a change to the organizational structure of the school that allows for an administrator that solely focuses on LAS's academic progress. Other actions such as the implementation of a new State-adopted math curriculum, increase in the quality of professional development offered to instructional staff, intensifying the intervention support provided to students, steps to increase parent involvement, as well as others, have all contributed to the school's goal of increasing the AYP.

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.

School officials presented staff with the following explanation regarding student performance and the school's teaching methodology: 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

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LAS Year 3 school-wide achievement results, indicate that its unique educational program is successfully fulfilling the needs of the neighborhood community. LAS outperforms the neighborhood elementary schools and that it scores higher or is comparative to the feeder middle schools in the community. In terms of AYP federal accountability system, LAS met 14 of 17 criteria. Overall, LAS school-wide performance shows that the school is proving that dual language immersion students demonstrate their progress in ELA in the upper grades 6th-8th.

LAS overall performance illustrates the efficacy of a dual language educational program in learning academic English. Comparatively speaking, students at LAS are outperforming their neighborhood peers in the standardized.”

Staff recommends that prior to any recommendation of financial soundness for Final Apportionment, LAS provide evidence of improved academic performance.”

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	Actual FY 2009/10	Budgeted FY 2010/11	Projected FY 2011/12	Projected FY 2012/13	Projected FY 2013/14	Projected FY 2014/15	Projected FY 2015/16
ENROLLMENT PROJECTIONS									
Enrollment	301	311	339	384	419	446	472	498	524
Average Daily Attendance	292	306	324	361	398	424	448	473	498
Average Daily Attendance (%)	97%	98%	96%	94%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS									
Total Revenues Available for CSFP Payment	\$ 2,617,757	\$ 2,638,715	\$ 2,433,946	\$ 2,482,492	\$ 2,774,698	\$ 2,986,103	\$ 3,202,860	\$ 3,441,665	\$ 3,693,824
Total Expenses Paid Before CSFP Payment	2,442,576	2,577,854	2,555,760	2,447,996	2,768,820	2,896,466	2,988,173	3,180,603	3,337,232
Accounting Adjustments	40,197	26,057	7,706	4,785	5,000	5,000	-	-	-
Net Revenues Available for CSFP Payment	\$ 215,378	\$ 86,918	\$ (114,108)	\$ 39,281	\$ 10,878	\$ 94,637	\$ 214,687	\$ 261,062	\$ 356,592
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 217,868	\$ 217,868	\$ 217,868
Net Revenues After CSFP Payment	\$ 215,378	\$ 86,918	\$ (114,108)	\$ 39,281	\$ 10,878	\$ 94,637	\$ (3,181)	\$ 43,194	\$ 138,724
FINANCIAL INDICATORS									
Net Revenues Available for CSFP Payment	\$ 215,378	\$ 86,918	\$ (114,108)	\$ 39,281	\$ 10,878	\$ 94,637	\$ 214,687	\$ 261,062	\$ 356,592
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	98.5%	119.8%	163.7%
Contributions	\$ -	\$ 61,856	\$ 63,052	\$ 55,610	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	87.1%	108.4%	152.2%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	6.8%	6.3%	5.9%
Contributions / Revenues	N/A	2.3%	2.6%	2.2%	0.9%	0.8%	0.8%	0.7%	0.7%
Net Revenues After CSFP Payment / Revenues	8.2%	3.3%	-4.7%	1.6%	0.4%	3.2%	-0.1%	1.3%	3.8%
Revenues / ADA	\$ 8,965	\$ 8,623	\$ 7,512	\$ 6,873	\$ 6,972	\$ 7,043	\$ 7,149	\$ 7,276	\$ 7,417
Expenses / ADA	\$ 8,365	\$ 8,424	\$ 7,888	\$ 6,778	\$ 6,957	\$ 6,831	\$ 7,156	\$ 7,185	\$ 7,139
Surplus (Deficit) / ADA	\$ 600	\$ 199	\$ (376)	\$ 96	\$ 15	\$ 211	\$ (7)	\$ 91	\$ 279
Net Working Capital	\$ 938,964	\$ 1,003,982	\$ 889,874	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	38.4%	38.9%	34.8%	N/A	N/A	N/A	N/A	N/A	N/A

Financial Performance – Staff’s review of LAS’ financial performance is based on five years of audited financial statements (2005-06 through 2009-10), 2nd Interim Report for 2010-11, financial projections from 2011-12 through 2015-16 as provided by LAS. The school expects to occupy the project facility in 2012-13, by which time their enrollment will have increased to 446 students (grades K-8), up from 384 students this current academic year.

Assets/Liabilities: As of June 30, 2010, 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

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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. In 2009-10 LAS recorded a decrease in net assets of \$114,108 based on \$2.43 million in revenues and \$2.56 million in expenses. Contributions did not constitute a significant portion of LAS' revenues at roughly 2.3% in 2008-09 and 2.6% for 2009-10.

LAS's financial projections are based upon the following assumptions: (1) project occupancy in 2012-13; (2) increases in enrollment as described above; (3) per ADA funding rates for general purpose block grants, per the Governor's May Revise budget, of \$5,049, \$5,125, and \$5,271, for grades K-3, 4-6, and 7-8, respectively, beginning in 2011-12; (4) revenue growth (cost of living adjustments on State Aid) of -0.39% in 2010-11, 2.24% in 2011-12, and 2.93% average in the subsequent three years; (5) projected ADA rates of 95%; 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 2011-12 through 2015-16. LAS' projected enrollment growth is accompanied by an increase in certificated personnel. LAS intends on maintaining an average student to teacher ratio of 19 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 of \$8,540,616, an interest rate of 3.00%, and a 30-year repayment period, LAS' annual CSFP payment will be \$217,868 beginning in 2013-14, the first year after project occupancy. LAS' projected net revenues of \$170,687 for 2013-14 would provide debt service coverage of 98.5%, slightly below the program threshold coverage of 100%. For preliminary apportionment in April 2010 CSFA staff recommended that LAS set aside a reserve for purposes of CSFP payment for the amount of \$10,000, or commit to raising an additional \$10,000 through the school's capital campaign. For this advanced apportionment award, CSFA staff recommends that LAS maintain the \$10,000 reserve fund. While LAS has a \$200,000 reserve fund designated for "facilities funds" and \$212,806 of unrestricted monies in their reserve, no specific allocation is noted specifically for CSFP. Staff also recommends that LAS specifically denote the \$10,000 reserve fund for CSFP in their budget and reserve fund documents. LAS projected net revenues of \$261,062 and \$356,592 for 2014-15 and 2015-16 would provide debt service coverage of 119.8% and 163.7%. The CSFP payments would represent 6.8% of projected revenues for 2013-14, 6.3% in 2014-15, and 5.9% in 2015-16.

Liquidity – As of June 30, 2010, LAS maintained \$485,847 in cash. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. LAS' NWC for 2008-09 was \$1.00 million, or 38.9% of total expenses, and

decreased to \$889,874 for 2009-10, or 34.8% of total expenses. LAS currently maintains 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 681, 685, 714, and 748 in 2006-07 through 2009-10.
- LAS has failed to meet all AYP criteria in each year from 2005-06 to 2009-10, 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) Advance Apportionment, but not for purposes of Final Apportionment. This recommendation is contingent upon the establishment of a restricted reserve account of \$10,000 to meet debt service coverage in the first year of debt service payments. 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.