Utah Charter Academies

Presentation to the
Utah Charter School Finance Authority

March 2015

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Executive Summary

- The primary goals of the Series 2015 Bond issue are to reduce UCA's interest rate and refinance risk by taking advantage of today's current low interest rate market.
- The proposed financing is a unique situation resulting from the distinctive combination of New Markets Tax Credits (NMTCs) and Qualified School Construction Bonds (QSCBs). Very little, if any precedent will be set in qualifying UCA under the Credit Enhancement Program.
- Just over $8 million in QSCBs were issued in 2010 to fund a self-leveraged loan into the NMTC structure.
- The 2010 QSCBs cannot be refinanced into the Credit Enhancement Program at this time due to the structuring of a $1.3 million success fee to be paid to UCA upon the exit from the NMTC financing in 2017 by the QSCB holder. This success fee is expected to be used to "buy down" the refinancing of the QSCBs in 2017 with another financing secured by the Charter School Credit Enhancement Program.
- The 2010 QSCBs were secured by the revenues of West Valley 2 (WV2) as well as those of the initial Draper Campus (Draper 1). The WV2 real estate secures the NMTC financing.
- The QSCB investor (Goldman Sachs) has agreed to:
    - Grant a parity revenue pledge of the WV2 and Draper 1 revenues for the 2015 bonds.
    - The refinancing of a second loan on the WV2 facility which was non-callable
    - The issuance of the 2015 bonds
    - A parity leasehold mortgage in the WV2 real estate with the QSCBs until such time as the NMTC structure goes away
- In return, the QSCB investor will receive:
    - A parity interest in the Draper 1 and Draper 2 real estate
    - S&P Credit Rating of "BBB-" on the QSCBs which are currently non-rated
- The QSCB investor will not have a security interest in the Series 2015 DSRF.
- UCA has an Enterprise rating of "BBB-" which includes all existing campuses.

Campus Overview – *Draper 1*

DRAPER 1

- Capacity of approximately 600 students
- Constructed in 2003
- Leased by American Preparatory Academy beginning in the Fall of 2003
- Acquired in 2013 for $4,610,000
- Source of Financing:
  - Loan with Vectra Bank / Zions Bank
  - Maturity date of May 1, 2016
  - Terms – LIBOR + 3.50% with a floor of 4.75%

Campus Overview – *West Valley 1 (The School for New Americans)*

WEST VALLEY 1 (The School for New Americans)

- Capacity of approximately 600 students
- Constructed in 2009
- Classes started in the Fall of 2009
- Source of Financing:
  - Originally financed through a $6.9 million tax-exempt bond offering issued through the Authority in 2009 and a Promissory Note to the owner of the land
  - Refinanced in 2010 with a New Markets Tax Credit financing
- Neither the revenues from the School nor the property will be pledged to the repayment of the Series 2015 Bonds
- An Intercreditor Agreement specifying the rights of multiple lenders in the Event of Default may be required by the Authority in connection with the Series 2015 Bonds

Campus Overview – *West Valley 2 (The Accelerated School)*

WEST VALLEY 2 (The Accelerated School)

PHASE I

- Capacity of approximately 885 students
- Constructed in 2011 for $11,397,500
- Source of Financing:
  - The combination of a New Markets Tax Credit financing, a Qualified School Construction Bond issued through the Authority and cash contributed by Utah Charter Academies
  - Owner of the QSCB – Goldman Sachs Bank USA

PHASE II

- Capacity of an Additional 465 Students
- Constructed in 2012 for Approximately $9 million
- Source of Financing:
  - Loan from GSUIG Real Estate Member LLC
  - Terms: 5% / 30-year amortization

PHASE III

- No additional student capacity – project includes four regular classrooms, a choir room, a music library, an office and a day care center.
- Estimated construction cost $1.8 million
- Source of Financing
  - New Money component of the Series 2015 Bonds

Campus Overview – *Draper 2*

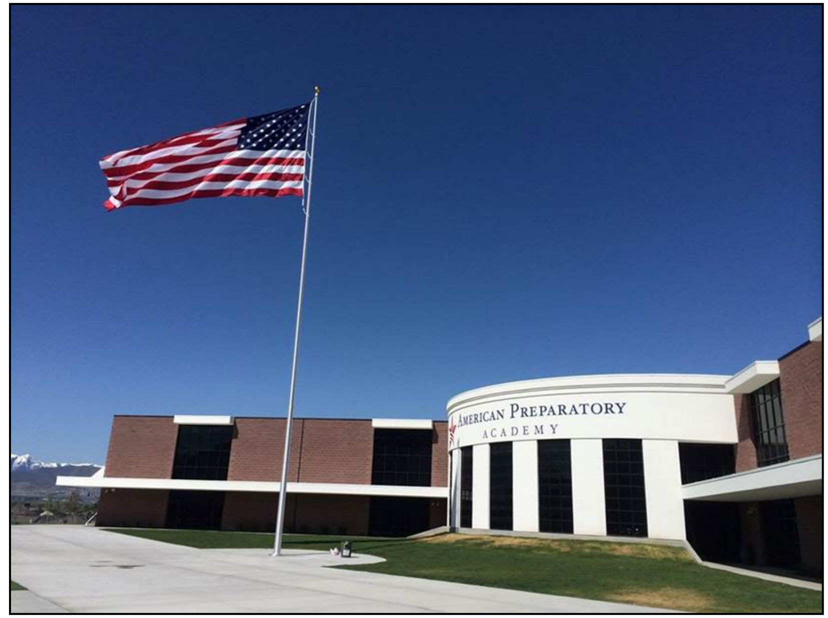
DRAPER 2

ORIGINAL CONSTRUCTION

- Capacity of approximately 1,000 Students
- Constructed in 2013 for $12,677,500
- Source of Financing
  - Loan with Vectra Bank / Zions Bank
  - Maturity date of May 1, 2016
  - Terms – LIBOR + 3.50% with a floor of 4.75%

ACQUISITION OF ADJACENT LAND

- Estimated price of $1.53 million
- Source of Financing
  - New money component of the Series 2015 Bonds



Overview of UCA's New Markets Tax Credit Financing

OVERVIEW of UCA's NEW MARKETS TAX CREDIT FINANCING

Benefits to Utah Charter Academies

- Receives an interest only loan for seven years
- Below market interest rate (3.00% - 3.41%)
  - 30-year "BBB-" bond rates in early 2011 were approximately 7.50%
- Debt Forgiveness
  - At the end of the 7-year compliance period approximately 25% of the total loan is forgiven ($2.8 million)

Benefits to Goldman Sachs Bank USA

- Receives a tax credit of 39% over a 7-year period provided no recapture event occurs
- Receives Community Reinvestment Act Credit

Overview of UCA's Qualified School Construction Bond

OVERVIEW of UCA's Qualified School Construction Bond

- **Utah Charter Academies was the only charter school in the State of Utah to receive a QSCB allocation**
- **Proceeds were required to be used for the construction of a public school facility**
- **Bonds totaling $8,017,250 were Issued through the Authority under a Series 2010 Indenture**
- **Terms of the Bonds included**
  - Maturity date of December 15, 2028
  - 3% Interest Rate
- **The owner of the QSCB (Goldman Sachs Bank USA) receives a 5.66% tax credit each year on the principal amount outstanding**
- **UCA will receive a "Success Fee" totaling $1,321,397 from Goldman Sachs upon its exit from the New Markets Tax Credit financing (In addition to the amount to be forgiven under the NMTC)**
- **The bonds are subject to optional redemption and tender on January 2, 2018**
  - Optional redemption is expected to occur, but will be based on market conditions
  - Tender of the bonds at the option of the QSCB holder
    - *Required to be remarketed at a yield that will result in a price of 100% of the principal amount outstanding*
    - *Refinance Risk is mitigated by qualification for CRA credits and a low Loan-to-Value Ratio as a result of NMTC forgiveness and the receipt of the Success Fee*

Utah Charter Academies – *Facilities Financing- Historical*

	2003	2009	2011	2012	2013	2015
West Valley 1 (SNA)		Financed – TE Bonds	Refinanced – NMTC			
Draper 1	**Leased**				**Acquired – Bank Loan**	
Draper 2					**Financed – Bank Loan**	
West Valley 2 (TAS)			**Financed – NMTC/QSCB as leverage**			
WV2-Phase II				**Financed – GS Loan**		

Current NMTC Lender* Collateral & Lien Position
NMTC-Fee *Simple Mort. (WV2)-**1st*** *Lien*

Current Goldman* Collateral and Lien Position
QSCB-1st Priority *Lien on Leasehold Int. (WV2)* ***GS Loan-1st Priority*** *Lien on Leasehold Int. (WV2)*

Current State Payment Priority
QSCB-1st Priority *on WV2 State Pmts *** ***GS Loan-1st Priority*** *on WV2 State Pmts***
QSCB-Sr Priority *w/Bank on Draper 1 State Pmts* ***GS Loan-Sr Priority*** *w/Bank on Draper 1 State Pmts*

* The NMTC and QSCB financings are completely separate and apart from each other with respect to collateral.

** Subject to NMTC Structure

Utah Charter Academies – *Facilities Financing- Proposed*

	2015	2017/2018
West Valley 1 (SNA)		NMTC to be Refinanced 2017/2018
Draper 1	To be Refinanced – 2015 Bonds	
Draper 2	To be Refinanced – 2015 Bonds	
West Valley 2 (TAS)		NMTC/QSCB to be Refinanced 2017/2018
WV2-Phase II	To be Refinanced – 2015 Bonds	

Current NMTC Lender* Collateral & Lien Position
NMTC-Fee *Simple Mort. (WV2)-**1st*** *Lien*

Proposed Goldman* Collateral and Lien Position	***2015 Bondholders Collateral and Lien Position***
QSCB- Parity 2nd Priority *Lien on Fee Int. (WV2)-* ***Parity 1st Priority*** *Lien on Leasehold Int.*	***Parity 2nd Priority*** *Lien on Fee Interest (WV2)-* ***Parity 1st Priority*** *Lien on Leasehold Int.*
QSCB-Parity 1st Priority *Lien on Fee Int. (Draper 1)*	***Parity 1st Priority*** *Lien on Fee Int. (Draper 1)*
QSCB-Parity 1st Priority *Lien on Fee Int. (Draper 2)*	***Parity 1st Priority*** *Lien on Fee Int. (Draper 2)*

Proposed State Payment Priority	***2015 Bondholders State Payment Priority***
QSCB-1st Priority *w/2015 on WV2 State Pmts***	***1st Priority*** *w/QSCB on WV2 State Pmts***
QSCB-1st Priority *w/2015 on Draper 1 State Pmts*	***1st Priority*** *w/QSCB on Draper 1 State Pmts*
QSCB-1st Priority *w/2015 on Draper 2 State Pmts*	***1st Priority*** *w/QSCB on Draper 2 State Pmts*

* The NMTC and QSCB financings are completely separate and apart from each other with respect to collateral.

** Subject to NMTC Structure

Utah Charter Academies – *Facilities Financing- Proposed (cont.)*

	2017/2018
West Valley 1 (SNA)	NMTC Refinanced 2017/2018
Draper 1	Refinanced – 2015 Bonds
Draper 2	Refinanced – 2015 Bonds
West Valley 2 (TAS)	NMTC/QSCB to be Refinanced 2017/2018
WV2-Phase II	Refinanced – 2015 Bonds

2015/2017 Bondholders Collateral and Lien Position
1st Priority *Lien on Fee Interest (WV1)*
1st Priority *Lien on Fee Interest (WV2)*
1st Priority *Lien on Fee Interest (Draper 1)*
1st Priority *Lien on Fee Interest (Draper 2)*

2015/2017 Bondholders State Payment Priority
1st Priority *on WV1 State Pmts*
1st Priority *on WV2 State Pmts*
1st Priority *on Draper 1 State Pmts*
1st Priority *on Draper 2 State Pmts*

Utah Charter Academies – *Debt to be Refinanced*

Type of Debt	Lending Institution	Original Amount	Interest Rate	Outstanding Amount	Amount to be "Forgiven"	Date of Refinance
West Valley 1 (SNA) NMTC - *Note A**	Impact WI CDE 10 LLC	$ 4,320,282.00	5.644%	$ 4,320,282.00		2017
West Valley 1 (SNA) NMTC - *Note B*	Impact WI CDE 10 LLC	$ 1,904,457.00	5.644%	$ 1,904,457.00		2017
West Valley 1 (SNA) NMTC - *Note C*	Impact WI CDE 10 LLC	$ 1,670,261.00	5.644%	$ 1,670,261.00	$ 1,670,261.00	2017
West Valley 2 (TAS) NMTC - *Note A***	MK Louisiana CDE	$ 8,017,250.00	3.000%	$ 8,017,250.00		2017
West Valley 2 (TAS) NMTC - *Note B***	MK Louisiana CDE	$ 525,000.00	3.410%	$ 525,000.00		2017
West Valley 2 (TAS) NMTC - *Note C***	MK Louisiana CDE	$ 2,855,250.00	3.410%	$ 2,855,250.00	$ 2,855,250.00	2017
West Valley 2 Bank Loan (Phase II Construction)***	Goldman Sachs	$ 9,000,000.00	5.00%	$ 8,888,639.00		**2015**
Draper 1 Bank Loan***	Vectra Bank	$ 4,610,000.00	LIBOR + 3.5%	$ 4,497,190.00		**2015**
Draper 2 Bank Loan***	Vectra Bank	$ 12,677,500.00	LIBOR + 3.5%	$ 12,486,789.00		**2015**
TOTAL				**$ 45,165,118.00**	**$ 4,525,511.00**	
				Success Fee from from Goldman Sachs payable December 2017 on 2010 QSCB	$ 1,321,397.00	
				TOTAL EQUITY	**$ 5,846,908.00**	
				No refinance necessary since UCA provided these funds	**$ 525,000.00**	
				Sinking Fund accrued on West Valley 1 (SNA) NMTC-Note A through January 2018	$ 1,596,126.00	
				TOTAL DEBT REDUCTION	**$ 7,968,034.00**	Against $19,292,500 total West Valley Debt to be refinanced in 2017 (41%)

* Note A will accrue a $1.596 million sinking fund toward its refinancing.

** Notes A, B, and C require interest only through December 2017. Beginning in January 2018, monthly interest and principal payments are required for Notes A and B through the maturity date of December 2045. However, Note A will receive a $1,321,397 Success Fee from Goldman Sachs, leaving a balance of only $6,695,853 to be refinanced. Note C will be "forgiven" in 2017;

- The 2010 QSCBs were the source of funds for Note A;
- UCA funds of $525,000 were the source of funds for Note B;
- The Goldman Sachs tax credit investment was the source of funds for Note C

*** These Loans will be refinanced with the 2015 Bonds.

Financial and Legal Protections to the State – *2015 Bonds*

INDENTURE PROVISIONS

- The 2010 Indenture gives the majority bondholder control over the remedies granted under that Indenture. Through the extension of its moral ob guaranty on the Series 2015 bonds and a requirement that the Authority control all rights and remedies in the event of a default under the Series 2015 Bonds, the State of Utah would be considered the majority bondholder of all parity debt issued under the 2010 Indenture at the time of issuance of the Series 2015 bonds.
- As majority bondholder, the State has the right to direct almost all remedies for all parity debt in the event there is an appropriation under the Credit Enhancement Program.
- Items requiring 100% bondholder consent are: 1) appointment of a replacement Trustee, and 2) modifying the terms of any financing under the 2010 Indenture. We believe Goldman will agree to modify or pre-consent to allowing the State to make such determinations as majority bondholder.
- The next issuance under the 2010 Indenture would likely be a refinance of the QSCB in 2017, keeping the State in the majority position.
- The Series 2015 DSRF will secure only the Series 2015 bonds

EQUITY CONTRIBUTION BY UCA

- Approximately $4.7 million, or 41% of the WV2 Phase I project cost, will accrue to UCA as equity through the forgiveness of Note C, the success fee associated with the QSCBs, and cash contributed by UCA. This equity ultimately will benefit the investors secured by the 2010 Indenture.
- As an enterprise, UCA will accrue another $3.3 million in equity on the WV1 NMTC financing in early 2018 through note forgiveness and sinking fund payments.
- This totals to about $8.0 million in equity on $19 million of financings completed in 2010 and 2011 for the two West Valley campuses.
- UCA has every incentive to refinance the QSCBs in 2017 as part of the refinancing of the WV1 NMTC financing:
    - UCA only earns the $1.67 million "equity" in WV1 when they refinance that issue;
    - As long as UCA is in the market for WV1, they will refinance the QSCBs associated with WV2.

Financial and Legal Protections to the State – *2015 Bonds*

FINANCIAL COVENANTS

Debt Service Coverage Ratio:

- Maintain Net Income Available for Debt Service (NIADS) in an amount equal to at least 1.10x Maximum Annual Debt Service (MADS) on all Indebtedness then outstanding, tested annually based upon the results included in the annual audited financial statements.
- In the event that NIADS is less than 1.10x but greater than or equal to 1.0x MADS on all Indebtedness then outstanding on any testing date, engaging a Management Consultant may be required. If the coverage ratio falls below 1.0x and is not cured within a 12-month period, it is an Event of Default.

Liquidity:

- Maintain cash, liquid investments or accounts receivable balance (provided such accounts receivables are from the State) sufficient to cover at least 60 days of applicable Operating Expenses less any Management Fee.

Minimum Fund Balance/Net Asset Covenant:

- Sliding scale between 5% and 10% of Operating Expenses of prior fiscal year depending upon level of Debt Burden.

Additional Bonds Test:

- Historical NIADS for the most recently completed Fiscal Year or for any consecutive 12 months out of the most recent 18 months immediately preceding the issuance of the debt is equal to at least 1.15 times that Fiscal Year's MADS on all Indebtedness then outstanding, **and** Projected NIADS for each of the three consecutive Fiscal Years beginning in the earlier of the first full Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed is equal to 1.20 times MADS on all Indebtedness then outstanding plus the additional Annual Debt Service Requirements for the new proposed debt., **or**
- NIADS for the most recently completed Fiscal Year is equal to at least 1.10 times MADS on all indebtedness as well as the new proposed debt.

Subordination of Management Fee: Payments of Debt Service on the Bonds shall occur before any payment of Management Fees to American Preparatory Schools ("APS").

Repair and Replacement Fund: Maintain in Reserve for Repair and Replacement an amount equal to 3% of budgeted Operating Expenses and Management Fees, with a requirement to restore the required balance in twelve equal installments provided that in no instance shall any one deposit exceed 0.5% of budgeted Operating Expenses and management fees for the next succeeding Fiscal Year.

Debt Service Reserve Fund: Maintain a fully funded DSRF. No surety – cash only.

Exhibit A: *West Valley 2 (TAS) NMTC Structure*
Custodial Account Flow of Funds

West Valley 2 (TAS) NMTC Structure

WEST VALLEY 2 (TAS) NEW MARKETS TAX CREDITS STRUCTURE

$8,017,250 QSCB Proceeds
(purchased by Goldman Sachs)
Plus
$525,000 of UCA Funds

UCA Leveraged Lender
$8,542,250

Goldman Sachs
$3,207,750
Equity Investment

MK Investment Fund LLC
$11,750,000 Investment

MK Louisiana Charitable Healthcare Facilities Fund
$11,397,500 net investment

$8,017,250
Note A

$2,855,250
Note C
"forgiven" in 2017

$699,737
Lease
Payments

Borrower
(UCA Properties II)

Out of $11,397,500 in Project Debt, UCA will only need to refinance $6,695,853 in 2017. It also has the option to remarket the QSCB, which has a 18-year final maturity (December 2028).

The results from UCA's accrual of $1,321,397 in equity at the end of the NMTC compliance period through a Success Fee paid by Goldman Sachs from a portion of the QSCB tax credits.

$6,695,853 to be refinanced
<u>$1,321,397 Success Fee paid by Goldman Sachs</u>
$8,017,250 Total QSCB

UCA pays total lease payments of $699,737 from TAS to UCA Properties II, comprised of: 1) $459,219 in base lease payments, and 2) $240,518 in supplemental coupon payments on the QSCB. This amounts to about $530 per enrolled student at TAS.

UCA will refinance only $6,695,853 in net debt in 2017 (if QSCB is not remarketed), representing 59% of the original QSCB debt.

Total Equity: $2,855,250 (Note C) + $1,321,397 (Success Fee) = $4,176,647 or 38% of net Project Cost.

Note B for $525,000 will not need refinancing.

Custodial Account Flow of Funds

CUSTODIAL ACCOUNT FLOW OF FUNDS & COLLATERAL