



ZIONS PUBLIC FINANCE, INC.

MEMORANDUM

DATE: Friday, January 24, 2025

TO: Marlo Oaks, State Treasurer and Utah Charter School Finance Authority Board

FROM: Japheth McGee, Vice President of Zions Public Finance and Johnathan Ward, Senior Vice President

RE: Odyssey Charter School Application to the Utah Charter School Finance Authority

Conflicts of Interest

In general, Zions Bancorporation, National Association is made up of many departments and provides various services. Some of those services and departments can be involved on the same transaction. Zions Public Finance Inc. and Zions Corporate Trust are affiliated entities operating under Zions Bancorporation and we all benefit from a strong stock price derived from strong performance by the company and its component members and affiliates across the country. Zions Public Finance does not receive financial or other benefits in association with transactions performed by Zions Corporate Trust who may act as Trustee on charter school transactions. Likewise, Zions Public Finance operates separately from commercial loan divisions of the Bancorporation who may have provided private financing to developers or charter schools to construct the school initially. Zions Public Finance is not aware of the circumstances where this occurs unless told when a charter school applies. Zions Public Finance does not receive financial or other benefits that could result from actions taken by the Charter School Finance Authority outside of the agreed upon fees for services rendered to the Authority.

Zions' entities engaged with the School:

Zions Public Finance:	Yes. (Advisor to the Authority)
Zions Corporate Trust:	Yes
Zions Commercial Involvement:	No

Executive Summary

Borrower:	Odyssey Charter School
Management Company:	Business Manager: Russell Schellhous
Municipal Advisor:	LRB Public Finance: David Robertson
Borrower's Counsel:	Dorsey & Whitney: Nate Canova
Underwriter:	HJ Sims: Rob Nickell
Bond Counsel:	Gilmore & Bell PC: Jacob Carlton
Issuer's Counsel:	Chapman & Cutler: Eric Hunter
Trustee:	Zions Bank: Jason Harris

Par Amount:	\$6,950,000 in tax-exempt bonds.
Enhancement Requested:	No
Purpose:	Refinance existing bank loans (one senior, one subordinate), fund improvements to the facility (if approved by bondholders), pay capitalized interest, fund debt service reserve funds, and pay costs of issuance.
Structure:	Bonds will be repaid over a 31-yr term. After an interest only payment period the School will make level payments of principal and interest through maturity in 2055. The bonds will carry a 7-year call at 103%, decreasing by 1% each year to the par call in year 10.
Term:	Final maturity in 2055.
Rating:	Non-rated
Costs of Issuance Estimate:	\$292,000
Underwriter Fee Estimate:	\$101,250 (\$14.57/bond)
Litigation:	None of which we are aware.
Summary:	Odyssey Charter School is a long-time operating school but it has struggled to meet its financial obligations over the past several years. Debt service coverage was below 1x in four of the last five years requiring bank financiers to give the School deferrals of payments. The new financing should allow the School the ability to reduce annual debt service to a more manageable level by amortizing it over a longer period of time. Without refunding, the School would be unable to pay balloon payments on its existing loans that come due in 2027.

Purpose

The purpose of this memo is to document the adherence of Odyssey Charter School (the “School”) to the application requirements of the Utah Charter School Finance Authority (the “Authority”) conduit issuance program and provide credit analysis of the School for review. The analysis contained herein is based on the School’s application to the Authority and inquiry for clarification of the Municipal Advisor to the Authority.

Introduction

The School is a non-profit, 501c3 designated, public K-6 charter school with a campus located in American Fork. The School opened in 2005 and lists the following mission.

MISSION

Odyssey Charter School teaches students how to learn using a classically based curriculum that is thorough, challenging and systematic. Taught to appreciate public virtue, supplied with knowledge and enabled to discover the patterns and relationships therein, each student is prepared to embark on their individual odyssey with the foundation of knowledge and critical thinking skills necessary to enjoy being independent learners for life.

Enrollment/Student Demand

October 2024 LEA enrollment was 422 students. Enrollment declined in the post-covid years but has returned to slightly above its 2020 five year high. Average daily membership was above 98% and reenrollment rates have been both above

and below state averages. The School has no waitlist. Academic performance at the School is strong relative to the Alpine School District and statewide averages.

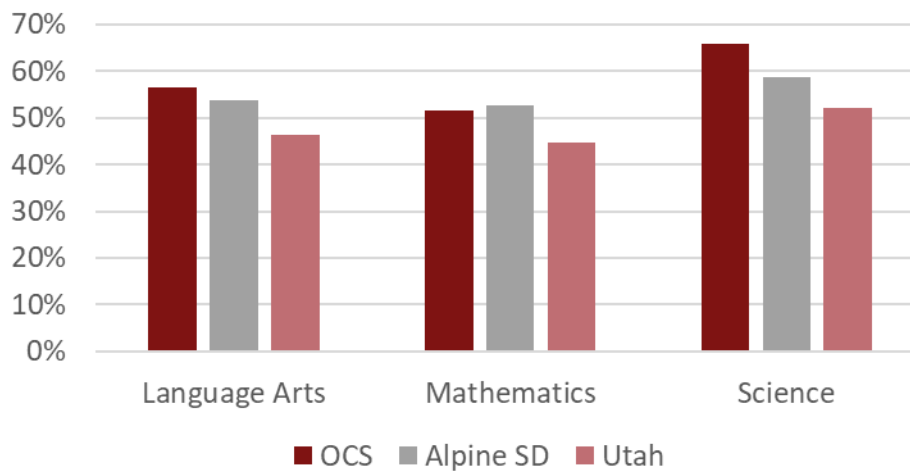
	ADM		Re-enrollment Rates		
			'21-'22	'22-'23	'23-'24
2024	98%	OCS Utah	84%	88%	79%
2023	101%				
2022	100%		82%	83%	83%

Odyssey Charter School LEA Enrollment

Grade	Historic					Projected				
	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
K	63	51	65	56	74	86	90	90	90	80
1	65	57	59	58	62	64	75	75	75	75
2	65	58	54	59	63	60	62	73	73	75
3	55	49	62	54	59	65	60	62	68	75
4	71	51	41	58	60	50	55	56	60	67
5	46	62	49	35	58	50	48	49	50	55
6	46	33	54	41	34	47	45	45	47	49
Totals	411	361	384	361	410	422	435	450	463	476

Academic Performance

2024 Proficiency Rates



Management

1. The School currently has a seven-member board. The board members have backgrounds in: banking, marketing, information technology, education, human resources, and quality control.
2. The School employs Brooke Austin as Director. Ms. Austin joined the School as a Kindergarten teacher before becoming Assistant Director and then Director. Ms. Wolf has a dual bachelor's in Early Childhood and

Elementary Education with an emphasis in science and an endorsement in math from Utah State University, a master's in Educational Leadership, and an endorsement in Instructional Coaching.

3. The School employs Russell Schellhous as its Business Manager. Russell has served as the Business Manager since October 2006. He served as both the Business Manager and the Director from 2011 to 2023. He has a degree in History from Brigham Young University. He previously worked as an office administrator and bookkeeper for ResMark Systems.
4. The School has adopted a policy that governs procurement. The School does not have formal policies governing cash handling, debt, budgeting, investments, and fundraising and donations for which we could find records among their policies.

Plan of Finance

The School intends to sell \$6,950,000 of non-rated bonds to First Eagle Investments with DA Davidson acting as the underwriter. The School is NOT seeking credit enhancement through the Utah Charter School Credit Enhancement Program. The bonds will be tax-exempt bonds for the purpose of refinancing two outstanding bank loans. The outstanding bonds have a senior/subordinate loan structure and mature in 2027. The senior loan has a balloon payment of \$4.2 million in 2027.

The bonds will carry a fixed rate of interest with interest only payments from June 2025 to December 2028. Starting in June 2029 the School will make a small principal payment. From 2030 on the School will make level payments of principal and interest through maturity in 2055. The bonds will carry a descending call feature with bonds callable at 103% in year 7, 102% in year 8, 101% in year 9, and in year 10, and thereafter, at par. The bonds are secured by an assignment and secured interest in the revenues of the School and trust accounts and a security interest and pledge of the deed of trust in the land and buildings located at:

- 738 East Quality Drive, American Fork, Utah 84003

An appraisal by Rigby and Company valued the property at \$10,000,000.

Technical Default

The School has been in technical default of its loan covenants for several years now. As detailed below, the School did not meet even 1x coverage in FY 2020, FY 2021, FY 2022, and FY 2023. The School worked with its lenders in each of those years to arrange for modifications to the required debt service while it worked out a solution to the coverage issues. The coverage issues should be thoroughly disclosed in the offering documents.

Ratings

No rating is anticipated.

Financial Performance

Summary:

The School's financials have been significantly stressed during the period reviewed for this application. The School is a small school and simply has been unable to make the economics of operating the school work at low enrollment. The School was able to meet some of the benchmarks reviewed below in the past year as enrollment increased to a healthier level. Increases to enrollment combined with recent increases to the WPU have provided the School with a path to meeting benchmarks going forward. However, long-term financial issues have left the School with very little liquidity to meet its ongoing liabilities. The School has little margin for error and will need continued success in enrollment to continue operating.

1. The School's initial budget to actuals shows two years of budgetary misfires in FY 2020 and FY 2021. FY 2022 and FY 2023 show even larger misses. However, after further inquiry the School explained that misfires in FY 2022 and FY 2023 were due to input errors by the School. Budgets uploaded did not represent the School's actual adopted budgets and the School was told not to change that error until end of year submissions.

	Actual Variation from Budget				
	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Revenue	0.8%	5.1%	-5.1%	-53.0%	4.4%
Expenditures	14.0%	10.2%	-42.2%	-43.6%	-2.8%

2. Cash Position

Benchmark	Measure at end of FY 2024
At least 30 days	59

The School's days cash on hand reached a five year low at the end of FY 2023 before doubling in FY 2024. The School's current cash balance would only be sufficient to cover 2 months' worth of operating expenses. 59 days cash on hand falls in what S&P views as its "Vulnerable" assessment range.

Days Cash on Hand				
'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
69	115	78	29	59

3. Fund Balance

Benchmark	Measure at end of FY 2024
At least 15% of following year expenses	9%

The School failed to meet this benchmark in FY 2024. Fund balance was negative in FY 2023 before increasing in FY 2024. The School's current fund balance level is less than half of its current annual debt service and less than the expected debt service amount after re-amortizing its debt.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Fund Balance	300,788	693,324	463,729	(55,706)	313,725
Following Year Operating Expenses	3,036,026	3,456,648	3,246,654	3,644,243	3,670,198
Fund Balance % of Future Expenses	10%	20%	14%	-2%	9%

	'24-'25	'25-'26	'26-'27	'27-'28
Fund Balance	651,883	791,818	938,390	1,103,222
Following Year Operating Expenses	3,780,474	3,907,652	4,024,882	4,145,628
Fund Balance % of Future Expenses	17%	20%	23%	27%

4. Debt Coverage Ratio

Benchmark	Measure at end of FY 2024
At least 115%	103%

The School has failed to meet debt service coverage requirements in any year over the past five years. As mentioned above, this financing should bring the School into a better financial position. If the School is able to maintain enrolment at FY 2024 levels (and above) it should be able to improve its debt service coverage ratio. Projections show that at FY 2024 margins coverage would stay above 1.3x. It is important to note that the debt service figure used for comparison here is the debt service amount the School was required to pay based off audited financial statements. Using the actual amount the School paid in debt service produces different coverage amounts.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Net Income Available for Debt Service	316,058	270,695	270,091	449,609	750,672
Annual Debt Service	725,491	725,491	1,325,692	725,491	725,491
Debt Coverage Ratio	44%	37%	20%	62%	103%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Net Income Available for Debt Service	739,661	760,180	768,180	791,225	814,962
Annual Debt Service	288,784	573,600	572,750	571,450	569,700
Debt Coverage Ratio	256%	133%	134%	138%	143%

5. Debt Burden Ratio

Benchmark	Measure at end of FY 2024
Less than 25%	16.5%

The School's fund balance ratio of 24.6% as of FY 2024 puts the School in the debt burden range of less than 25%. The debt burden ratio is a comparison of the maximum annual debt service to unrestricted operating revenues. Debt burden will decrease as the School amortizes the debt over a longer period of time.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Maximum Annual Debt Service	725,491	725,491	1,325,692	725,491	725,491
Unrestricted Operating Revenues	3,218,437	3,306,721	3,726,739	3,696,263	4,394,915
Debt Burden Ratio	22.5%	21.9%	35.6%	19.6%	16.5%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Maximum Annual Debt Service	573,600	573,600	573,600	573,600	573,600
Unrestricted Operating Revenues	4,409,859	4,540,654	4,675,832	4,816,107	4,960,590
Debt Burden Ratio	13.0%	12.6%	12.3%	11.9%	11.6%

6. Operating Margin

Benchmark	Measure at end of FY 2024
At least 8%	17.1%

The operating margin benchmark is a function of the level of the School's fund balance ratio or days cash on hand. The days cash on hand metric places the School in the operating benchmark range of at least 8%. The School failed to meet this benchmark in FY 2022. The School has generally hovered around this metric each year until last year when it increased its margins.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Net Income Available for Debt Service	316,058	270,695	270,091	449,609	750,672
Revenues	3,218,437	3,306,721	3,726,739	3,696,263	4,394,915
Operating Margin	9.8%	8.2%	7.2%	12.2%	17.1%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Net Income Available for Debt Service	739,661	760,180	768,180	791,225	814,962
Revenues	4,409,859	4,540,654	4,675,832	4,816,107	4,960,590
Operating Margin	16.8%	16.7%	16.4%	16.4%	16.4%

7. Current Ratio

Benchmark	Measure at end of FY 2024
At least 150%	35%

The current ratio is defined as current unrestricted assets divided by current liabilities (including current year debt service). The School's current ratio has been below the benchmark each of the past five years. The liability side of this equation should decrease slightly as a function of the restructuring of debt. Included in the current liabilities are debt service payments in the next fiscal year. However, the School will not have a strong current ratio until it has time to build cash balances to higher levels.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Current Assets	561,345	959,233	779,778	345,581	627,700
Current Liabilities	890,398	1,194,115	1,527,249	1,464,847	1,792,698
Current Ratio	63%	80%	51%	24%	35%

Bond Documents

Legal bond documents are being reviewed by Chapman & Cutler in its capacity as Issuer's Special Counsel to the Authority, and all requirements are being incorporated. In addition, Gilmore & Bell as Bond Counsel, will confirm that each of the required legal provisions will be present if not already in the bond documents.

Continuing Disclosure

The School has not been under a continuing disclosure obligation prior to this bond issuance. The School will adopt a disclosure policy at its February 13 Board meeting.

Conclusion

The School achieved greater than 1x debt service coverage in FY 2024 for the first time in the past 5 years. At FY 2024 margins the School would have significant breathing room to operate and build up much needed reserves. Current reserves are insufficient to meet even short-term difficulties. Without refunding the School's current debt, the School would be unable to meet its upcoming balloon payments in 2027. By reamortizing its debt, the School should bring debt to a level that would have allowed it to achieve 1.33x coverage in FY 2024. Even a refunding a reamortization of its debt is not a panacea for the School's issues. Further progress on enrollment would enhance the financial performance of the School. At current enrollment levels there is little margin for error.