MEMORANDUM

DATE: Friday, January 24, 2025

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

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

RE: Lakeview Academy Application to the Utah Charter School Finance Authority and Credit Enhancement Program

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:	No
Zions Commercial Involvement:	No

Executive Summary

Borrower:	Lakeview Academy
Management Company:	Business Manager: Nicole Desmond
Municipal Advisor:	LRB Public Finance Advisors, Inc.: David Robertson
Borrower's Counsel:	Farnsworth Johnson: Brandon Johnson
Underwriter:	DA Davidson: Eric Duran
Bond Counsel:	Chapman & Cutler: Eric Hunter

Issuer's Counsel:	Dorsey & Whitney: Nate Canova
Trustee:	US Bank: Laurel Bailey
Par Amount:	$20,295,000 in tax-exempt bonds.
Enhancement Requested:	Yes
Purpose:	Fund an expansion to the School's existing facility, fund a debt service reserve fund, and pay costs of issuance.
Structure:	Bonds will be repaid with a roughly level amortization of principal and interest over 35 years after a two-year capitalized interest period. The bonds will carry a fixed rate of interest.
Term:	Final maturity in 2060. Bonds will likely carry an 8 to 10-yr call feature.
Rating:	Moody's Ratings: Baa3
Costs of Issuance Estimate:	$257,000
Underwriter Fee Estimate:	$3.95/$1,000 (est. $77,223)
Litigation:	None of which we are aware.
Summary:	The School has been a part of the credit enhancement program since the issuance of its Series 2017 bonds. This series of bonds will increase the UCSFA's exposure to the School significantly. To achieve the standards for credit enhancement, the School's financing relies on growing student enrollment. The School has a healthy waitlist and is located in the fast-growing western portion of Utah County but that does not provide a guarantee of increased enrollment. If the School achieves modest enrollment growth it should be able to meet the obligation. Cash on hand is a strength at over 200 days cash on hand but that cash would only cover a few years of weak operations if the School failed to achieve any enrollment growth. No enrollment growth seems like an unlikely scenario but does present a risk when current enrollment trends statewide are downward and this obligation will rely on a high level of enrollment and extend the State's commitment for 35-years.

Purpose

The purpose of this memo is to document the adherence of Lakeview Academy (the "School") to the application requirements of the Utah Charter School Finance Authority (the "Authority") Credit Enhancement Program Standards and provide credit analysis of the School for the Authority's consideration. 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-9 charter school with one campus in Saratoga Springs. The School was approved by the Utah State Charter School Board (the "SCSB") and opened for operation in 2005.

MISSION STATEMENT

Our mission is to develop Capable, Confident, and Contributing members of society through learning experiences that foster growth, creativity and character development.

- Capable: A student who is knowledgeable, inquisitive, and an open-minded problem solver.
- Confident: A student who is able to approach situations with courage, integrity and a strong sense of self-worth.

- Contributing: A student who is caring, responsible and proactive in his/her family and community.

Enrollment/Student Demand

October enrollment for the 2024 - 2025 school year was 1,061 students. The School is using funds from this financing to expand educational space and increase student enrollment to 1,350 by 2029. The School has a moderate waitlist and has shown strong retention and resulting enrollment throughout the entire look back period. Average daily membership is above 98%.

	ADM
2024	98%
2023	98%
2022	98%

	Re-enrollment Rates		
	'21-'22	'22-'23	'23-'24
Lakeview	90%	89%	88%
Utah	82%	83%	83%

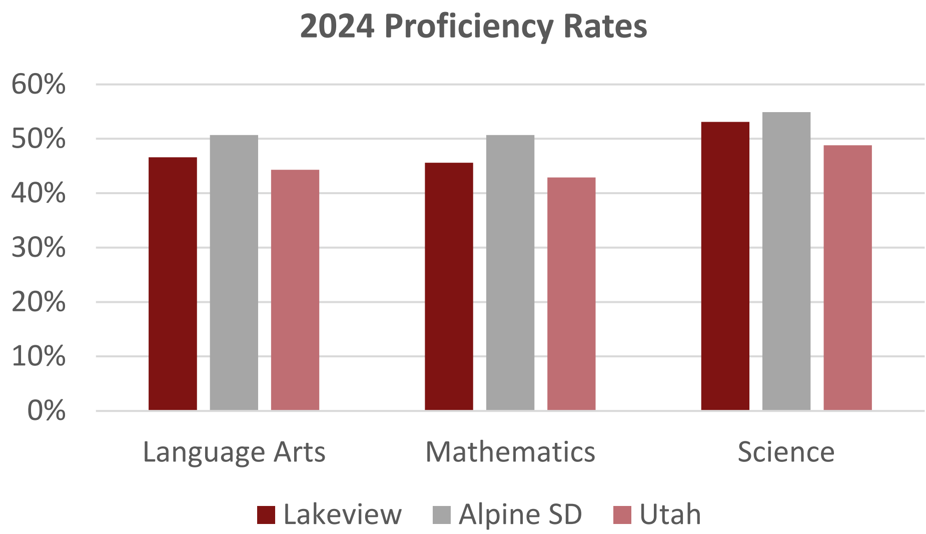
Lakeview Academy Enrollment by School Year

Grade	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
K	100	104	103	104	102	128	130	130	130	130
1	104	104	106	105	103	122	130	130	130	130
2	104	101	106	105	106	104	130	130	130	130
3	104	104	106	104	105	106	108	135	135	135
4	104	102	106	105	107	107	108	134	135	135
5	104	104	104	107	104	112	108	108	134	135
6	104	104	104	104	104	103	108	108	108	134
7	104	98	105	104	110	104	108	140	140	140
8	104	87	107	88	108	101	108	108	140	140
9	93	68	62	84	62	74	108	108	108	140
Totals	1,025	976	1,009	1,010	1,011	1,061	1,146	1,231	1,290	1,349

Lakeview Academy Waitlist by School Year

Grade	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
K	107	-	91	119	-	-
1	90	-	74	118	-	-
2	72	-	63	95	76	31
3	68	-	50	73	47	86
4	72	-	37	54	50	72
5	46	-	29	62	20	60
6	15	-	2	48	21	13
7	64	-	2	21	-	68
8	9	-	-	-	-	18
9	-	-	1	-	-	6
Totals	543	0	349	590	214	354
Total Enrollment	1,025	976	1,009	1,010	1,011	1,061
% of Enrollment	53%	0%	35%	58%	21%	33%

Academic Performance



Management

1. The School currently has a seven-member board. The board members have backgrounds in: procurement, accounting, charter school development, education, and risk management.
2. The School employs Richard Veasey as Director. Mr. Veasey received a BS in Management Information Systems from the University of South Florida with a minor in Economics and a master's in education leadership.
3. The School employs Nicole Demond for business management services. Nicole previously worked as the onsite business manager from Charter Solutions beginning in 2014 before being hired directly by the School in 2020. She has a degree in Business Management and Accounting from Western Governor's University.
4. The School has formal policies for budgeting, cash handling, debt, investments, fundraising and donations, and procurement.

Plan of Finance

The School is seeking authorization to sell up to $20,295,000 of Baa3 rated bonds via negotiated sale with DA Davidson and Co. serving as the Underwriter. The School is seeking credit enhancement through the Utah Charter School Credit Enhancement Program. The bonds will be tax-exempt bonds for the purpose of funding an expansion at the current facility (10 new classrooms, additional office space, two stages, choir and band rooms, an art room, computer and CTE rooms, multi-purpose rooms, student workspaces, and storage space), a debt service reserve fund, and costs of issuance. Construction on the School's addition is expected to be completed by Fall 2026. The bonds will carry a fixed rate of interest and will likely carry an 8 to 10-year call. 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 building located at:

- 527 West 400 North, Saratoga Springs, UT 84045

An appraisal has been performed by Rigby & Company. The facility has an estimated value of $42,500,000. The School will have roughly $31,500,000 in outstanding bonds after this new financing.

Ratings

The bonds are rated Baa3 by Moddy's Ratings. Noted the following positive factors in its rating report.

- Sound retention and enrollment.
- Strong liquidity, coverage, and operating margins.

The following factors for concern were noted:

- Proforma coverage above 1x requires enrollment growth.
- Significant increase in leverage.

Moody's noted that the School could achieve a rating increase with sustained coverage above 2x and/or a material reduction in leverage. A rating downgrade could occur if enrollment projections failed to come in or operating performance caused a decline in coverage to below 1.2x or cash on hand below 125 days.

Financial Performance

Summary:

Lakeview Academy has a long and strong history of operations. The School has been a part of the credit enhancement program for several years with no concerns. The School is large enough that it is able to take advantage of its scale for operational efficiencies. The School has sufficient liquidity to take it through several years of moderate budgetary misses and has a history of budgeting conservatively.

1. The School has been conservative in its projections. All budgets have produced actual results within 5% of the budget with most years seeing expenditures below budgeted amounts.

	Actual Variation from Budget				
	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Revenue	2.7%	3.8%	3.1%	4.3%	5.7%
Expenditures	-2.9%	1.7%	-2.8%	-3.3%	0.0%

2. Cash Position

Requirement	Measure at end of FY 2024
At least 30 days	205

The School's cash on hand of 205 DCOH falls in the lower end of the A rating range for Moody's Investor Services. The School has held this level of cash for quite some time. The School would have to operate 10% annual operating deficits in order to exhaust their current level of cash over a five-year period. The current plans expect an increase to debt service that would produce this sort of gap in cash flow if no new student revenues were available.

Days Cash on Hand				
'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
173	196	215	197	205

3. Fund Balance

Requirement	Measure at end of FY 2024
At least 15% of following year expenses	43%

At the end of FY 2024, the School had an unassigned fund balance of 43% of the following year's operating expenses. Fund balance was strong and stable over the past five years.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Fund Balance	3,934,920	2,658,556	3,377,209	3,965,995	4,595,569
Following Year Operating Expenses	7,106,553	7,258,036	8,418,994	9,341,226	10,576,979
Fund Balance % of Future Expenses	55%	37%	40%	42%	43%

	'24-'25	'25-'26	'26-'27	'27-'28
Fund Balance	5,588,694	5,927,676	6,823,269	8,159,198
Following Year Operating Expenses	11,679,256	12,417,300	13,054,056	13,715,603
Fund Balance % of Future Expenses	48%	48%	52%	59%

4. Debt Coverage Ratio

Requirement	Measure at end of FY 2024
At least 105%	234%

In FY 2024 the School ended the year with net revenues over 2.3X its annual debt service requirement. That level of coverage is on the low end of Moody's A rating range. The School's indenture carries a debt service coverage covenant of 110%. If the School failed to achieve the expected growth it would severely limit its ability to meet its debt service coverage requirements. FY 2026 is a good indication of where the School needs to be. In that year the School is projecting enrollment of 1,146 students and the School anticipates that debt service will be at its full amount. If the School is able to achieve its target enrollment and maintain historic operating margins, it should be able to meet the debt coverage covenant requirements.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Net Income Available for Debt Service	1,545,958	1,302,630	1,757,227	1,696,139	1,938,271
Annual Debt Service	822,925	824,255	823,700	826,200	828,100
Debt Coverage Ratio	188%	158%	213%	205%	234%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Net Income Available for Debt Service	2,148,666	2,494,977	3,237,124	3,824,238	4,445,904
Annual Debt Service	824,500	2,043,000	2,043,000	2,043,000	2,043,000
Debt Coverage Ratio	261%	122%	158%	187%	218%

5. Debt Burden Ratio

Requirement	Measure at end of FY 2024
Less than 25%	7.7%

The debt burden ratio gives an idea of operational flexibility. When a School has a low debt burden it means that fixed costs are low and the School has more room to focus on operational costs. As debt burden increases the ability to be flexible in budgeting would decline. This could potentially lead to larger misses on budgets than the School has historically seen. Typically, this starts to get concerning around the 20% range and the requirement here is to keep the debt burden under 25%. The School should be able to keep its debt burden well below the requirement avoiding undue strain.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Maximum Annual Debt Service	822,925	824,255	823,700	826,200	828,100
Unrestricted Operating Revenues	7,998,414	8,352,797	8,899,024	9,891,415	10,796,334
Debt Burden Ratio	10.3%	9.9%	9.3%	8.4%	7.7%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Maximum Annual Debt Service	2,043,000	2,043,000	2,043,000	2,043,000	2,043,000
Unrestricted Operating Revenues	12,725,645	14,174,233	15,654,424	16,878,294	18,161,507
Debt Burden Ratio	16.1%	14.4%	13.1%	12.1%	11.2%

6. Operating Margin

Requirement	Measure at end of FY 2024
At least 7%	18.0%

The operating margin requirement is a function of the level of the School's fund balance ratio or days cash on hand. The fund balance ratio of 56.2% and days cash on hand of 205 place the School in the operating margin requirement range of at least 7%. The School was well above this metric in each year of operations and is expected to maintain that margin. Even were the School to maintain an operating margin closer to its historic average there would not be a real concern.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Net Income Available for Debt Service	1,545,958	1,302,630	1,757,227	1,696,139	1,938,271
Revenues	7,998,414	8,352,797	8,899,024	9,891,415	10,796,334
Operating Margin	19.3%	15.6%	19.7%	17.1%	18.0%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Net Income Available for Debt Service	2,148,666	2,494,977	3,237,124	3,824,238	4,445,904
Revenues	12,725,645	14,174,233	15,654,424	16,878,294	18,161,507
Operating Margin	16.9%	17.6%	20.7%	22.7%	24.5%

7. Current Ratio

Requirement	Measure at end of FY 2024
At least 150%	518%

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 increasing for the past several years as cash has increased but liabilities have remained fairly constant.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Current Assets	3,189,801	3,901,833	4,350,134	4,775,255	5,444,836
Current Liabilities	1,062,382	1,443,123	1,131,292	979,386	1,050,586
Current Ratio	300%	270%	385%	488%	518%

Bond Documents

Legal bond documents are being reviewed by Dorsey & Whitney in its capacity as Issuer's Special Counsel to the Authority, and all requirements are being incorporated. In addition, Chapman & Cutler, as Bond Counsel, has certified that each of the required legal provisions is present in the bond documents.

Continuing Disclosure

The School did not file FY20 Waitlist Data, filed the FY22 Annual Budget late, and did not file any October 1 Enrollment Reports, from FY 20 to FY24. We see these as fairly small missed filings that can easily be rectified.

Conclusion

The School has previously received approval for credit enhancement. The School has consistently met the standards for credit enhancement through the past five years and currently meets the standards. The School does require increased enrollment to meet the standards going forward with the expected increase to its debt levels. The School is in a fast growing area and holds a moderate waitlist that should support enrollment going forward.