

MEMORANDUM

DATE: Wednesday, July 23, 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: Advantage Arts Academy 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:	No
Zions Commercial Involvement:	No

Executive Summary

Borrower:	Advantage Arts Academy
Management Company:	Business Manager: Academica West
Municipal Advisor:	LRB Public Finance: David Robertson
Borrower's Counsel:	Farnsworth Johnson: Brandon Johnson
Underwriter:	Raymond James: Wes Olson
Bond Counsel:	Gilmore and Bell: Jacob Carlton
Issuer's Counsel:	Orrick, Herrington, Sutcliffe: Eugene Clark-Herrera
Trustee:	US Bank: Laurel Bailey
Par Amount:	\$13,6940,000 in tax-exempt bonds.

Enhancement Requested:	No
Purpose:	Buyout the School's initial construction financing (balloon payment in October) and pay costs of issuance.
Structure:	Bonds will be repaid over a 5-yr term with interest only payments in 2026 and 2027. Principal repayment begins in 2028 and 2029 before a balloon payment in 2030. Principal and interest will amortize based off a hypothetical 25-year term. The bonds will be callable in years 1-2 at 103% of par, years 3-4 at 102%, and in year 5 at 101%. A senior-subordinate structure is in use here to allow the School to take advantage of a blended rate that would beat longer-term rates the School could expect in the market.
Term:	Final maturity in 2030.
Rating:	Non-rated
Costs of Issuance Estimate:	\$283,850
Underwriter Fee Estimate:	\$8.00/bond (estimated \$111,520)
Litigation:	None of which we are aware.
Summary:	The School has a short history of operations that while initially rocky, the School believes they are in a better place going forward. The School's current developer financing comes due in October so longer-term financing is needed. The bonds carry some risk that in five years the School will have to refinance at higher rates, The School is building in a couple years of interest only payments so that it can build cash balances but it does not rely on growth assumptions to meet debt service going forward.

Purpose

The purpose of this memo is to document the adherence of Advantage Arts Academy (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 one campus located in Herriman. The School began operations in 2020 during the height of the pandemic. It has a unique arts-based mission and integrates the arts into each area of its curriculum.

The School lists the following mission.

MISSION

The mission of Advantage Arts Academy (AAA), in alignment with the Beverley Taylor Sorenson Arts Learning Program, is to effectively increase our students' performance in every subject, as well as improve students' core academic capacity, emotional well-being, arts awareness, and social skills.

Enrollment/Student Demand

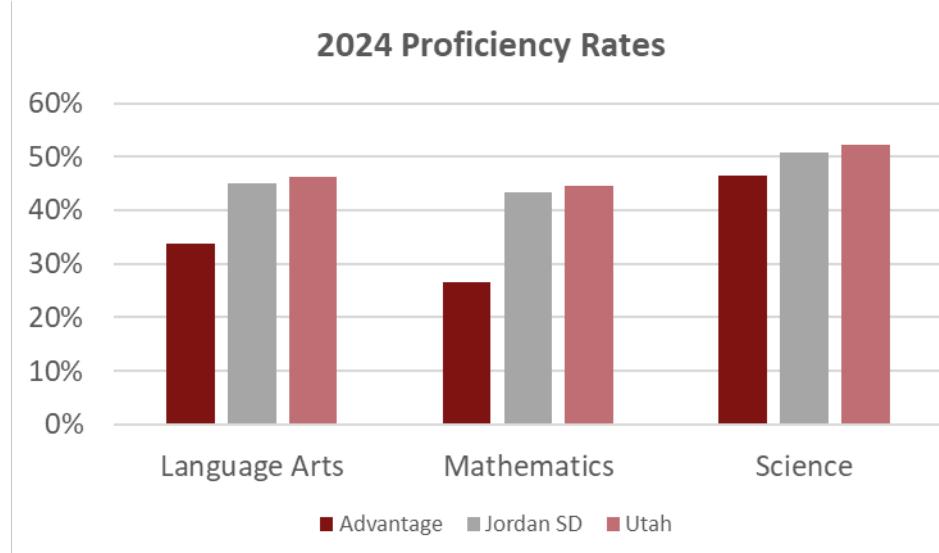
October 2024 LEA enrollment was 354 students. Average daily membership was above 97%. While reenrollment rates were below statewide averages they have improved each of the past three years. The School does not have a waitlist.

	ADM	Re-enrollment Rates		
		'21-'22	'22-'23	'23-'24
2024	99%			
2023	97%	Advantage	69%	76%
2022	101%	Utah	82%	83%

Advantage Arts Academy Utah LEA Enrollment

Grade	Historic						Projected			
	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29	'29-'30
K	70	65	63	51	64	66	66	66	66	66
1	54	59	59	51	63	64	66	66	66	66
2	57	58	46	52	48	63	64	66	66	66
3	49	57	48	48	54	48	63	64	66	66
4	45	43	50	43	50	54	48	63	64	66
5	32	40	33	51	43	50	54	48	63	64
6	20	27	33	27	32	43	50	54	48	63
Totals	327	349	332	323	354	388	411	427	439	457

Academic Performance



Management

1. The School currently has a four-member board. The board members have backgrounds in: lobbying small business ownership, education, and finance.
2. The School employs Kelly Simonsen as Principal. Ms. Simonsen has a Bachelor's in Elementary Education from Brigham Young University and a Master's in Education Leadership from Western Governor's University. She has been with the School since it opened in 2020.

3. The School employs Academica West for business services.
4. The School has not adopted fiscal policies and procedures but will be adopting those policies at an upcoming board meeting.

Plan of Finance

The School intends to sell \$13,940,000 of non-rated bonds via negotiated underwriting with Raymond James acting as the underwriter. Roughly \$11 million in bonds will be directly placed with a bank at a rate of 5% while the remainder of the financing will be in the form of subordinate bonds placed with the CLI Capital. The School initially pursued options in the public markets. Rates were higher and it was determined that a shorter-term financing could allow the School time to improve its financial standing before returning to the public markets for longer-term financing.

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 purchasing the School out from a developer financing that becomes due, in whole, in October of this year. The financing will also pay costs of issuance. The bonds will carry a fixed rate of interest. The School will initially begin to repay interest only before payments of principal and interest in 2028 and 2029 (based off a 25-year amortization) before a balloon payment in 2030. 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:

- 6171 W 11800 S, Herriman, Utah 84096

An appraisal was performed by Rigby and Company. The school building has an “as is” value as of May 27, 2025 of \$13,800,000.

Ratings

No rating is anticipated.

Financial Performance

Summary:

The School is a relatively new School that has had mixed success in its first years financially. It has met coverage metrics in some years but not in others. Failure to consistently meet coverage metrics has kept the School at relatively low cash balances. It met some of the benchmarks set by the Authority but missed others in the last audited financial year. The School’s pro-forma assumes expanded enrollment to achieve stronger levels. However, if the School can continue to achieve the level of enrollment it saw in FY 2025, and maintain similar operating margins, it should be able to meet its ongoing obligations.

1. The School has had some issues with budgeting. Initial startup difficulty was attributed to the loss of the original director in the first year of operations. Last year was the School’s best performance budgetarily over its history.

	Actual Variation from Budget				
	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Revenue	-2.4%	0.6%	6.1%	2.7%	6.3%
Expenditures	-6.9%	9.9%	0.6%	7.8%	-0.5%

2. Cash Position

Benchmark	Measure at end of FY 2024
At least 30 days	53

The School's days cash on hand is on the lower end of Moody's Ba3 rating range. The School's financing is structured to be interest only payments for FY 2026 and FY 2027. This should give the School some breathing room and allow it to build its cash balances.

Days Cash on Hand			
'20-'21	'21-'22	'22-'23	'23-'24
83	48	60	53

3. Fund Balance

Benchmark	Measure at end of FY 2024
At least 15% of following year expenses	7%

The School's fund balance decreased in FY 2024. However, given that the School had stronger operations last year. It would be expected that its fund balance would have increased. If the School's fund balance increased by its total net revenues from FY 2025, the School's fund balance as a percent of next year's expenses would be 16%. It is likely just under that.

	'20-'21	'21-'22	'22-'23	'23-'24
Fund Balance	145,570	188,329	373,194	191,254
Following Year Operating Expenses	2,528,023	2,409,010	2,873,608	2,864,008
Fund Balance % of Future Expenses	6%	8%	13%	7%
	'25-'26	'26-'27	'27-'28	'28-'29
Fund Balance	582,645	1,120,725	1,585,513	2,029,060
Following Year Operating Expenses	3,069,293	3,241,372	3,418,613	3,521,172
Fund Balance % of Future Expenses	19%	35%	46%	58%

4. Debt Coverage Ratio

		Measure at end of FY 2025 (unaudited)
Benchmark		
	At least 115%	133%

In FY 2025, the School was able to achieve an acceptable coverage ratio after falling below 1x in FY 2024. The School's interest only payments for two years show a rosy picture of coverage in FY 2026 and FY 2027. Coverage in FY 2028 is more accurate to where the School will be long term. The School will not have long at those coverage levels though as a balloon payment will require the School to issue longer-term debt. The School is relying on its ability to refinance at that time. It could bring additional pressure to the School if long-term rates continue to increase as has been the case recently. Current market expectations are that rates should decline between now and 2030.

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Net Income Available for Debt Service	931,638	1,057,649	1,205,318	952,005	1,247,844
Annual Debt Service	775,649	1,031,766	980,409	974,076	939,240
Debt Coverage Ratio	120%	103%	123%	98%	133%
	'25-'26	'26-'27	'27-'28	'28-'29	'29-'30
Net Income Available for Debt Service	1,463,122	1,581,091	1,606,467	1,579,896	1,698,990
Annual Debt Service	686,263	863,650	986,750	988,500	12,964,250
Debt Coverage Ratio	213%	183%	163%	160%	13%

5. Debt Burden Ratio

		Measure at end of FY 2025 (unaudited)
Benchmark		
	Less than 23%	25.1%

The School's fund balance ratio of 13.6% as of FY 2024 puts the School in the debt burden range of less than 23%. By buying out the developer financing on this property, the School should be able to fix its debt costs just below the benchmark for this metric. A high debt burden has put a strain on the School but if funding increases continue the School should be able to improve on this metric over the next several years.

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Maximum Annual Debt Service	1,031,766	1,031,766	1,031,766	1,031,766	1,031,766
Unrestricted Operating Revenues	2,946,041	3,297,023	3,598,546	3,687,632	4,111,852
Debt Burden Ratio	35.0%	31.3%	28.7%	28.0%	25.1%
	'25-'26	'26-'27	'27-'28	'28-'29	'29-'30
Maximum Annual Debt Service	988,500	988,500	988,500	988,500	988,500
Unrestricted Operating Revenues	4,365,349	4,650,384	4,847,839	4,998,509	5,220,162
Debt Burden Ratio	22.6%	21.3%	20.4%	19.8%	18.9%

6. Operating Margin

Benchmark	Measure at end of FY 2025 (unaudited)
At least 9%	30.3%

The fund balance ratio of 13.6% (FY 24) places the School in the operating margin benchmark range of at least 9%. The School met this benchmark each of the past five years. Margins have needed to be strong in order to meet the large debt obligation the School has for its building. Over time this should moderate and allow the School to put more money back into classrooms.

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Net Income Available for Debt Service	931,638	1,057,649	1,205,318	952,005	1,247,844
Revenues	2,946,041	3,297,023	3,598,546	3,687,632	4,111,852
Operating Margin	31.6%	32.1%	33.5%	25.8%	30.3%
	'25-'26	'26-'27	'27-'28	'28-'29	'29-'30
Net Income Available for Debt Service	1,463,122	1,581,091	1,606,467	1,579,896	1,698,990
Revenues	4,365,349	4,650,384	4,847,839	4,998,509	5,220,162
Operating Margin	33.5%	34.0%	33.1%	31.6%	32.5%

7. Current Ratio

Benchmark	Measure at end of FY 2024
At least 150%	112%

The current ratio is defined as current unrestricted assets divided by current liabilities (including current year debt service).

	'20-'21	'21-'22	'22-'23	'23-'24
Current Assets	520,689	456,569	588,889	456,823
Current Liabilities	695,396	462,546	384,093	408,062
Current Ratio	75%	99%	153%	112%

Bond Documents

Legal bond documents are being reviewed by Orrick, Herrington, & Sutcliffe 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 subject to a continuing disclosure obligation and will be under a limited obligation for the new financing.

Conclusion

The School has had weak operations in its first five years. Its developer financing will come due later this year and will need to be refinanced. The new structure should keep the School's overall debt service roughly at the level it has been. The financing is a short term financing that will need to be refunded again within the next five years. Enrollment in FY 2025 was sufficient for the School to achieve acceptable financial ratios in most categories thought leverage remains high. Interest only payments in the first two years should allow the School to build cash balances.