ZIONS PUBLIC FINANCE, INC.

MEMORANDUM

DATE: Friday, September 19, 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: Esperanza Elementary Chart 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:	Esperanza Elementary Charter School
Management Company:	Business Manager: Red Apple Financial
Municipal Advisor:	LRB Public Finance: David Robertson
Borrower's Counsel:	Farnsworth Johnson: Brandon Johnson
Underwriter:	HJ Sims: John Solarczyk
Bond Counsel:	Chapman and Cutler: Eric Hunter

Issuer's Counsel:	Gilmore & Bell: Jacob Carlton
Trustee:	Zions Bank: Shelene Brown
Par Amount:	$4,675,000 in tax-exempt bonds.
Enhancement Requested:	No
Purpose:	Expand the West Valley campus by adding 9,000 sq ft of additional space (classrooms, storage, and bathrooms), pay capitalized interest, fund debt service reserve funds, and pay costs of issuance.
Structure:	Bonds will be repaid over a 30-yr term with level principal and interest payments after a short capitalized interest period ends with the first principal payment in 2026. The bonds will likely carry a 10-year call.
Term:	Final maturity in 2054.
Rating:	S&P Global Ratings: BB
Costs of Issuance Estimate:	$195,000
Underwriter Fee Estimate:	$75,000 ($16.16/bond)
Litigation:	None of which we are aware.
Summary:	The School Is a small school with tight operations. Historically strong margins have declined due to expenditure increases. The School is looking to expand enrollment and achieve better economies of scale. A good waitlist should allow the School to achieve the modest enrollment increases expected in the School's pro-forma financials. However, recent performance has been weaker and called into question how well the School can perform relative to projections. The School has met each of the requirements of the Credit Enhancement Program with the exception of the Operating Margin requirement (which it missed each of the past two years). The School has historically met this requirement but recent increases to teacher salaries have decreased the operating margin. The School's pro-forma calls for operating margins of 15% or greater going forward.

Purpose

The purpose of this memo is to document the adherence of Esperanza Elementary 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-7 charter school with a campus located in West Valley. The School came before the Authority last in 2018 when it issued its Series 2018AB bonds for the purpose of purchasing its existing building. This financing will allow the School to expand in order to accommodate the addition of grades 7 and 8. The addition of grade 8 has been applied for but not yet approved by the State Charter School Board ("SCSB"). SCSB staff has indicated that while the SCSB has not made a decision on this request, the SCSB typically has approved these requests for schools in good standing.

The School lists the following mission and vision.

MISSION

All Esperanza Elementary stakeholders work as a team doing whatever it takes to provide the environment that fosters what each student needs to become biliterate, multicultural, and to acquire the skills and attributes needed to effectively serve in our local and global community.

VISION

All Esperanza Elementary graduates are biliterate, multicultural, and have the skills and attributes needed to effectively serve in our local and global community.

Enrollment/Student Demand

October 2024 LEA enrollment was 576 students with 31 students in the School's inaugural 7th grade class. The School is expecting to add an additional 54 students next year and hold at that level going forward. Average daily membership was above 99% and reenrollment rates have been strong. The School has a moderate waitlist at 40% of total enrollment.

	ADM
2024	99%
2023	100%
2022	99%

Retention Rates	'21-'22	'22-'23	'23-'24
EE	87%	91%	85%
Utah	82%	83%	83%

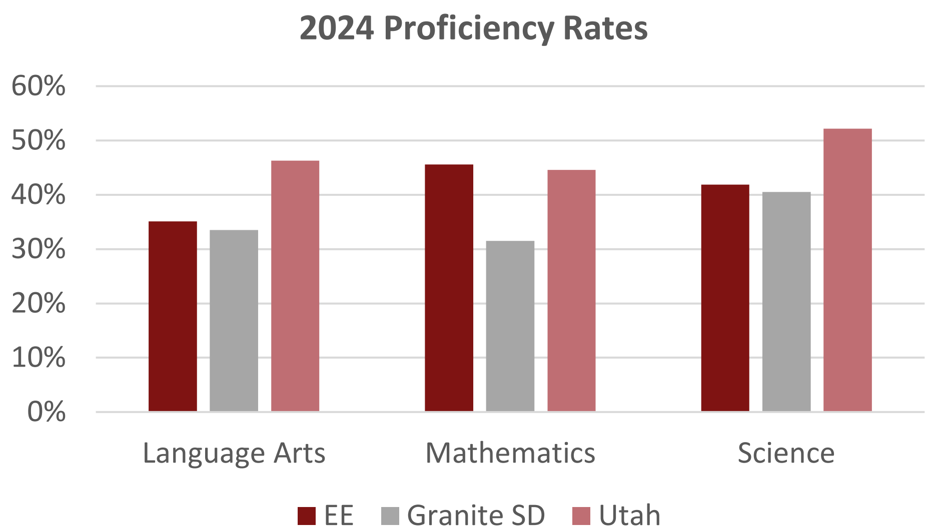
Esperanza Elementary LEA Enrollment

	Historic					Projected				
Grade	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
K	85	81	85	88	80	90	85	85	85	85
1	80	81	80	83	83	85	85	85	85	85
2	83	79	84	80	81	79	85	85	85	85
3	83	82	80	75	81	81	85	85	85	85
4	79	77	75	80	78	80	80	80	80	80
5	65	70	74	64	76	72	60	60	60	60
6	62	57	59	59	60	58	60	60	60	60
7	-	-	-	-	-	31	50	50	50	50
8	-	-	-	-	-	-	30	30	30	30
Totals	537	527	537	529	539	576	620	620	620	620

Esperanza Elementary LEA Waitlist

Grade	'21-'22	'22-'23	'23-'24	'24-'25
K	42	45	31	45
1	33	12	11	39
2	19	8	14	27
3	16	9	18	30
4	16	9	9	21
5	10	9	12	17
6	10	13	13	18
7	-	-	-	10
8	-	-	-	-
Totals	146	105	108	207
Total Enrollment	537	529	539	576
% of Enrollment	27%	20%	20%	36%

Academic Performance



Management

1. The School currently has a seven-member board. The board members have backgrounds in: medical administration, education (both primary and higher education), manufacturing, law, armed services, and accounting.
2. The School employs Eulogio Alejandre as Executive Director/Principal. Mr. Alejandre joined the School in 2014 as its Executive Director and has 25 years of experience in education. Mr. Alejandre has a Master of Education degree and an Administrative/Supervisory license from the Utah State Office of Education.
3. The School employs Red Apple Financial for business services.
4. The School has adopted fiscal policies that govern cash handling, fundraising and donations, budgeting, and procurement. The School does not have formal policies governing debt and investments for which we could find record.

Plan of Finance

The School intends to sell $4,675,000 of non-rated bonds via negotiated sale with HJ Sims 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 expanding the School's West Valley campus, funding a debt service reserve fund, capitalizing interest, and paying costs of issuance. The expansion will add 9,000 sq ft of space including classrooms, bathrooms, and storage areas. The bonds will carry a fixed rate of interest. The School will capitalize its first interest payment in 2025 and thereafter make level principal and interest payments through maturity in 2054. 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:

- 4956 West 3500 South, West Valley, Utah 84120

An appraisal valued the building at $14,500,000. Total debt for the School will be under $12 million after this financing.

Ratings

The School received a rating of BB (Stable) from S&P Global Ratings. In its rating report S&P noted the following weaknesses and strengths.

Weaknesses

- Small operating base with limited potential for revenue growth.
- Somewhat elevated proforma debt burden

Strengths

- Healthy student demand metrics including; stable enrollment, supportive waitlist, and solid student retention.
- Experienced and capable management.
- History of positive operating performance

S&P noted that weakening of demand profile, costs to the project increasing unexpectedly or an unexpected decline in liquidity could lead to a rating downgrade. A rating upgrade could occur if liquidity increased to that of higher rated peers while sustaining positive operating performance, stable demand metrics, and sound lease-adjusted coverage.

Financial Performance

Summary:
The School's financial have historically been relatively healthy for a small school. It has met each of the benchmarks set by the Authority in each of the past five years. However, margins have declined significantly since 2020 and are nearing the Authority benchmark. Increasing inflation has taken a toll on the School despite increases to State funding. The School's auditor noted a finding regarding expenditures exceeding final adopted budgeted amounts in FY 2022.

1. The School has had issues controlling expenditures. In FY 2024, expenditures came in nearly $800,000 greater than the School's initial budget. Expanded operations to new grades may cause further disruptions to the School's budgets.

	Actual Variation from Budget				
	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Revenue	9.1%	10.7%	7.1%	7.1%	8.9%
Expenditures	2.5%	4.4%	10.9%	9.8%	12.5%

2. Cash Position

Requirement	Measure at end of FY 2025 (unaudited)
At least 75 days	100

The School's days cash on hand has declined each of the past five years as a result of total cash levels declining in each year as well as rapid increases in expenditures of roughly 10% a year for each of the past four years.

Days Cash on Hand

'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
188	195	167	142	100	189

3. Fund Balance

Requirement	Measure at end of FY 2024
At least 15% of following year expenses	25%

The School's declining margins have led to a decline in available liquidity on an absolute and relative basis. The rapid increase in expenditures has also put the School in a much tighter operating position. Expenditures increased by roughly 50% over five years while enrollment remained flat (537 to 539 students).

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Fund Balance	2,532,651	1,870,967	2,028,635	1,967,145	1,506,228
Following Year Operating Expenses	4,103,326	4,740,150	5,494,447	6,339,339	6,120,025
Fund Balance % of Future Expenses	62%	39%	37%	31%	25%

	'24-'25	'25-'26	'26-'27	'27-'28
Fund Balance	1,809,218	2,065,041	2,303,675	2,568,744
Following Year Operating Expenses	6,531,414	6,727,021	6,928,495	7,136,014
Fund Balance % of Future Expenses	28%	31%	33%	36%

4. Debt Coverage Ratio

Requirement	Measure at end of FY 2025 (unaudited)
At least 120%	131%

In FY 2024, the school reported on the Electronic Municipal Market Access ("EMMA") that it had not met its required coverage of 1.10x. By the School's calculation, coverage in FY 2024 was 1.08x. However, the calculations we have used for this memo add back certain capital outlay as this is a more standard method of calculating coverage. This brings coverage to 1.29x. The State Charter School Board sent the School a Letter of Awareness related to the coverage report the School made. We believe this is not a significantly concerning factor. However, the School would not have achieved 1x debt service in the past two years on the new expanded debt service. The School will either need to return to the tight operating procedures it historically maintained or it will need to rely on weaker margins on a larger enrollment base.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Net Income Available for Debt Service	1,132,693	1,080,887	1,022,789	714,614	729,844
Annual Debt Service	548,306	546,516	562,843	566,038	563,922
Debt Coverage Ratio	207%	198%	182%	126%	129%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Net Income Available for Debt Service	717,328	1,159,829	1,194,959	1,231,145	1,268,415
Annual Debt Service	548,306	818,731	876,781	877,719	878,331
Debt Coverage Ratio	131%	142%	136%	140%	144%

5. Debt Burden Ratio

Requirement	Measure at end of FY 2025 (unaudited)
Less than 16%	14.7%

The School should be able to meet this requirement. Debt burden is rising to near the standard leaving less operating flexibility. Expanded operations should help the School to reduce its debt burden in fairly short order.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Maximum Annual Debt Service	548,306	546,516	562,843	566,038	563,922
Unrestricted Operating Revenues	4,843,916	5,184,213	5,762,939	6,209,061	7,069,183
Debt Burden Ratio	11.3%	10.5%	9.8%	9.1%	8.0%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Maximum Annual Debt Service	878,331	878,331	878,331	878,331	878,331
Unrestricted Operating Revenues	5,973,242	7,691,243	7,921,980	8,159,640	8,404,429
Debt Burden Ratio	14.7%	11.4%	11.1%	10.8%	10.5%

6. Operating Margin

Requirement	Measure at end of FY 2025 (unaudited)
At least 14%	12.0%

The School's operating margins have declined significantly from its peak in 2019-2020. In FY 2024 the School was at its lowest margin ever. The School has missed this benchmark for each of the past three years including FY 2025.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Net Income Available for Debt Service	1,132,693	1,080,887	1,022,789	714,614	729,844
Revenues	4,843,916	5,184,213	5,762,939	6,209,061	7,069,183
Operating Margin	23.4%	20.8%	17.7%	11.5%	10.3%

	'24-'25	'25-'26	'26-'27	'27-'28	'28-'29
Net Income Available for Debt Service	717,328	1,159,829	1,194,959	1,231,145	1,268,415
Revenues	5,973,242	7,691,243	7,921,980	8,159,640	8,404,429
Operating Margin	12.0%	15.1%	15.1%	15.1%	15.1%

7. Current Ratio

Requirement	Measure at end of FY 2024
At least 150%	390%

The current ratio is defined as current unrestricted assets divided by current liabilities (including current year debt service). The School's current ratio has remained strong as liabilities have not increased. Adding debt should decrease this ratio going forward but not to a level that is concerning.

	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24
Current Assets	2,061,278	2,278,711	2,971,260	3,125,525	2,777,760
Current Liabilities	572,126	584,271	586,921	688,545	712,826
Current Ratio	360%	390%	506%	454%	390%

Bond Documents

Legal bond documents are being reviewed by Gilmore and Bell in its capacity as Issuer's Special Counsel to the Authority, and all requirements are being incorporated. In addition, Chapman and Cutler 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 generally met its continuing disclosure requirements with few late or missed filings (mostly quarterly or monthly operating information, all annual audits were available on EMMA). The School has an acceptable continuing disclosure policy.

Conclusion

The School began the five year look back period with strong operating margins, debt coverage and liquidity. Each of those positions has declined. If the School is able to return to its historic practices it should be able to manage an expanded debt burden. Historic margins were sufficient to meet the expected maximum debt service for the new debt. Additional enrollment should not be difficult for the School to achieve. The School has a large waitlist and feels it serves a unique and underserved population that provides it with a strong demand profile.

The School did not meet each of the new standards for credit enhancement. The School does meet the old standards for credit enhancement and is seeking consideration by the Authority. The School's financial position over the past several years has declined as the School has tried to keep pace with salary demands for teachers and a changing market for labor. Going forward the School expects to be able to take advantage of a slightly larger scale to get back to historical operating levels. While these seem like reasonable goals, the Authority could take a wait and see approach to providing credit enhancement to the School to protect itself from a School in a declining financial position.