Unapproved Minutes

Utah Charter School Finance Authority
April 16, 2015

Members of the Authority present:

Richard Ellis (Chair of Authority, Utah State Treasurer)
Phil Dean (Governor's Office of Management and Budget)
Bruce D. Williams (Secretary of Authority, Utah State Office of Education)

Others Present:

David Damschen (Deputy Utah State Treasurer)
Perri Babalis (Attorney General)
Reed Stringham (Attorney General)
Eric Hunter (Chapman & Cutler)
Danny Schoenfeld (Utah State Office of Education)
Max Meyer (Charter Solutions/Providence Hall)
Erin Preston (Lear Law)
Lincoln Fillmore (Charter Solutions/Providence Hall)
Preston Olsen (Ballard Spahr)
Jon Bronson (Zions Bank)
Brian Baker (Zions Bank)
Sonya Peterson (Providence Hall)
Brand Findlay (Utah Charter Academies)
Phil Collins (Utah Charter Academies)
Jim Blandford (R.W. Baird and Company/Utah Charter Academies)
Clint Biesinger (Verapath Global/Utah Charter Academies)
Howard Headlee (State Charter School Board)

Meeting called to order by Richard Ellis at 8:30 a.m.

Items of Business:

1. Approval of Minutes
Motion was made by Phil Dean to approve the minutes of the Authority's March 20, 2015 meeting. The motion passed unanimously.

2. Providence Hall Noncompliance with Debt Service Coverage Covenant & Action
Ms. Peterson provided an overview of Providence Hall's governance and oversight practices.

Richard Ellis confirmed that, under Credit Enhancement Program (CEP) requirements, the school has covenanted with the State in the Loan Agreement to maintain a debt service coverage (DSC) [on a maximum annual debt service basis] ratio at or above 1.15x, and that the school's actual coverage for 2014 fell short of this requirement.

Mr. Fillmore presented and explained budget data for the school, and also explained the school's standard budget process and timeline. He additionally explained some of the specific deficiencies in the budget as it pertains to 2014 and the covenant violation under discussion.

Ms. Peterson discussed deficiencies in the school's assumption-setting & budgeting process, primarily noting overly aggressive expectations for the school's prospects for hitting enrollment targets for the high school.

Authority board members expressed concerns about the school's budgeting process, in particular the budget pro formas that were provided as part of the school's financing application, to the extent that the deficiency in the debt service coverage ratio wasn't better anticipated by the assumptions made at the time of application for financing and eligibility for the Credit Enhancement Program. Concerns were also voiced regarding the school's efforts thusfar in the area of expense control in attempts to bring the school back into compliance.

Members of the Authority board discussed the options available to respond to the breach, including an increase to the school's rate of contribution to the Credit Enhancement Program Reserve Fund or the commissioning by the school of an independent consultant to review the school's budget, assumptions implicit in the budget, and to make recommendations for cost savings sufficient to bring the school into compliance by the end of FY16.

Mr. Headlee suggested that the State Charter School Board (SCSB) has a shared interest in the situation, and suggested that the Authority coordinate with the SCSB on the selection of independent consultant.

Authority board members asked Mr. Olsen (bond counsel to the school) whether he felt the school's deficient DSC ratio might constitute a material event that should be disclosed on EMMA. Mr. Olsen implied that the school should likely file a disclosure as an abundance of diligence in this regard. The Authority asked that the school continue this discussion with bond counsel to make a final determination regarding the filing of a material event notice.

Phil Dean moved that the school be required to contract with an independent consultant, in conjunction with the SCSB, to have that consultant review, examine and validate the school's FY16 budget and its underlying assumptions, and further to assist the school's board in identifying cost control opportunities that can bring about compliance with the CEP DSC ratio requirement by the end of FY16, and that the independent consultant provide a report to the school (and in turn to the Authority) by June 1, 2015. The motion passed unanimously.

Authority board members suggested that, should the school not attain compliance with the DSC covenant by the end of FY16, stronger consideration would be given by the board to increasing the school's rate (currently 20 basis points per year) of contribution to the CEP Reserve Fund.

3. <u>Utah Charter Academies (UCA) Application for Financing and Credit Enhancement Program Eligibility</u>

Mr. Ellis asked Mr. Biesinger and Mr. Blandford for an update on their discussions with Goldman Sachs. Mr. Biesinger asked whether there were any other concessions the Authority might be asking of Goldman, other than those that have already been discussed. Mr. Blandford indicated that the list of the Authority's preferred concessions prepared by bond counsel had been provided to Goldman Sachs. He reiterated Goldman's focus on the acceleration issue (Goldman's ability to accelerate the Qualified School Construction bonds without consent of the Authority) and that they be unimpaired in their ability to take their principal out in 2018.

Mr. Biesinger and Mr. Blandford suggested that the Authority consider delegating authority to Mr. Ellis to engage in direct discussions with Goldman Sachs in order to confirm a compromise structure (relative to security interests and related covenants) that can work for the State and Goldman Sachs.

Board members and the UCA team discussed the likelihood that Goldman would favor a re-financing opportunity in two years sufficient to unencumber the schools' assets and revenues.

Motion was made by Bruce Williams that Mr. Ellis be authorized to negotiate terms with Goldman Sachs, such terms being subject to ratification by the Authority's board. The motion passed unanimously.

Motion was made by Bruce Williams to adjourn.