



ZIONS PUBLIC FINANCE, INC.

## MEMORANDUM

**DATE:** Tuesday, June 8<sup>th</sup>, 2021

**TO:** Kirt Slaugh, Interim State Treasurer and Utah Charter School Finance Authority Board

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

**RE:** Thomas Edison 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.

Potential Conflicts on this Specific Transaction:

Zions Public Finance:	X
Zions Corporate Trust:	
Zions Commercial Involvement:	

### Executive Summary

Borrower:	Thomas Edison Charter School, Inc.
Management Company:	Red Apple: Steven Finley
Municipal Advisor:	Lewis, Young, Robertson, and Burningham: David Robertson
Borrower's Counsel:	Farnsworth Johnson PLLC.: Brandon Johnson
Purchaser:	NBH Bank: Brian Martorella

Bond Counsel:	Chapman & Cutler, LLP: Eric Hunter
Issuer's Counsel:	Gilmore & Bell, P.C.: Jacob Carlton
Trustee:	US Bank National Association: Brandon Elzinga
Par Amount:	\$6,402,000 in tax-exempt bonds
Enhancement Requested:	No
Purpose:	Refund an existing Alta Bank note and USDA loan for economic savings and pay costs of issuance.
Structure:	Bonds will be repaid with a roughly level amortization of principal and interest over 10 years. The bonds will carry a fixed rate of interest.
Term:	Final maturity in April, 2031. The bonds will be redeemable at 105% in year one, 103% in year two, 101% in year three, and at par from 37 months until maturity
Rating:	Non-rated
Costs of Issuance Estimate:	\$194,700
Purchaser Fee Estimate:	None
Litigation:	None of which we are aware.
Summary:	The financing is a pure refunding for economic savings that carries favorable refunding conditions that will help the School preserve flexibility to pay down the debt as quickly as it would like to do.

## Purpose

The purpose of this memo is to document the adherence of Thomas Edison Charter School, Inc. ("TECS," or 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 TECS's application to the Authority and inquiry for clarification of the Municipal Advisor.

## Introduction

The School is a non-profit, 501c3 designated, public K-8 charter school with two campuses located in Nibley and North Logan. The School was approved by the Utah State Charter School Board (the "SCSB") and its first year of operations was in 2002-2003 with an enrollment of just over 200 students.

The School lists the following mission.

### **MISSION**

The mission of Thomas Edison Charter School is to provide all students the fundamental knowledge, tools, and discipline to become successful, reputable citizens in our country and to become high achievers in our ever evolving, demanding, and complex society.

## Enrollment/Student Demand

October enrollment for the 2020-2021 school year was 1,153 students. The School has been able to maintain stable enrollment over the past several years despite having no waitlist. Average Daily Membership (ADM) was at least 98% each of the past three years. Re-enrollment rates for the School have been above State averages at each campus with the larger North Campus leading the smaller South campus by a few percentage points.

The School is projecting that it will grow enrollment by nearly 100 students over the next five years. Not having a waitlist opens the School to competitive pressures from other charter schools. This was the case in 2016-2017. Another charter school opened within 4 miles of the School's south campus pulling several families who lived closer to the new school leading to a roughly one hundred student decline.

	ADM		Re-enrollment Rates		
			'17-'18	'18-'19	'19-'20
2020	98%	North Campus	86%	92%	87%
2019	101%	South Campus	83%	89%	86%
2018	99%	Utah	82%	82%	82%

Grade	South Campus Enrollment by School Year					
	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
K	92	94	70	65	73	75
1	94	90	83	75	59	57
2	85	90	82	65	76	73
3	88	88	77	66	64	66
4	87	89	86	76	70	70
5	81	87	86	74	74	75
6	89	89	85	76	83	82
7	83	88	85	74	79	78
8	61	86	79	62	72	74
9	46	23	28	-	-	-
Totals	806	824	761	633	650	650

Grade	North Campus Enrollment by School Year					
	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
K	60	60	59	59	61	52
1	60	60	60	60	60	57
2	60	60	60	53	59	60
3	55	58	60	60	50	53
4	60	60	57	60	56	53
5	60	60	60	55	60	55
6	59	60	62	60	60	60
7	58	60	61	60	60	60
8	59	58	60	57	54	53
Totals	531	536	539	524	520	503

Grade	Total Enrollment by School Year					
	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
K	152	154	129	124	134	127
1	154	150	143	135	119	114
2	145	150	142	118	135	133
3	143	146	137	126	114	119
4	147	149	143	136	126	123
5	141	147	146	129	134	130
6	148	149	147	136	143	142
7	141	148	146	134	139	138
8	120	144	139	119	126	127
9	46	23	28	-	-	-
Totals	1,337	1,360	1,300	1,157	1,170	1,153
Enrollment Cap	1,350	1,350	1,350	1,350	1,350	1,350

## Academic Performance

The School performed below the Cache County School District proficiency rates for all categories but was above the average proficiency rates for the State of Utah.

	2019 Proficiency Rates		
	Thomas Edison	Cache SD	Utah
Language Arts	51%	59%	46%
Mathematics	53%	64%	46%
Science	54%	64%	51%

## Management

1. The School currently has a six-member board. The board members' backgrounds are chiefly in education but range from classroom experience to curriculum materials development. One board member has a background in both education and healthcare.
2. The School employs Shem Smith and Melani Kirk as principals for the North and South Campus. The LEA does not have an executive director but manages the Schools through a collaborative approach between the campuses. Mr. Smith holds a bachelor's and a master's degrees in education from Utah State University. Ms. Kirk has a bachelor's degree in education from Arizona State University and master's in educational leadership from Northern Arizona University.
3. The School employs Steve Finley of Red Apple for accounting and business services. Mr. Finley has 16 years of experience in business management. He graduated from Weber State University with a bachelor's and a master's degree in Accounting.
4. The School has policies for cash handling, procurement, gifts, and financial reporting but does not have policies on fundraising, debt, and investments.

## Plan of Finance

The School intends to sell \$6,402,000 of non-rated bonds via a private placement with NBH Bank. The School is not seeking credit enhancement through the Utah Charter School Credit Enhancement Program. The bonds will be tax-exempt fixed rate bonds for the purpose of consolidating and refunding for savings the School's Series 2009 Bank Note bearing a rate of 4.4% and a Series 2009 USDA Loan bearing an interest rate of 4.5% to a rate of roughly 2.84%. Costs of issuance will also be paid out of bond proceeds. No debt service reserve fund will be required and existing debt service reserve funds will be used to pay down the old bonds. 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:

- 180 East 2600 North, North Logan, Utah 84341
- 1275 West 2350 South, Nibley, Utah 84321

No appraisal is expected.

## Ratings

No rating is anticipated.

## Financial Performance

### Summary:

After nearly two decades of operations, the School is in a relatively strong financial position with stable operations. The School's debt coverage ratio of 2.16x in 2020 was in Moody's A3 rating category indicative of a strong operating margin. The School had 109 days cash on hand ("DCOH") at the end of FY 2020 (Moody's Baa3 rating category). The School's working capital reserve was well above the Board's 3% requirement (30% in 2019-2020). The School carries a strong fund balance as a percent of the following year's operating expenses, 27% in 2020.

1. The School has been able to keep actual revenues and expenditures within 5% of budgeted amounts each of the past five years. This includes the 2016-2017 school year when the School saw a significant enrollment decline. The fact that the School was able to maintain coverage of 1.42x that year is a credit to management.

	Actual Variation from Budget				
	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Revenue	0.4%	0.6%	0.8%	-2.5%	-0.9%
Expenditures	1.3%	4.9%	-3.4%	-8.3%	-3.9%

## 2. Cash Position

Benchmark	Measure at end of FY 2020
At least 30 days	109

The cash position of the School was calculated to be 109 days of cash on hand at the end of fiscal year ended June 30, 2020. In 2020, the School used a portion of its cash to pay down a 2013 USDA Note leading to a decline in cash on hand.

Days Cash on Hand				
'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
112	104	133	134	109

## 3. Fund Balance

Benchmark	Measure at end of FY 2020
At least 15% of following year expenses	27%

At the end of FY 2020, the School's fund balance was \$2,088,654 which is approximately 27% of the school year ending in 2021's estimated operating expenses. The School is projecting fund balances will increase faster than expenditures will over the next several years leading to an increase in this ratio.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Fund Balance	1,992,007	2,176,079	2,729,677	2,775,944	2,088,654
Following Year Operating Expenses	8,066,882	7,865,955	7,893,699	7,748,543	7,811,750
Fund Balance % of Future Expenses	25%	28%	35%	36%	27%

  

	'20-'21	'21-'22	'22-'23	'23-'24
Fund Balance	2,409,894	2,731,474	3,053,321	3,375,028
Following Year Operating Expenses	8,702,784	9,185,575	9,394,743	9,702,693
Fund Balance % of Future Expenses	28%	30%	33%	35%

## 4. Debt Coverage Ratio

Benchmark	Measure at end of FY 2020
At least 105%	216%

The School's debt service coverage ratio has been above the benchmark 105% (1.05x) each of the past five years and was more than double that figure in fiscal 2020. As noted, a coverage ratio of 2.16x falls into the A3 range under Moody's rating methodology. The School's coverage ratio is expected to decline in FY 2021 and remain constant under the new bond as the School seeks to increase teachers' salaries.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Net Income Available for Debt Service	1,317,316	1,193,089	1,730,352	1,651,090	1,578,692
Annual Debt Service	840,072	840,072	840,072	790,152	730,152
Debt Coverage Ratio	157%	142%	206%	209%	216%

  

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Net Income Available for Debt Service	1,169,834	1,169,834	1,169,831	1,169,833	1,169,834
Annual Debt Service	741,514	741,061	740,702	740,890	740,594
Debt Coverage Ratio	158%	158%	158%	158%	158%

## 5. Debt Burden Ratio

Benchmark	Measure at end of FY 2020
Less than 25%	8.1%

The debt burden ratio benchmark is based on the level of the School's fund balance ratio. The School's fund balance ratio of 26.9% as of FY 2020 puts the School in the debt burden range of less than 25%. The School operated significantly below this benchmark each year of operations. The metric compares maximum annual debt service as a percent of annual revenues.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Maximum Annual Debt Service	840,072	840,072	840,072	790,152	730,152
Unrestricted Operating Revenues	8,260,894	8,867,276	9,215,963	9,137,450	9,022,000
Debt Burden Ratio	10.2%	9.5%	9.1%	8.6%	8.1%

  

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Maximum Annual Debt Service	741,514	741,514	741,514	741,514	741,514
Unrestricted Operating Revenues	8,981,584	9,872,618	10,355,406	10,564,576	10,872,527
Debt Burden Ratio	8.3%	7.5%	7.2%	7.0%	6.8%

## 6. Operating Margin

Benchmark	Measure at end of FY 2020
At least 7%	17.5%

The operating margin benchmark is a function of the level of the School's fund balance ratio or days cash on hand. The fund balance ratio of 26.9% and days cash on hand of 109 place the School in the operating margin benchmark range of at least 7%. The School's operating margin has been above this measure in each year of operations. As with the debt service coverage ratio the School will intentionally operate on smaller margins in the future in order to raise teacher salaries and benefits.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Net Income Available for Debt Service	1,317,316	1,193,089	1,730,352	1,651,090	1,578,692
Revenues	8,260,894	8,867,276	9,215,963	9,137,450	9,022,000
Operating Margin	15.9%	13.5%	18.8%	18.1%	17.5%

  

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Net Income Available for Debt Service	1,169,834	1,169,834	1,169,831	1,169,833	1,169,834
Revenues	8,981,584	9,872,618	10,355,406	10,564,576	10,872,527
Operating Margin	13.0%	11.8%	11.3%	11.1%	10.8%

## 7. Current Ratio

Benchmark	Measure at end of FY 2020
At least 150%	242%

The current ratio is defined as current unrestricted assets divided by current liabilities (including current year debt service). The School has had a current ratio above the 150% benchmark set by the Authority each year for the past five years. The decline in the current ratio in 2020 is related to the decline in cash balances, namely that the School paid down a significant piece of debt. This led to a decrease in the current liabilities (as debt service makes up a significant portion of the current liabilities) however, a large increase in accrued liabilities, coupled with the decline in cash balance, offset the declines in debt service to produce a net decrease to the current ratio.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Current Assets	2,295,585	2,345,698	2,911,016	2,938,089	2,350,295
Current Liabilities	1,082,023	967,157	966,433	966,807	972,926
Current Ratio	212%	243%	301%	304%	242%

## Bond Documents

Legal bond documents are being reviewed by Gilmore & Bell in its capacity as Issuer's Special Counsel to the Authority, and all requirements are being incorporated. In addition, Chapman & 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 will not be required to make public continuing disclosures due to the nature of the private placement.

### **Conclusion**

The School is in a solid financial position and is poised to pay off all debt within the next decade. Had the School opted to do so, our analysis concludes the School would have received an investment grade rating and qualified for the Credit Enhancement Program. Because the bonds have a short maturity, are relatively small in size, and the School received favorable terms from NBH Bank the bonds would likely not have benefited much from receiving credit enhancement.