



ZIONS PUBLIC FINANCE, INC.

MEMORANDUM

DATE: Tuesday, June 8th, 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: Providence Hall Charter School Application to the Utah Charter School Finance Authority 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.

Potential Conflicts on this Specific Transaction:

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

Executive Summary

Borrower:	Providence Hall Charter School
Management Company:	In-house Business Manager: Beverly Ledward
Municipal Advisor:	Lewis, Young, Robertson, and Burningham: David Robertson
Borrower's Counsel:	Dorsey & Whitney: Nathan Canova
Underwriter/Placement Agent:	Piper Sandler: Nick Hagen

Bond Counsel:	Gilmore & Bell P.C.: Jacob Carlton
Issuer's Counsel:	Chapman and Cutler: Eric Hunter
Trustee:	US Bank National Association: Brandon Elzinga
Par Amount:	\$12,875,000 in tax-exempt Series A bonds and \$26,155,000 in taxable convertible Series B bonds.
Enhancement Requested:	Yes
Purpose:	Refund the Series 2013A bonds (initially issued to finance the construction of the high school and refinance the elementary school debt); refund the Series 2012AB bonds and an additional note (initially issued to finance the purchase of the junior high school); finance a 19,000 sq ft expansion to the existing elementary; fund a debt service reserve fund; and pay costs of issuance. The Series 2013A bonds are subject to optional redemption October 15, 2023.
Structure:	The bonds will be structured to achieve roughly level overall debt service. This will be achieved by slightly deferring the payment structure of the new money bonds. The Series 2013 bonds will be issued as convertible refunding bonds due to the call restriction. The bonds will be issued initially with a taxable rate of interest that will convert to a tax-exempt interest rate at the call date. The bonds will carry a fixed rate of interest.
Term:	30-year term with final maturity in 2051. Optional redemption likely in year 5.
Rating:	Baa2
Costs of Issuance Estimate:	*Not yet provided
Underwriter Fee Estimate:	\$4.50/bond for publicly offered and \$6.00/bond for privately placed
Litigation:	None of which we are aware.
Summary:	The School meets each of the standards under the Credit Enhancement Program. The School has had declining operating margins that have dropped coverage to just over the Standards requirement of 1.05x. The School has strong liquidity that should help cover any shortfalls. However, coverage and operating margins should be closely watched to ensure the School does not drop below covenanted levels. The School has weak academic performance but that has not yet affected demand for entrance (the School has good retention and a healthy waitlist).

Purpose

The purpose of this memo is to document the adherence of Providence Hall Charter School ("Providence," or the "School") to the application requirements of the Utah Charter School Finance Authority (the "Authority") conduit issuance program and additional Credit Enhancement Program Standards and to provide credit analysis of the School for review. The analysis contained herein is based on Providence's application to the Authority and inquiry for clarification of the Municipal Advisor.

Introduction

The School is a non-profit, 501c3 designated, public K-12 charter school located in Herriman. The School was approved by the Utah State Charter School Board (the "SCSB") in 2007 with an initial enrollment of 700 students which has grown to a current enrollment cap of 2,150.

The School lists the following mission and vision.

MISSION & VISION

Think critically, communicate effectively, and act responsibly in an ever-changing global community.

At Providence Hall Charter School we expect all staff, students, and parents to embrace and make every effort toward each component of the mission statement. As a Board and Administration, we have outlined each component into value and belief statements that Providence Hall Charter School holds for all stakeholders.

- The Providence Hall community will ***Think Critically*** by being open-minded, purposeful, and solution driven, encompassing the IB Learner Profiles of Inquirer, Reflective, and Knowledgeable.
- The Providence Hall community will ***Act Responsibly*** by being principled, caring, accountable, and a contributor, encompassing the IB Learner Profiles of Balanced and Courageous.
- The Providence Hall community will ***Communicate Effectively*** by being clear, timely, collaborative, and respectful.

Enrollment/Student Demand

October enrollment for the 2020-2021 school year was 2,065 students just under the School's enrollment cap of 2,150. The School has had strong enrollment near or just below its cap for each of the past five years that falls into Moody's Baa2 rating range. Retention rates are right in line with State averages. Average Daily Membership was near 100% every year reviewed. The School has historically had a healthy waitlist of nearly 100% of current enrollment. As with most schools the waitlist is concentrated in the younger elementary grades. The School has seen a rapid decline in its waitlist that would normally be concerning. When asked the School explained that the decline was the result of an effort to clean up its waitlist. Rather than rolling the waitlist over from year to year, the School began contacting each family on the waitlist to determine whether they would like to continue to be on the waitlist. While it does present a less rosy picture, it appears to be a much more accurate way to count the waitlist.

	ADM		Retention Rates		
			'17-'18	'18-'19	'19-'20
2020	99%	Providence	85%	82%	83%
2019	100%	Utah	82%	83%	81%
2018	99%				

Grade	Enrollment by School Year				
	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
K	122	125	125	120	123
1	124	121	124	125	121
2	125	124	123	125	121
3	125	130	129	129	129
4	151	130	130	131	150
5	171	156	146	152	149
6	254	197	213	188	186
7	252	242	210	212	195
8	254	228	235	224	205
9	189	232	213	241	226
10	141	139	192	150	168
11	149	133	132	163	141
12	93	136	126	127	151
Totals	2,150	2,093	2,098	2,087	2,065
Enrollment Cap	2,150	2,150	2,150	2,150	2,150

Grade	Waitlist by School Year					
	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
K	211	198	191	135	85	16
1	292	105	112	262	123	113
2	412	294	292	125	106	108
3	394	404	404	325	87	67
4	397	435	434	409	82	94
5	358	430	429	259	73	25
6	1	2	1	4	-	-
7	-	1	-	7	-	-
8	4	-	3	2	-	-
9	-	1	-	1	-	-
10	2	-	2	-	-	-
11	-	-	-	-	-	-
12	-	-	-	-	-	-
Totals	2,071	1,870	1,868	1,529	556	423
Total Enrollment	2,150	2,093	2,098	2,087	2,065	n/a
% of Enrollment	96%	89%	89%	73%	27%	n/a

Academic Performance

The School performed well below State and Jordan School District proficiency rates for all categories. However, academic performance at the high school level seems to be fairly average to peer comparisons. It is the younger grades that have significantly lower proficiency rates than State and Jordan School District averages.

	2019 Proficiency Rates		
	Providence	Jordan SD	Utah
Language Arts	33%	48%	47%
Mathematics	32%	46%	45%
Science	37%	48%	47%

	2019 K-8 Proficiency Rates		
	Providence	Jordan SD	Utah
Language Arts	28%	47%	47%
Mathematics	31%	48%	47%
Science	38%	54%	51%

	2019 HS Proficiency Rates		
	Providence	Jordan SD	Utah
Language Arts	45%	48%	49%
Mathematics	36%	37%	38%
Science	32%	34%	35%

Management

1. The School currently has an eight-member board. The board members have backgrounds in marketing, payroll management, veterinary medicine, and four members of the Board work in various education positions.
2. The School employs Nathan Marshall as its Executive Director. Mr. Marshall has a Master's in Biology from UC San Diego and a Master's in Education Leadership and Foundations from Brigham Young University. He previously taught courses in AP Biology and chemistry before transitioning into administration as an assistant principal at Maeser Preparatory Academy. He joined Providence in 2013 as a principal before becoming the School's Executive Director in 2020.
3. The School employs Beverly Ledward as the business manager. Ms. Ledward has served as the School's business manager for 8 years, initially as an employee of Charter Solutions but beginning in July 2020 as a direct employee. Prior to coming to the School, she worked in accounting for the SPAR Group in South Africa. She was the 2016 Utah Association of Public Charter School (UAPCS) Business Manager of the Year.
4. The School has policies for cash handling, gifts, financial reporting, fundraising, debt, and investments. The School has an appropriate continuing disclosure policy adopted April 8th, 2021.

Plan of Finance

The School intends to sell less than \$39,030,000 of rated bonds with Piper-Sandler serving as underwriter. The School is seeking credit enhancement through the Utah Charter School Credit Enhancement Program.

The bonds will be tax-exempt fixed rate bonds issued for the following purposes:

- \$4.5M – New money for a 19,000 sq ft expansion of the elementary school building.
- \$8.5M – Refund the Series 2012 USDA loans initially issued to finance the construction of the junior high.
 - Combined with the new money bonds these will be sold through a public offering.
- \$29,155,000 – Refund the Series 2013A bonds using a convertible (cinderella) structure.
 - These will likely be issued as a direct placement to a single purchaser.

- The school could opt not to include these refunding bonds if the savings do not make sense or the School could opt to sell these as standard taxable bonds through a public offering.

The bonds are secured by an assignment and secured interest in the revenues of the School and trust accounts, a debt service reserve fund, and a security interest and pledge of the deeds of trust in the land and building located at:

- 4795 West Patriot Ridge Drive, Herriman, Utah
- 4558 West Patriot Ridge Drive, Herriman, Utah
- 4557 West Patriot Ridge Drive, Herriman, Utah

The School will not be seeking an appraisal.

Ratings

The School received a rating on April 29th, 2021 from Moody's Investor Services of Baa2. In its credit opinion Moody's cited the following rationale for the rating:

Credit Strengths

- Solid competitive position evidenced by stable enrollment and waitlist
- Satisfactory liquidity
- Healthy projected debt service coverage with minimal new growth required

Credit Challenges

- Academic performance just in-line with district peers at high school; underperforms in lower grades
- Debt service coverage decline expected in 2021

Moody's cautioned that the following factors could lead to a rating downgrade:

- Failure to achieve projected financial performance and maintain solid debt service coverage
- Material decline in liquidity
- Inability to maintain full enrollment

However, material improvements to coverage and liquidity could also result in a rating upgrade.

Financial Performance

Summary:

Providence Hall Charter School has been in operation for more than a decade and has proven capable of maintaining strong financial performance. The School had 146 days cash on hand ("DCOH") at the end of FY 2020. The School did have a small PPP loan of \$350,000 but believes it will not need to pay that loan back. Debt-service coverage was 1.44x coverage in FY 2020. The School's working capital reserve was well above the Board's 3% requirement (40% in FY2020). The School has strong fund balance levels as a percent of the following year's operating expenses, 51% in 2020.

1. The School is projecting average annual revenue growth of roughly 3.5% and expenditure growth of 2.5%. The School has a fairly consistent track record of budgeting with outlier cases in 2018 and 2020. In both years the School had budgeted for building projects that ran into issues with a land swap scuttling the projects and leading to

expenditures coming in well below expectations. In all other years, actual revenues and expenditures were within 5% of budget.

	Actual Variation from Budget				
	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Revenue	1.9%	4.9%	0.9%	1.9%	1.1%
Expenditures	3.9%	-4.0%	-11.1%	2.6%	-6.1%

2. Cash Position

Requirement	Measure at end of FY 2020
At least 30 days	146

The cash position of the School was calculated to be 146 days of cash on hand at the end of fiscal year ended June 30, 2020. The School has been able to maintain a strong cash balance over a significant period of time. Liquidity was listed by Moody's as a significant factor in the School's Baa2 rating.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Cash & Equivalents	3,786,951	5,224,725	5,355,588	4,992,521	6,980,017
Operating Expenditures/Day	36,218	39,297	41,475	45,857	47,773
Days Cash on Hand	105	133	129	109	146

3. Fund Balance

Requirement	Measure at end of FY 2020
At least 15% of following year expenses	51%

At the end of FY 2020, the School's fund balance was \$8,763,639 which was approximately 51% of the school year ending in 2021's estimated operating expenses. This is well above the application standard 15%. The School projects it will continue to exceed this requirement going forward. The strong fund and cash balances should provide the school with the needed liquidity to weather unforeseen challenges in operations.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Fund Balance	5,320,100	6,299,719	6,884,912	7,761,480	8,763,639
Following Year Operating Expenses	14,343,343	15,138,337	16,737,857	17,437,127	17,083,745
Fund Balance % of Future Expenses	37%	42%	41%	45%	51%

	'20-'21	'21-'22	'22-'23	'23-'24
Fund Balance	9,017,915	9,534,794	10,299,473	11,230,397
Following Year Operating Expenses	17,425,419	18,073,928	18,435,406	18,804,115
Fund Balance % of Future Expenses	52%	53%	56%	60%

4. Debt Coverage Ratio

Requirement	Measure at end of FY 2020
At least 105%	144%

Debt service coverage is a key indicator and covenant used by investors in determining the ability of a bond issuer to pay back its debt. The School's net revenues over the past several years have been strong but are expected to be lower this year. Moody's cited the debt coverage ratio as a credit challenge, but Moody's typically evaluates that within the context of other like rated entities. While the School is likely on the low end of coverage for like rated entities, their coverage is above the requirement and should be stronger in future years. Critical to this assumption is that the School will not be engaging in new growth over the next several years. The School's decreasing net income margin is the driving factor behind the decline in debt service coverage.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Net Income Available for Debt Service	3,060,838	3,875,248	3,882,219	3,244,930	2,937,365
Annual Debt Service	2,039,648	2,041,573	2,038,561	2,037,911	2,041,961
Debt Coverage Ratio	150%	190%	190%	159%	144%

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Net Income Available for Debt Service	2,422,530	2,810,273	3,142,112	3,361,781	3,429,016
Annual Debt Service	2,083,496	2,121,100	2,122,540	2,120,550	2,119,600
Debt Coverage Ratio	116%	132%	148%	159%	162%

5. Debt Burden Ratio

Requirement	Measure at end of FY 2020
Less than 25%	10.9%

The debt burden ratio requirement is based on the level of the School's fund balance ratio. The School's fund balance ratio of 36.1% as of FY 2020 puts the School in the debt burden range of less than 25%. The School met this requirement each year of this analysis. The metric compares maximum annual debt service as a percent of annual revenues. The School projects that with typical annual growth in revenues the debt burden ratio will decline slowly into the foreseeable future.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Maximum Annual Debt Service	2,039,648	2,041,573	2,038,561	2,037,911	2,041,961
Unrestricted Operating Revenues	14,633,737	16,611,222	17,371,749	18,351,003	18,755,648
Debt Burden Ratio	13.9%	12.3%	11.7%	11.1%	10.9%

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Maximum Annual Debt Service	2,083,496	2,124,400	2,124,400	2,124,400	2,124,400
Unrestricted Operating Revenues	19,506,275	20,235,692	21,216,040	21,797,187	22,233,131
Debt Burden Ratio	10.7%	10.5%	10.0%	9.7%	9.6%

6. Operating Margin

Requirement	Measure at end of FY 2020
At least 7%	15.7%

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 36.1% and days cash on hand of 146 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 but declined over the past several years due to the need to raise teacher salaries to remain competitive and to increase classroom funding.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Net Income Available for Debt Service	3,060,838	3,875,248	3,882,219	3,244,930	2,937,365
Revenues	14,633,737	16,611,222	17,371,749	18,351,003	18,755,648
Operating Margin	20.9%	23.3%	22.3%	17.7%	15.7%

	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25
Net Income Available for Debt Service	2,422,530	2,810,273	3,142,112	3,361,781	3,429,016
Revenues	19,506,275	20,235,692	21,216,040	21,797,187	22,233,131
Operating Margin	12.4%	13.9%	14.8%	15.4%	15.4%

7. Current Ratio

Requirement	Measure at end of FY 2020
At least 150%	304%

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 150% in recent years of operations and has been stable to improving as cash balances have grown enough to offset increases in current liabilities from teacher salary increases.

	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
Current Assets	3,885,726	5,339,125	5,519,955	5,179,266	7,166,271
Current Liabilities	1,888,332	2,308,708	1,941,371	2,213,211	2,354,535
Current Ratio	206%	231%	284%	234%	304%

Bond Documents

Legal bond documents are being reviewed by Chapman & Cutler 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 been required to submit various reports and operating information on an annual and/or monthly basis. The School filed its 2020 annual financial report 74 days late and failed to file enrollment data for 2017. Certain required

operating information was not included in each year reviewed according to a Digital Assurance Certification, LLC report. Information included listings of competing charter schools, teacher and staff qualifications, teacher retention rates, local area population, etc.

The School adopted an acceptable continuing disclosure policy on April 8th, 2021.

Credit Enhancement

The School has met or will meet each of the requirements as listed in the Credit Enhancement Program Standards.

Conclusion

Coverage and operating margins are above the requirements for the credit enhancement program but fall into sub-investment grade rating categories. However, the School has strong a strong waitlist and an adequate re-enrollment rate that should insulate it from the typical shocks charter schools see, such as new school openings. Academic performance is low but is really only a concern if it leads to charter renewal risk and related declines in enrollment and waitlists, neither of which are the case at present. The School's recent focus on expending more money in classrooms should allow it to at least maintain its current academic performance.