STATE OF NEVADA

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BRIEFING MEMORANDUM

TO: SPCSA Board

FROM: Patrick Gavin

SUBJECT: Agenda Item 7—Futuro Academy Charter School Loan Program Application

DATE: April 28, 2017

Background:

The Account for Charter Schools, NRS 388A.432 through NRS 388A.433, was established in 2001 via SB399. The Account was created to support a revolving loan fund for charter schools under the oversight of the State Board of Education. However, no general fund appropriations were made to support the program. In 2013, the Legislature provided general fund dollars to the Account and the Charter School Loan program in the Account for Charter Schools for the first time, appropriating $750,000 into a new budget account. SB3 of the 2013 Special Session transferred responsibility for the Account for Charter Schools to the Authority and revised loan provisions to make the program more attractive to prospective borrowers. Following the initial round of loan applications, the State Board amended the regulations for the loan account on November 6, 2014 with the adoption of R036-14A. Those regulations were approved by the Legislative Commission on December 23, 2014. This was followed in 2015 by the transfer of rulemaking authority to the SPCSA from the State Board and the clarification of additional provisions of the law with the passage of SB509. The Authority subsequently approved revisions to the regulations governing the charter school loan program with the adoption of R087-16A at a hearing on November 4, 2016. Those regulations were approved by the Legislative Commission on December 21, 2016.

On March 15, 2017, the Authority received a loan application from Futuro Academy, a new start charter school sponsored by the Achievement School District. Futuro is also a recipient of the Charter Schools Program Grant from the Nevada Department of Education.

Futuro requests a loan in the amount of $58,000 to provide cash flow assistance necessary to be able to fully access the federal grant.

Analysis:

Futuro's loan application meets each of the criteria set forth in regulation and the applicant has provided evidence of its capacity to repay the loan. As a first year charter school, the school has exercised its option pursuant to statute and regulation to defer payments until the end of the first academic year. The proposed 24 month payment plan would commence in July 2018 and would end in June 2020.

Consistent with law, regulation, and past practice, the Department of Education would deduct loan payments from the school's DSA payments and transfer those funds back to the Authority thereby limiting the risk of delinquent payments to the state. There is also past precedent for schools electing to pre-pay their loan in the event their governing body wishes to reduce its debt. The primary repayment risk for any charter school is insolvency, which would be driven by either reductions in revenue due to enrollment misses, poor expense management, or a combination of those factors.

Revenue:

A slow-growth school which will initially enroll only 116 students in Kindergarten and first grade, Futuro submitted a detailed marketing and enrollment plan as a component of the application. The plan demonstrates an impressive understanding of the multiple marketing and relationship building strategies that will be necessary to achieve full enrollment.

Expense Management:

The school submitted a detailed budget with conservative cost assumptions. Additionally, the school has committed to providing the Authority with a letter from a Certified Public Accountant demonstrating the School has established and documented adequate internal financial controls and procedure controls as a condition of execution of the loan agreement.

Recommendation

Staff recommends approval contingent upon the receipt of the aforementioned CPA letter demonstrating the School has established and documented adequate internal financial controls and procedure controls as a condition of execution of the loan agreement between the school and the Authority.