



STATE PUBLIC CHARTER SCHOOL AUTHORITY

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BRIEFING MEMORANDUM

TO: SPCSA Board
FROM: Mike Dang, Manager, Financial and Organizational Performance
Mark Modrcin, Director of Authorizing
SUBJECT: Agenda Item No. 16: Somerset Academy of Las Vegas Bond Amendment Request
DATE: December 14, 2018

Somerset Academy (Somerset) of Las Vegas, previously operating under a written agreement, began operating under a charter contract entered into in 2016, has 7 campuses located in Las Vegas, Nevada.

Somerset serves 8,626 students (as of validation day) in Kindergarten through 12th grade.

The Somerset Lone Mountain Campus serves 960 students and was built in 2015 on approximately 4.63 acres and was built as a replication of the Stephanie Campus.

Somerset submitted a request to restructure their leases to acquire the Lone Mountain campus on September 17, 2018.

As discussed below, Staff recommends approval of the amendment request, with conditions.

Summary of Request:

Somerset of Las Vegas currently leases 54,637 square feet of facility space at the Lone Mountain campus, located at 4491 N. Rainbow Blvd., Las Vegas, NV 89108, under a triple-net lease which includes a purchase option. Somerset is seeking to exercise this option and purchase this campus.

Somerset intends to finance the Lone Mountain facility through the issuance of revenue bonds through the Director of the State of Nevada Department of Business and Industry (B&I).

It is SPCSA Staff's understanding that Somerset will continue to occupy the Lone Mountain campus under the existing lease, although the terms of the bond financing program will overlay the existing lease and will potentially provide more favorable terms to Somerset.

Somerset was approved to amend its charter agreement to acquire its Stephanie and Losee campus on February 16, 2018 through the issuance of approximately \$51 million at an interest rate of 5.256% over 30 years. Somerset now seeks to issue bonds under the same debt structure as were planned earlier this year.

Somerset's financing assumptions are that the school will seek a bond issuance of approximately \$13,550,000 at an interest rate of 6.00%. The bonds will be over 30 years. Total combined bond issuance (project costs) will not exceed \$18,000,000.

Total facility costs, including debt service, lease, maintenance, utilities, etc., are projected to be approximately 19.39% of total expenditures in the current financial model; this model can handle facility costs of up to approximately 21.25% of total expenditures during the 18-19 fiscal year. Increasing throughout the 5-year period to be able to handle facility costs of upwards of 23.50% of total expenditures.

Legal Authority and Requirements Related to Amendment Requests:

Somerset has submitted an amendment request to the Authority, seeking to restructure the financing of the existing lease and lease amendments related to Somerset's Lone Mountain campus. Somerset seeks to accomplish this through the B&I bond financing program. [NRS 388A.550](#) *et seq.* authorizes B&I to be a conduit issuer of tax-exempt bonds for SPCSA-sponsored charter schools to finance the acquisition, construction, improvement, maintenance or furnishing of land, buildings and facilities for charter schools.

B&I's application process has prerequisites to obtain bond financing from B&I. While B&I is primarily responsible for analyzing and reviewing the issuance, the NRS requirements include that:

1. The charter school must have received within the immediately preceding 2 consecutive school years, one of the three highest ratings of performance pursuant to the statewide system of accountability for public schools, or has received equivalent ratings in another state, as determined by the Nevada Department of Education (NDE).

The NDE posts its academic performance ratings on its website, nevadareportcard.com. For the immediately preceding 2 consecutive school years, Somerset satisfied this requirement. (See attached Academic Performance table.)

2. The charter school that is applying to B&I for the bond financing must not be in default under the school's charter school contract.

Staff's internal research does not find Somerset to be in default under the school's charter school contract, thus satisfying this requirement.

3. The charter school must also satisfy other [NRS 388A.650–660](#) and [NAC 386.450–472](#) requirements which are to be met by the school working with B&I, including submitting financial and operational history to B&I (NRS 388A.650).

The RFA application includes Eligibility Requirements that a school must be in good standing in all three domains of the Authority's academic, financial and organizational performance frameworks and it must not be considered a low-performing school or otherwise ineligible. This includes those schools rated at the approaches, unsatisfactory, or critical level on the authority performance framework either in aggregate or at the elementary, middle, or High School level. This memo now summarizes staff's review in light of the Eligibility Requirements.

1. Academic Performance Framework

The Lone Mountain campus of this Somerset application has achieved one of the three highest of five ratings of performance pursuant to the statewide system of accountability for public schools. (See attached Academic Performance table.)

Specifically, under the 2017-18 Nevada State Performance Framework, the Somerset Lone Mountain elementary school program is rated at the 4-star level and the Somerset Lone Mountain middle school program is rated at the 5-star level.

2. Financial Performance Framework

Somerset received a “Does Not Meet Standard” for three of the eight (nearly half) of the standard SPCSA financial performance measures and a “Meets Standard” for the remaining five of the eight measures under the most recently SPCSA approved Financial Measure Summary, covering SY 2016-2017.

The Board did not take action regarding the ratings for all schools for this period. For the prior period, SY 2015-2016, the board did take action to accept the ratings, for all schools. For that period, half of Somerset’s ratings were “Does Not Meet Standard” and the other four received the "Meets Standard" ratings. In this prior period, the fourth “Does Not Meet Standard” rating was for the Debt to Asset Ratio. The other three were the same that Somerset received for the next SY of 2016-2017.

All three “Does Not Meet Standard” measures could be potentially negatively impacted with a bond issuance if the bond payment amounts result in higher facility costs than the applicant is currently facing and if the applicable revenue scenario does not improve, especially if enrollment levels are contemplated to stay the same, such as if a school is acquiring a facility it is leasing and it is not intending to increase enrollment sufficient to cover the increased costs.

For the prior reporting period, Somerset received a “Does Not Meet Standard” on half of the eight measures. The Debt to Asset Ratio was at “Does Not Meet Standard” for the prior year but was improved to a “Meets Standard” for the SY2016-2017. That said, adding more debt now may worsen the Debt to Asset Ratio absent intervening factors.

3. Organizational Performance Framework

While staff is developing this framework, it primarily covers compliance with legal requirements including with Open Meeting Laws, compliance reporting, meeting reporting requirements and other matters. Staff finds Somerset Academy in compliance.

Staff have reviewed the application in light of relevant NRS law and NAC regulations mentioned above, the RFA template with its Eligibility Requirements, and prior and current best practices.

Staff finds Somerset in good standing with regards to the Academic and Organizational Performance Frameworks and in good standing with regards to the statutory, regulatory and SPCSA requirements mentioned above.

Staff notes for the Board the “Does Not Meet Standards” ratings findings regarding the Financial Performance Framework.

Recommendation: Approve with Conditions

Somerset satisfies the two NRS 388A.650 prerequisites to financing when financing will be sought through B&I, that regarding Academic and Organizational performance and that it is not in breach of its charter contract.

Somerset satisfies most of the RFA Eligibility Requirements. Of the performance framework measure reviews, it satisfies the academic and organizational performance framework standards.

However, Somerset’s last financial performance framework measures show mixed results at best. It received three “Does Not Meet Standard” ratings out of eight for SY 2016-2017. The remaining five ratings were at the “Meets Standard” level, the highest of the three ratings per category. For SY 2015-2016 it received four “Does Not Meet Standard” ratings out of eight, with the other four ratings being “Meets Standard.”

If facility costs increase from the bond financing and the school does not have compensating revenue with other costs holding stable, the school’s financial health will likely deteriorate.

Consequently, SPCSA staff recommend approval, but with the following conditions to be approved by staff:

- A revised budget comparing existing and planned facility lease payment amounts with planned new principal payments, under a bond issue, the current and budgeted Debt Service Coverage Ratio.
- A copy of the term sheet, or other B&I bond program documents evidencing the terms of the bonds upon approval by B&I. Staff recommends that the Board delegate staff the authority to review and approve.
- Compliance with all requirements regarding submittal of financial statements approved by the school's auditor that demonstrate that the school is improving or maintaining a meets standards performance within the financial framework performance metrics. Quarterly reports must be submitted following approval of this matter by the SPCSA Board.

Additionally, if the SPCSA Board agrees with Staff’s recommendation, and grants conditional approval, SPCSA Staff is further recommending that the amended charter contract with Somerset include a provision that freezes expansion of new campuses beyond what has already been approved by the Board until the school can demonstrate that it meets the standard in each financial metric under the performance framework.

Stated another way, Somerset would be eligible to submit a request to expand its enrollment into its existing facilities, space allowing. Somerset would not be eligible to submit a request to open new campuses of any type until it is deemed to have received a “Meets Standard” rating for the above four mentioned measures as they are as outlined and defined in the financial performance framework at the time of staff review. Any previously approved charter expansion would not be impacted by this recommendation, if approved.

It should be noted that the current charter for Somerset expires on June 30, 2022. This conditional approval does not supersede that obligation, and the renewal of the Somerset charter will be considered by the Board under a separate item.

Background:**Somerset Academy of Las Vegas Academic Performance**

Year	NSPF Rating
2012	Elementary: 5 Star
	Middle School: 5 tar
	High School: N/A
2013	Elementary: 4 Star
	Middle School: 4 Star
	High School: N/A
2014	Elementary: 5 Star
	Middle School: 5 Star
	High School: N/A
2015	Elementary: 5 Star (frozen from 2014)
	Middle School: 5 (frozen from 2014)
	High School: N/A (frozen from 2014)
2016	No star rating published by State
2017	Elementary: 4 Star
	Middle School: 3 Star
	High School: N/A
2018	Elementary: North LV – 2 star, Losee – 3 star, Stephanie – 4 star, Lone MTN – 4 star, Sky Pointe – 4 star
	Middle School: Losee – 3 star, North LV – 3 star, Sky Pointe – 3 star, Lone MTN – 5 star, Stephanie – 5 star
	High School: Sky Pointe – 3 star, Losee – N/A

School Demographic Change since 2015 (prior to 18-19, demographic data was not separated by campus)

Somerset	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
15-16	3.2%	9.7%	51.7%	26.0%	0.2%	7.5%	1.4%	5778	8.9%	4.6%	0.6%
Somerset	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
16-17	3.1%	10.6%	48.5%	27.8%	0.4%	7.8%	1.5%	6432	10.9%	6.6%	16.9%
Somerset	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
17-18	3.4%	11.1%	45.2%	30.2%	0.2%	8.0%	1.5%	6689	12.1%	6.0%	14.7%
Somerset Aliante	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	5.4%	11.4%	33.0%	35.7%	0.6%	10.5%	3.4%	831	8.7%	1.9%	17.9%
Somerset Lone MTN	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	2.6%	6.4%	50.8%	30.7%	0.5%	7.7%	1.3%	958	9.4%	3.0%	24.4%
Somerset Losee	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	4.1%	17.8%	23.1%	45.5%	0.4%	7.5%	1.6%	1949	11.5%	8.5%	44.9%
Somerset NLV	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	4.0%	22.7%	19.9%	43.3%	0.0%	7.8%	2.2%	1161	10.8%	10.2%	43.1%
Somerset Skye Canyon	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	1.2%	1.5%	18.1%	24.1%	0.0%	54.6%	0.5%	855	8.3%	2.2%	11.0%
Somerset Sky Pointe	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	2.1%	7.1%	61.8%	19.5%	0.3%	8.3%	0.9%	1908	12.2%	1.6%	13.2%
Somerset Stehpanie	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	5.3%	7.0%	47.6%	28.0%	0.5%	9.5%	2.1%	964	12.0%	3.6%	35.5%

- A – Asian
- B – Black
- C - White
- H – Hispanic
- I – American Indian/Alaskan Native
- M – Two or more races
- P – Pacific Islander
- IEP – Individualized Education Plan –A student with a disability/special education student
- ELL – English Language Learner
- FRL – A student who qualifies for Free or Reduced-Price Lunch