



STATE PUBLIC CHARTER SCHOOL AUTHORITY

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ACTION MEMORANDUM

TO: SPCSA Board
FROM: Mike Dang, Manager, Financial and Organizational Performance
Mark Modrcin, Director of Authorizing
SUBJECT: **Freedom Classical Academy**
1. Request for Approval of Request for Good Cause Exemption
2. Request for Approval to Acquire or Construct a New or Additional Facility that will not affect approved enrollment
DATE: August 28, 2020

Summary of Request and Recommendation

Freedom Classical Academy Las Vegas (Freedom) is requesting the State Public Charter School Authority (SPCSA)

1. Approve its request for a good cause exemption to hear this matter and,
2. Approve its Acquisition of its current facility that will not affect approved enrollment.

SPCSA staff have reviewed Freedom's application and recommend approval of both requests.

Background

Freedom is a K-8 school providing a fusion of classical learning and STEM instruction. Freedom is a non-profit corporation organized under Nevada law. The school is located at 777 E Ann Rd, North Las Vegas, NV 89081.

Freedom's mission is "to bring forth future leaders through a fusion of classical education and STEM instruction in an environment that promotes liberty and virtue. It's Vision: "Knowledge. Freedom. Leadership."

Freedom serves 1,045 students and will commence its fourth year of operation this Fall, 2020. According to the application, the school has a five person Board of Directors representing a variety of fields of expertise, including one who is the former Mayor of North Las Vegas. Two members of the board are founding members

of the school while the other three have joined the board since the formation of the school. Two Board members currently have students attending the school.

School operations are overseen by Mr. Jeremy Christensen, who serves as the Executive Director/Principal for the school. The application states that he is assisted by “a dedicated and passionate administrative team that have been with the school since the beginning. The school continues to see substantive year over year growth and expects continued academic improvement through the foreseeable future.

The current facility in which Freedom serves its community was purpose-built for Freedom in 2017 and has been leased from the developer since then.

Freedom is now seeking to purchase its existing facility. Freedom indicates in its amendment application that its current lease contract contains annual 3% rent escalators that come into effect this Fall, resulting in significantly increased facility costs for the school and a more expensive purchase price thereafter (by a more than seven-figure sum, in due course). This fact, combined with the estimated budget cuts proposed by the State due to the current COVID-19 crisis, necessitate the immediate procurement of a more favorable long-term facility financing. A tax-exempt bond issuance will allow the school to minimize its facility costs and significantly preserve limited funds for classroom instruction. Freedom cordially requests that the Authority approve our campus acquisition amendment request.

The application states that the total projected bond costs are \$23,045,000, which includes facility cost, payment of debts, a debt service fund of \$1,394,750 and a cost of issuance of \$650,250. The purchase price of the facility is based on a capitalization rate of the lease payment.

Freedom states in the submission that if the bond does not close before November, the purchase price of the facility will increase by an estimated \$1.4 million, owing to the terms of the purchase option set forth in Freedom’s current lease with the building owner. This, of course, would dramatically increase the overall cost projections according to the school, which has led to this submission. Based on the school’s history and financial health, Ziegler Financial estimates a 35-year bond interest rate at between 5% and 6%. Freedom has estimated its financial projections at the higher 6% rate, in order to be prudent and conservative. Please refer to Attachment 11: Budget Narrative for more information.

Freedom states in the amendment that cuts in funding paired with increases in lease rental payments would put a significant financial burden on the school, that if perpetuated over time could inevitably ensure the demise of the entire organization. The education of nearly 1,000 children—a great number of whom attend the more highly-performing, four-star middle school—is in jeopardy.

Importantly, the amendment notes that a bond issuance will fund all (or virtually all) of the costs of the issuance and the acquisition. Freedom does not expect to come “out of pocket” for any substantial bond or acquisition costs whatsoever. Moreover, many of the bond advisers will be paid on a contingent basis, meaning their fees are conditioned on the bond issuance successfully closing.

As noted in the application, there will be no construction or major renovations occurring in these transactions, so Freedom does not anticipate any delays or challenges relating thereto. Additionally, Freedom may use some of the bond proceeds to implement relatively minor improvements, but nothing of material import.

The school confirms in the submission that the school’s financial plan will remain the same in all aspects, barring the facility cost and the payment of outstanding debts enabled by the primarily tax-exempt bond issuance. A five-year budget reflecting the variance between maintaining the current lease agreement and obtaining bond financing has been included as Attachment 11: Budget Narrative.

SPCSA staff finds that the Freedom campus lease structure is similar to that of other charter schools in the SPCSA portfolio. The lease payment structures have significant annual lease rate increases which act as strong

incentives to our schools to convert from their lease payment regimes to bond payment regimes when they are able to make the conversion. Consequently, the potential savings of making the conversion can be significant.

For example, the pro forma difference between the Freedom campus purchase payments and their lease payments show a potential savings of over \$1.5 million in the first five years after this conversion. These potential savings come under a scenario assuming a 5.5% interest rate. In the current environment of high uncertainties in various areas, being able to receive such savings will help put the school on a better footing than it is now on.

Table 1: 5-Year Facility Expense @ 5.5%, 2 Yr Interest Only, 33 Yr Fixed Rate					
Freedom Classical Academy Facility Expense - Current Lease					
	2020-21	2021-22	2022-23	2023-24	2024-25
Scheduled/Anticipated Lease Payments	\$1,640,478	\$1,681,489	\$1,723,527	\$1,766,615	\$1,810,780
Facility and School Insurances	55,000	55,000	55,000	55,000	55,000
Public Utilities	105,200	105,200	105,200	105,200	105,200
Maintenance Expense	30,652	30,652	30,652	30,652	30,652
Total	\$1,831,330	\$1,872,341	\$1,914,379	\$1,957,467	\$2,001,632
Freedom Classical Academy Facility Expense - Bond Finance @ 5.5% Rate					
	2020-21	2021-22	2022-23	2023-24	2024-25
Scheduled/Anticipated Lease Payments	\$1,274,625	\$1,275,625	\$1,519,625	\$1,521,150	\$1,521,850
Facility and School Insurances	55,000	55,000	55,000	55,000	55,000
Public Utilities	105,200	105,200	105,200	105,200	105,200
Maintenance Expense	30,652	30,652	30,652	30,652	30,652
Total	\$1,465,477	\$1,466,477	\$1,710,477	\$1,712,002	\$1,712,702
ESTIMATED 5 YR SAVINGS					\$1,510,014

Applicant Eligibility

When reviewing any RFA, SPCSA staff and board review the academic, financial and organizational performance of the applicant charter school. Regarding its financial and organizational performance, staff’s review of Freedom finds it within standards to support its RFA.

Regarding its academic performance, Freedom states it is “seeking to procure a fair interest rate in the bond market to sell tax-exempt bonds and buy its existing campus” and that, therefore, “this question is not applicable.” Staff, nevertheless, did review Freedom’s academic information. Its Elementary School (ES) rating is a two-star according to the Nevada School Performance Framework (NSPF). Among its three ES neighbors, one rated two-stars and two each rated one-star. However, Freedom did increase their NSPF rating at the Middle School (MS) level, improving from a two-star to a four-star rating according to the 2019 ratings. Among Freedom’s two MS peers, one MS rated a one-star and one MS rated a two-star.

Because this amendment will help both the elementary and middle school programs become more financially sustainable, and the amendment does not contemplate the addition of any seats or expansion to another campus, staff finds Freedom’s application eligible to be approved.

Summary, Recommendation and Condition

Overall, SPCSA staff finds the Freedom application eligible to be approved. As such, SPCSA staff recommends that the Authority grant the school’s Good Cause exemption request and approve the amendment as submitted with the condition that the school submit its bond prospectus or offering memorandum as well as the final terms to SPCSA staff when it is issued. A proposed motion can be found below.

Proposed Motion:

Approve Freedom Academy of Las Vegas’s requests, first for a good cause exemption to hear this matter and, second, for it to Acquire its Facilities in a way to not affect its approved enrollment level, subject to the following condition.

The condition is that Freedom submit its bond prospectus or offering memorandum and the final terms received upon issuance, including total debt encumbrance, term of years, interest rate, cost of issuance and issuance cost breakdowns. Staff will work directly with the school on the format of this information.

Nevada School Performance Ratings (NSPF) – Freedom Classical Academy

<u>School Year</u>	<u>Rating(s)</u>
2017 – 2018	Freedom ES: 2 stars Freedom MS: 2 stars
2018 – 2019	Freedom ES: 2 stars ¹ Freedom MS: 4 stars

Current Enrollment Cap for the remainder of the charter term:

School Year	2020-2021	2021-2022	2022-2023
Enrollment	1100	1100	100

School Demographics and Enrollment since 2017

Year	Total Enrollment ¹	A	B	C	H	I	M	P	IEP	ELL	FRL
17-18	1007	5.7%	17.3%	38.1%	35.7%	0.4%	0.7%	2.2%	7.9%	0.0%	0.0%
18-19	987	6.2%	15.3%	28.3%	44.3%	0.3%	4.1%	1.6%	9.4%	10.6%	28.3%
19-20	1094	6.1%	14.2%	25.7%	45.7%	0.5%	5.6%	1.8%	9.9%	13.4%	27.9%

A – Asian

B – Black

C - Caucasian

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

¹ Due to consecutive two-star ratings, the Freedom Classical Elementary school program is operating under a Notice of Breach which was issued by the Authority on October 4, 2019.