



**STATE PUBLIC CHARTER SCHOOL AUTHORITY**

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**BRIEFING MEMORANDUM**

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**TO:** SPCSA Board  
**FROM:** Patrick Gavin, Executive Director  
Mark Modrcin, Director of Authorizing  
**SUBJECT:** Agenda Item No. 10: Somerset Academy of Las Vegas Lease Amendment Request  
**DATE:** February 16, 2018

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Somerset Academy of Las Vegas, operating under a charter contract entered into in 2016, has five campuses located in Las Vegas, Nevada. Currently, under the 2016-17 Nevada State Performance Framework, the elementary school program is rated at the 4-star level while the middle school program is rated at the 3-star level. Somerset serves 6,689 students (as of validation day) in Kindergarten through 8<sup>th</sup> grade. Somerset submitted a request to restructure their leases for the Stephanie and Losee campuses on January 31, 2018.

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

**Summary of Request:**

Somerset Academy of Las Vegas currently leases both the Stephanie and Losee campuses under a triple-net lease (and related amendments), which includes a purchase option after 37 months from the lease-commencement date. It is SPCSA Staff's understanding that Somerset will continue to occupy the Stephanie and Losee campuses 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 previously utilized B&I bonds in 2015. Somerset now seeks to issue bonds under the same debt structure as were utilized in 2015. Under the current proposal, the bond issuance and project costs will not exceed \$62 million. Somerset's financial assumptions project that the school will borrow approximately \$51 million at an interest rate of 5.256% over 30 years. Under Somerset's financial model, the total facility costs, including debt service, maintenance, and utilities will be approximately 18.50% of total expenditures, and Somerset claims that its financial model allows for facility costs of approximately 23.50% of total expenditures.

While not directly relevant to the Authority's determination to approve or deny Somerset's amendment application, the B&I's application process has eligibility requirements to obtain bond financing from B&I. 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 Department of Education. Furthermore, 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. The charter school must also submit to B&I financial and operational history ([NRS 388A.650](#)).

### **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 Stephanie and Losee campuses.<sup>1</sup> Somerset seeks to accomplish this through the Department of Business and Industry (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.

Due to the time sensitivity of the B&I bond program, Somerset is also requesting a good-cause exemption for the Board to consider this request prior to the regular amendment window in April. It is important to note that Staff has also been made aware of additional interest in pursuing the B&I window from other schools using the same educational management organization as Somerset and has been assured that future amendments that contemplate accessing the B&I bond conduit will be submitted during the Authority's standard amendment submission windows well in advance of B&I consideration.

### **Recommendation: Approve with Conditions**

Somerset has exhibited strong academic performance, earning a 4-star elementary school rating and a 3-star middle school rating according to the 2016-17 Star rating system.

Additionally, the school has a decent financial track record. The 2016 financial audit revealed four metrics were at the 'Does Not Meet Standard' threshold per the framework. By comparison, the 2017 audit revealed that the performance threshold in one of these four categories (debt to asset ratio) now 'Meets the Standard', leaving three categories still needing to show improvement. All other performance metrics remained the same from the prior year.

While perhaps troubling, Staff would be remiss to ignore the potential cost savings under this proposed amendment. During the 2017-2018 school year, Somerset is paying approximately \$2,638,500 in rent for both the Stephanie and Losee campuses. For the 2018-2019 school year, these costs are expected to rise to approximately \$3,842,127.

Under this proposed amendment, the expected total base rental payments to the Trustee for the facilities under a new lease agreement are expected to be about \$3,350,000. It is important to note, however, SPCSA Staff believes that these savings could result in an improved financial metrics for the school in the upcoming fiscal year, provided that the governing body develops and approves a budget that adheres to the expectations outlined in the Authority's financial performance framework so that the school will continue to show year-over-year improvement and return to Meets the Standard in all categories over the next several years.

SPCSA recommends approval, but with the following conditions:

- Submission of a revised budget, with new lease payment amounts.

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<sup>1</sup> In various documents submitted to SPCSA Staff, Somerset describes this transaction as an "acquisition" and state that Somerset will be entering into a new lease in regard to these two campuses. However, it appears that Somerset is simply utilizing the B&I bond financing program to restructure the existing debt as it related to the Stephanie and Losee campuses.

- 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.
- Certified financial statements approved by the school's auditor that demonstrate that the school is improving within the financial framework performance metrics. These will be submitted quarterly, by the school, beginning with Quarter 1 of fiscal year 2019.

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 future expansion 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 not be eligible to submit a request for expansion of any type after this amendment until it is deemed to have met the standards as outlined in the financial performance framework. The previously approved charter expansion to add both the Skye Canyon and Aliante campuses 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**

<b>School</b>	<b>YearPerformance</b>
2012-2013	4 Star (Elementary) and 4 Star (Middle)
2013-2014	5 Star (Elementary) and 5 Star (Middle)
2014-2015	5 Star (Elementary) and 5 Star (Middle)
2015-2016	N/A
2016-2017	4 Star (Elementary) and 3 Star (Middle)

**School Demographic Change since 2015**

<b>Year</b>	<b>Enrollment</b>	<b>AI/AN</b>	<b>A</b>	<b>H</b>	<b>B</b>	<b>W</b>	<b>PI</b>	<b>2/MR</b>	<b>IEP</b>	<b>ELL</b>	<b>FRL</b>
2015-2016	5,778	0.2%	3.3%	26.0%	9.7%	51.7%	1.5%	7.5%	8.9%	4.7%	0.6%
2016-2017	6,432	0.4%	3.2%	27.8%	10.6%	48.5%	1.6%	7.8%	11.0%	6.7%	17.0%
2017-2018	6,689	0.3%	3.4%	30.3%	11.2%	45.3%	1.6%	8.0%	12.1%	6.0%	14.8%

AI/AN – American Indian/Alaskan Native

A – Asian

H – Hispanic

B – Black

W - White

PI – Pacific Islander

2/MR – Two or more races

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