



STATE PUBLIC CHARTER SCHOOL AUTHORITY

**1749 North Stewart Street Suite 40
Carson City, Nevada 89706-2543
(775) 687 - 9174 • Fax: (775) 687 - 9113**

BRIEFING MEMORANDUM

TO: SPCSA Board
FROM: Mike Dang, Manager, Financial and Organizational Performance
Mark Modrcin, Director of Authorizing
SUBJECT: Agenda Item No. 11: Mater Academy of Las Vegas Bond Amendment Request
DATE: November 30, 2018

Mater Academy of Las Vegas, began operations in Las Vegas, Nevada in the 2014-2015 school year under a charter contract. It began operations out of an old church building called the Emerson campus and moved to the Mountain Vista campus in the 2015-2016 school year (K-8). The Mountain Vista Campus is approximately 54,780 sf. and hosts a student capacity of 1,000 on approximately 5 acres.

Currently, under the 2017-18 Nevada State Performance Framework, the Mater Bonanza elementary school program (not a part of this request) is rated at the 1-star level, the Mater Mountain Vista elementary school program is rated at the 3-star level, while the Mater Bonanza middle school program is rated at the 3-star level and the Mater Mountain Vista middle school program is rated at the 4-star level. Mater Academy serves 1,962 students (as of the 2018 validation day) in Kindergarten through 8th grade.

The Board issued an academic performance notice of concern regarding the Mater Bonanza campus in the September 28, 2018 SPCSA Board meeting. This is the same charter holder.

Mater submitted a request to restructure their leases for the Mater Mountain Vista campus on September 14, 2018.

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

Summary of Request:

Mater Academy of Las Vegas currently leases the Mountain Vista campus under a triple-net lease (and related amendments), which includes a purchase option after 37 months from the lease-commencement date. Mater will continue to occupy the Mater 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 Mater.

Mater now seeks to issue bonds under the same debt structure as Pinecrest is utilizing in terms of seeking the issuance from the Arizona Industrial Development Authority (AZIDA). Under the current proposal, the bond issuance and project costs will not exceed \$18.25 million. Mater

Academy of Nevada’s financing assumptions are that the school will be borrowing approximately \$15,590,000 at an interest rate of 5.50%. The bond term is 31 years. Under Mater’s financial model, Mater indicates the “total facility costs, including debt service, lease, maintenance, utilities, etc., are projected to be approximately 18.11% of total expenditures in the current financial model; this model can handle facility costs of up to approximately 20.50% of total expenditures.”

The request is for the same type of SPCSA determination of non breach of charter contract which will enable bonds to be issued for Mater through the AZIDA.

Staff presented a number of questions to Academica, Mater’s Education Management Organization, to understand the potential out of state transactions better and the differential risk and costs. Primarily, regarding differential risks, Academica states that whether “the bonds are issued by an Arizona conduit issuer or a Nevada conduit issuer has no impact on the feasibility of the project or the liability risk of the school. In either case there’s no liability risk to the State of Nevada.”

Regarding differential issuance costs, essentially the difference in costs from fees from issuing in Nevada versus issuing in Arizona, given the amount of the bond issue of upwards of \$50,000,000, the basic fees shown by Academica are not substantially dissimilar with issuance costs with B&I.

The table below indicates that the total fees are relatively aligned with each other. The Doral fee level, for the issuances through B&I, is the highest.

Third party professional and issuer fees

NV B&I	Principal	Fee	F/P	P/F x
Doral	\$60,000,000	\$2,400,000	4.00%	25
Somerset	18,000,000	600,000	3.33%	30

AZIDA	Principal	Fee	F/P	P/F x
Mater	\$18,250,000	\$700,000	3.84%	26
Pinecrest	50,000,000	1,700,000	3.40%	29

These include the B&I and AZIDA Fees, except for any AZIDA annual fees.

While not directly involved in the Authority’s determination to approve or deny Mater’s amendment application, B&I’s application process has value by analogy as it provides eligibility requirements to obtain bond financing from B&I. These requirements include that:

- The charter school applying to B&I for the bond financing must not be in default under the school’s charter school contract, as determined by the SPCSA. At this time, SPCSA staff know of no breach by applicant to its charter school contract with SPCSA and would thus find the applicant satisfies this requirement.
- 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 NevadaReportCard.com website shows that Mater has satisfied the requirement for one of the required 2 years. Mater’s school ratings in 2017-2018 were three and four stars for its

elementary and middle schools, respectively. While no star rating is posted on the website for the SY 2016-2017, staff records show that Mater’s school ratings were two and three stars for its elementary and middle schools, respectively.

- The charter school must also submit to B&I financial and operational history ([NRS 388A.650](#)). The applicant submits financial and operational information to SPCSA staff on an ongoing basis and from discussions and correspondence with AZIDA it appears the school has submitted financial and operational history to AZIDA.

Consequently, if Mater were processing this bond issuance request through B&I, it would seem that they would have generally met these gateway requirements—though SPCSA staff cannot speak for B&I staff. Neither does Staff speak to the feasibility of this transaction but only to the determination it would be called upon to make, which would be of no known breach of their charter school agreement, were the issuance to come through B&I.

Legal Authority and Requirements Related to Amendment Requests:

Mater has submitted an amendment request to the Authority, seeking to restructure the financing of the existing lease and lease amendments related to Mater’s Mountain Vista campus.

Mater seeks to accomplish this through the issuance of Education Revenue Bonds (ERB) issued not through the Nevada Department of Business and Industry (B&I) but rather through the Arizona Industrial Development Authority (AZIDA). AZIDA, like B&I, is a conduit bond issuer bond financing program. AZIDA is acting pursuant to Arizona Revised Statutes, Section 35-701 *et seq.* which authorizes AZIDA to be a conduit issuer of taxable and tax-exempt bonds for qualifying in-state and out-of-state entities in general, which would include SPCSA-sponsored charter schools, to finance the acquisition, construction, improvement, maintenance or furnishing of land, buildings and facilities for charter schools. AZIDA contracts with an experienced private group to oversee this program.

Arizona and Wisconsin are states which have been very active in being out-of-state as well as in-state conduit bond issuers. For example, according to Clark County School District Las Vegas charter school Explore Knowledge Academy (EKA) Superintendent Abbe Mattson, the EKA through its foundation used the Public Finance Authority (Wisconsin) to issue bonds to enable an EKA related foundation to acquire their facility in 2012. Other charter schools, Doral of Northern Nevada and American Preparatory Academy, and Coral Academy have also used had bonds issued on their behalf by out-of-state conduit bond issuers, whether AZIDA or PFA.

Staff reviewed as an analog the 2018 Lease Revenue Bond (LRB) Official Statement (OS), essentially prospectus type of information, for the \$50,440,000 Somerset Academy bond issue. It provides certain descriptions regarding the risks involved.

According to the OS, LRBs are “limited obligations.”

Also, Staff note that the campus facilities acquisition transactions are similar to many home purchases except they use bonds instead of mortgages. Also similar to home purchases, the facilities will be owned by a trustee, such as Zion’s First National Bank in the Somerset transaction, after the issuance, acquisition and until all payments are completed.

Under the bond terms the trustee leases the facilities to the charter schools which agree to make payments sufficient to pay the principal, interest and administrative costs on the bonds.

The bonds are secured solely by the trust estate pledged. The trust estate consists of the pledged revenues, the pledged facilities and any other interests specifically pledged as additional security.

The B&I LRB Official Statement for the prior Somerset issue indicates that “the issuance of the...bonds shall not directly, indirectly or contingently obligate the director the State of Nevada or any agency, instrumentality or political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. Further the director does not have any taxing power.”

Staff has reviewed a draft OS for the AZIDA bonds and found these bond issue terms would be in parallel structure to the B&I issued bond terms and B&I OS in the sense there would be no other obligations to the state of Arizona unless expressly agreed upon.

We read: “The Series 2018 Bonds are limited obligations of the [Arizona] Authority payable solely from the revenues and receipts to be made by the Charter School to the Authority under the Loan Agreement and other funds pledged therefor under the Indenture, do not give rise to a general obligation or general liability of the Authority or a charge against its general credit and shall never constitute a debt, liability or loan of credit or a pledge of the full faith and credit or taxing power of the State of Arizona or of any political subdivision thereof.

We likewise read in the NV B&I OS that “all bonds issued by the director are special, limited obligations of the state. The payment of principal of and interest on such bonds are payable solely out of the revenues derived from the project financed by the bonds.”

The AZIDA draft OS also states that

“THE SERIES 2018 BONDS WILL NOT CONSTITUTE, DIRECTLY OR INDIRECTLY, OR CONTINGENTLY OBLIGATE OR OTHERWISE CONSTITUTE A GENERAL OBLIGATION OF OR A CHARGE AGAINST THE GENERAL CREDIT OF THE AUTHORITY, BUT WILL BE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE SOURCES DESCRIBED IN THE INDENTURE, BUT NOT OTHERWISE. THE AUTHORITY HAS NO TAXING POWER.”

This language is similar to the B&I OS language which states: “The bonds and interest thereon do not constitute the debt or indebtedness of the state or any city or county within the meaning of any provision or limitation of the Constitution of the State of Nevada or statutes and do not constitute or give rise to a pecuniary liability of the state or a charge against its general credit or taxing powers.”

Consequently, while the bonds issued through AZ appear to be substantially similar to those through NV, staff can make no guarantees that risk levels are lower with AZIDA. That said, at least regarding the greater experience of AZIDA, Mater states:

“Based on information obtained from the Electronic Municipal Market Access system (“EMMA”) the Arizona IDA has issued 18 charter school financings since December, 2016 totaling \$573,505,000. Since April of 2015 the Department of Business and Industry has issued 3 charter school financings totaling \$117,385,000.”

Recommendation: Approve with Conditions

Mater Academy has exhibited strong academic performance in its middle school program, with Mater Mountain Vista middle school earning a 4-star school rating and Mater Bonanza middle school earning a 3-star rating according to the 2017-18 Star rating system. Mater Academy has shown a need for academic improvement in its elementary schools with Mater Bonanza elementary school earning a 1-star rating and Mater Mountain Vista earning a 3-star rating.

Staff must indicate, though, that Mater Academy has received challenging results to the SPCSA Financial Measures. In SY2015-2016 for example, Mater had six out of eight Meets Standards ratings. However, it also had two “Falls Far Below Standard” ratings. One of the ratings was for “Cash Flow” and the other was for “Days of Cash-on-Hand.”

Results improved in the SY2016-2017 though Mater still received one “Falls Far Below Standard” for “Days of Cash-on-Hand.” The Board did not approve staff finalizing the submittal of this rating.

Staff would be remiss to ignore potential cost savings which may arise under this proposed amendment. Academica states that “One of the single largest expenditures... is facility costs. The School makes every effort to keep that amount to a minimum so that more money can be retained in the classroom. One of the means by which Pinecrest and Mater plan to do that is to acquire its facilities through a 30-year fixed rate loan from the proceeds of a tax-exempt bond issue.” Academica also indicates its concerns are in part due to recently rising interest rates.

SPCSA Staff believes potential savings could result in improved financial metrics for the school in upcoming fiscal years, provided the governing body develops and approves a budget that adheres to the expectations outlined in the Authority’s financial performance framework so the school will continue to show year-over year improvement and return to a “Meets Standard” rating 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.
- A copy of the term sheet, preliminary and final Official Statements and any other AZIDA bond program documents evidencing the terms of the bonds upon approval by AZIDA. 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 or maintaining Meets Standards ratings within the financial framework performance metrics. These will be submitted according to the customary schedule, by the school, beginning with Quarter 1 of fiscal year 2019. SPCSA staff will work with the school to determine the appropriate level of certification and format of these statements.

It should be noted that the current charter for Mater expires on June 30, 2020. This conditional approval does not supersede that obligation, and the renewal of the Mater charter will be considered by the Board under a separate item.

Background:

Mater Academy Academic Performance

Year	NSPF Rating
2015	Elementary: N/A
	Middle School: N/A- New School
	High School: N/A- New School
2016	No star rating published by State
2017	Elementary: 2 Star
	Middle School: 3 Star
	High School: N/A
2018	Elementary: 1 and 3 Star
	Middle School: 3 and 4 Star
	High School N/A

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

Mater	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
15-16	1.9%	10.7%	14.2%	67.6%	0.1%	5.0%	0.2%	779	7.9%	65.7%	79.5%
Mater	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
16-17	0.9%	9.9%	10.5%	73.3%	0.1%	4.9%	0.1%	911	9.4%	46.8%	100.0%
Mater	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
17-18	0.9%	9.2%	9.7%	76.3%	0.2%	3.3%	0.1%	1756	7.6%	49.4%	70.3%
Mater Bonanza	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	0.9%	9.3%	7.8%	78.6%	0.3%	2.4%	0.7%	906	8.9%	43.3%	86.0%
Mater Mountain Vista	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	1.2%	7.8%	8.1%	78.6%	0.2%	3.6%	0.5%	1056	8.4%	46.0%	100.0%

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