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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. 11: Pinecrest Academy of Las Vegas Bond Amendment Request

DATE: November 30, 2018

Pinecrest Academy of Las Vegas, operating under a charter contract entered into in 2012 and renewed in 2018, has 4 campuses located in Las Vegas, Nevada. Currently, under the 2017-2018 Nevada State Performance Framework, each of the 4 elementary school programs are rated at the 5-star level and the each of the 4 middle school programs are also rated at the 5-star level. The Pinecrest Academy – Cadence High School did not receive a rating in the 2017-2018 reporting year. Pinecrest Academy serves 4,422 students (as of validation day) in Kindergarten through 11th grade. Pinecrest submitted a request for amendment including requesting that the State Public Charter School Authority (Authority) provide a written determination that the "charter school for whose benefit the project is being financed is not in default under the written charter or charter contract, as applicable, granted by its sponsor, as determined by the sponsor," pursuant to NRS 388A.650. This determination will satisfy a condition which may enable Pinecrest Academy of Nevada (Pinecrest) to have bonds issued on their behalf to purchase its Horizon, St. Rose and Inspirada campuses.

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

Summary of Request:

Pinecrest Academy of Las Vegas built its first two ground up campuses, St. Rose and Inspirada, with a partner, the Turner-Agassi Charter School Facility Fund. The Pinecrest Board then leased these facilities from this partnership. The Pinecrest Board now seeks to acquire its facilities from the partnership.

Per it's amendment request, Pinecrest states by way of background and experience:

"This will be Pinecrest Academy of Nevada (PAN) first purchase of a building. Multiple board members have extensive experience in regard to facility acquisition and development through the issuance of bonds. PAN's first building facility in which they occupied was an existing building. The Horizon campus was an existing building shell containing approximately 46,400 sf that was a build out. In 2015 PAN built there first two ground up campuses, St. Rose and Inspirada.

The St. Rose Campus is approximately 55,000 sf. and hosts a student capacity of 960 on approximately 5 acres. The Inspirada Campus was built in two phases on 7 acres. The first phase was approximately 57,500 sf., and the second phase added an additional 13,500 sf. The site has a student capacity of 1,200.

PAN has partnered with professional organizations such as Turner-Agassi Charter School Facility Fund, Academica Nevada, Nevada General Construction and Ethos 3 Architecture to accomplish these undertakings.

PAN has not encountered developmental delays to the campus calendar year with the construction of its first three campuses.

PAN partnered with the Turner-Agassi Charter School Facility Fund to acquire and construct the St. Rose and Inspirada school facilities. The Board entered into a Triple Net Lease which required the school to maintain the facility. The school will now propose to acquire their facilities because the lease has a purchase option provision. Board Members of PAN do not present a conflict of interest in dealing with Turner-Agassi Charter School Facility Fund or any other development group with which they would choose to do business.

PAN entered into a lease with School Development South Boulder LLC to occupy the Horizon campus. The Board entered into a Triple Net Lease which required the school to maintain the facility. The school will now propose to purchase the facility in order to stabilize the rent cost and prevent paying any further escalators. No Board Members of PAN have a conflict of interest in the facility, but there is common ownership between the landlord and Academica Nevada. Since the lease agreement does not have a purchase agreement and there is common ownership between the landlord and Academica Nevada, two independent appraisals will be obtained to ensure the purchase price meets fair market value.

No costs related to the facility will be borne by Academica Nevada or a related party such as a foundation."

It is SPCSA Staff's understanding that Pinecrest will continue to occupy the Horizon, St. Rose and Inspirada campuses during the facility acquisition process and the terms of the bond financing program may overlay the existing lease, to provide more favorable terms to Pinecrest.

On behalf of others of its client schools, Academica has requested and had issued Nevada Department of Business and Industry bonds, as early as in 2015. Pinecrest, through Academica, now seeks to have bonds issued on its behalf to acquire the aforementioned campuses.

Under the current proposal, the bond issuance and project costs will not exceed $50 million. Pinecrest's financial assumptions project that the school will borrow approximately $43.9 million at an interest rate of 6.00%. Note that this is an increase over the rate of 5.256% over 30 years which Academica sought for an earlier issuance for another of its schools. This increase is a reflection of the increase in interest rates and has been mentioned as a reason for one of the most unique aspect of this request, to be discussed further below.

Under Pinecrest's financial model, Pinecrest represents that "total facility costs, including debt service, lease, maintenance, utilities, etc., are projected to be approximately 19.89% of total expenditures in the current financial model;" Pinecrest says that its financial "model can handle facility costs of up to approximately 23.00% 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 Pinecrest (as well as for Mater) are to be submitted for a bond issuance through the Arizona Industrial Development Authority.

Staff presented a number of questions to Academica 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 fees, meaning 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 in alignment with each other. The Doral fee level is the highest. Essentially, the underwriting and cost of issuance fees, including the issuer fees, are relatively in alignment with each other.

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 Pinecrest's amendment application, B&I's application process has value at least by analogy as it provides eligibility requirements to obtain bond financing from B&I. These requirements include that:

- 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, 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 Department of Education (NDE). Staff has confirmed that Pinecrest has satisfied this requirement.
- 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 Pinecrest were processing this bond issuance request through B&I, it would seem that they would have at least 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:

Pinecrest has submitted an amendment request to the SPCSA, seeking to restructure the financing of the existing lease and lease amendments related to Pinecrest's Horizon, St. Rose and Inspirada campuses.

Pinecrest 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."

Academica indicates its effort to limit the window in which it is exposed to interest rate risk is a primary reason applicant Pinecrest in mid-September requested a good-cause exemption prior to the Request For Amendment submittal window (October 1-15) for the Board to consider this request.

Recommendation: Approve with Conditions

Pinecrest Academy has exhibited strong academic performance, earning a 5-star elementary school rating and a 5-star middle school rating according to the 2017-2018 Star rating system.

Additionally, Pinecrest has substantially improved its financial track record. The Two Year Financial Measure Summary 2015-2016 for Pinecrest showed results of "Does Not Meet Standard" for two of the eight measures, specifically "Days of Cash on Hand" and "Enrollment Forecast Accuracy." Pinecrest also showed a "Falls Far Below Standard" for "Cash Flow." However, by 2016-2017 results improved substantially to receive "Meets Standard" for all eight measures.

Staff would be remiss to ignore the potential cost savings under this proposed amendment. Pinecrest indicates this principle in stating it is acquiring the facility "in order to stabilize the rent cost and prevent paying any further escalators."

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."

SPCSA Staff believes potential savings could result in 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 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 existing 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 Pinecrest expires on June 30, 2024. This conditional approval does not supersede that obligation, and the renewal of the Pinecrest charter will be considered by the Board under a separate item.

Background:

Pinecrest Academy of Las Vegas Academic Performance

Year	NSPF Rating
2013	Elementary: 3 Star
	Middle School: 3 Star
	High School: 4 Star
2014	Elementary: 3 Star
	Middle School: 4 Star
	High School: 5 Star
2015	Elementary: 3 Star (frozen from 2014)
	Middle School: 4 (frozen from 2014)
	High School: 5 Star (frozen from 2014)
2016	No star rating published by State
2017	Elementary: 5 Star
	Middle School: 5 Star
	High School: N/A
2018	Elementary (4 campus): 5 Star
	Middle School (4 Campus): 5 Star
	High School: Not Rated

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

Pinecrest	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
15-16	6.3%	3.9%	57.4%	21.2%	0.5%	8.7%	1.6%	2341	6.7%	0.5%	6.8%
Pinecrest	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
16-17	7.1%	5.0%	54.4%	21.4%	0.4%	9.7%	1.5%	3701	8.1%	1.6%	15.2%
Pinecrest	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
17-18	7.8%	5.9%	51.2%	23.1%	0.4%	9.5%	1.8%	4126	9.9%	2.1%	11.9%
Pinecrest Cadence	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	5.9%	7.2%	49.3%	26.9%	0.4%	8.7%	1.6%	1628	11.6%	3.6%	30.8%
Pinecrest Horizon	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	4.6%	5.1%	51.6%	29.9%	0.3%	7.8%	0.7%	703	10.2%	1.8%	27.7%
Pinecrest Inspirada	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	10.6%	4.5%	50.3%	19.2%	0.4%	13.3%	1.6%	1099	8.5%	0.5%	11.0%
Pinecrest St. Rose	A	B	C	H	I	M	P	TOTAL ENROLLED	IEP	ELL	FRL
18-19	13.2%	5.0%	42.1%	23.9%	0.2%	11.7%	3.8%	992	8.6%	1.9%	19.6%

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