



PUBLIC SCHOOL CREDIT ENHANCEMENT BOARD MINUTES

General Meeting – April 25, 2017 11:00AM

Location: 1700 W. Washington
Old Senate Room
Phoenix, AZ 85007

Members Present: Governor Doug Ducey (Kirk Adams, designee), State Treasurer Jeff DeWit (Mark Swenson, designee), and Craig Brown (Clark Partridge, designee)

Staff Present: Dawn Wallace, Nikki Lazarus, Kristin Sorensen, and Charlie Martin

Call to Order, Welcome & Introductions

Kirk Adams called the meeting to order at 11:03AM.

Mr. Adams then called for an approval of the February 6, 2017 council meeting minutes as presented. Mark Swenson motioned for approval of the minutes, Clark Partridge seconded, and the motion passed unanimously.

Next, Mr. Adams called for motion to move into executive session. The motion was moved and the Board broke for executive session.

Upon returning to open session, Mr. Adams called for the review and action of the application from the Academy of Math and Science (AMS). Charlie Martin presented on the school, its request, and staff recommendations. AMS requested \$35.2 million to refinance debt and fund projects that will increase enrollment capacity. This financing would add buildings and classrooms to three of AMS' campuses and refinance \$13.7 million in existing debt. AMS meets the Board criteria for conditional approval for credit enhancement and if approved as submitted, approximately 10% of the programs total capacity would be used to enhance the financing. AMS disclosed that about 1% of the borrowed funds will be used to buy office property that is owned by Tatyana Chayka (founder of AMS) and Edward Chayka. About \$2 million of the financing will be used to renovate property at the AMS Price location that is not owned by the school itself. Staff recommended that AMS receive approval of the application to qualify as an Achievement District School as well as the approval of credit enhancement for an amount that is less than the full amount of the proposed financing. Kim Chayka, Co-CEO of AMS, spoke about AMS and its accomplishments. He said AMS is the fastest growing charter school serving low income populations and AMS is the 2016 Charter School of the Year. Mr. Chayka emphasized that AMS' funding request is about the number of students the charter would be able to serve an additional 600 students. Mr. Partridge asked Mr. Chayka what AMS' priorities would be if the Board did not approve the full amount AMS requested. Mr. Chayka said the two new school buildings and the renovation of current campuses, totaling \$17 million, as well

as \$7 million in outstanding debt that is significantly above market rate. Mr. Swenson asked if the Board only approved AMS \$10 million in funding, if that would work for AMS' cash flow and debt service needs. Mr. Chayka said it would not. AMS is expanding their network by over 30% this year and that requires significant resources. AMS does not have tax credit dollars that high income communities have or methods of fundraising so they are limited as they are expanding existing campuses, not building new ones. Steven Hykes, CFO, reiterated that AMS' request is for three separate projects, serving three communities, so their request is not for one school, but rather three, two of which are serving more than 95% free and reduced lunch. Mr. Partridge asked Mr. Hykes to break down the three projects. Mr. Hykes said the Camelback location is asking for \$15 million to cover \$7 million for new construction and \$8 million for refinancing. The Math and Science Success Academy (MASSA) on the Southside of Tucson is asking for \$10 million, and the remaining \$8 million is for the Prince Campus. Mr. Adams commented that the program was put into place because Governor Ducey wanted to replicate and expand successful models of educating kids, particularly successful models in educating kids that have hurdles. Part of the concern of the Board is what comes after this ask, and how they will be consistent. Mr. Adams suggested that perhaps it is okay for this Board to be discriminant when comparing a smaller group of charter schools versus a large system of charter schools that may already have significant financial systems in place and this program may not provide as much comparable value to them. Mr. Partridge asked if AMS was given money only for new construction, how would AMS take care of the associated costs. He said the Board wants to give maximum benefit within the limitations of the program and doesn't want to give money that will lead down a road to nowhere. Mr. Chayka said the credit enhancement for the Camelback project would lead to further savings and Mr. Hykes said if AMS only got the new construction credit, Camelback and MASSA would benefit the most and they would make other arrangements for the Prince Campus. Legal Counsel for AMS said AMS is restricted by its existing debt and they can't take on more debt unless they refinance.

Before moving forward, Mr. Adams asked staff when approving Achievement District schools if there were any metrics regarding income or minority status. Dawn Wallace said no, but the intention of the program was to increase access to quality schools across the state. Mr. Adams suggested that the Board may be more inclined to approve an Achievement District for a low income area and to focus on the sites, rather than the system. Mr. Partridge said with that in mind, the Camelback project should be supported. Mr. Adams asked AMS for the specifics of the South Tucson Campus. Mr. Hykes said the ask is \$1.5 million for education cost, \$5.5 million for new construction, and \$3 million for refinancing (total \$10.3 million) and would serve an additional 300 students. For the Prince location, \$2 million would be used for renovations and \$4 million for new construction, and would serve an additional 100 students and provide facilities the school does not have. Mr. Adams suggested they approve the Camelback and South Tucson sites, and not approve the Prince location. Mr. Swenson and Mr. Partridge agreed. Mr. Adams asked for motion to approve AMS as an Achievement District School, Mr. Swenson moved and Mr. Partridge seconded, and the motion passed unanimously. Next, Mr. Swenson motioned to approve \$25.3 million for new construction and refinancing limited to the Camelback and South Tucson locations, contingent upon the AA-rating of the overall pool being maintained and with clarification from the rating agency. Mr. Partridge seconded, and the motion passed unanimously.

Next, Mr. Adams moved on to the Arizona Agribusiness and Equine Center's (AAEC) application. Charlie Martin presented on the school, its request, and staff recommendations. AZ Agribusiness and Equine Center requested \$36.1 million to refinance debt and fund projects that will increase enrollment capacity. This financing would establish a new campus in Mesa, expand the Estrella

Mountain campus, and refinance to save the approximately \$150,000/year. AAEC meets the Board criteria for conditional approval for credit enhancement and if approved as submitted, approximately 10% of the programs total capacity would be used to enhance the financing. Staff recommended that AAEC receive approval to qualify as an Achievement District School as well approval of credit enhancement for an amount that is less than the full amount of the proposed financing. Linda Proctor-Downing, founder of AAEC, spoke about AAEC and its accomplishments. Mrs. Proctor-Downing said since 1997 her schools have grown and excelled, and in the last two years they were in the top 1% of college preparatory schools, as stated in US News. All five of AAEC's schools are ranked highest in their area, and all have above a 99% graduation rate. She would like to expand further; however, finding staff is difficult and therefore the request focuses on a few sites. Suzanne Drakes said the South Mountain campus is about 89% Hispanic, with about 90% free and reduced lunch and Mesa (the new campus) will be about the same. Mr. Swenson asked them to break down each project. Dan Bigler explained that the Mesa project is between two currently served areas, South Mountain and Far East Mesa, and so far they have land near the community college and are working with the community college to secure additional land to expand. The land is about \$2 million, construction would be about \$4 million, \$300,000 for furniture and fixture, \$325,000 for architecture and legal/professional, giving the project a total of about \$7.4 million. The school would serve at least 260 additional students, with the goal of serving over 300. Estrella Mountain is a campus that currently serves about 480 students, and the campus has outgrown its current space. AAEC would like to purchase land and build new facilities, totaling about \$9.3 million - \$1.8 million for land, \$5.5 million for construction, \$500,000 for furniture and fixture, and \$325,000 for architecture and legal/professional. The student body is about 78% Hispanic, and 54-60% free and reduced lunch, and the student body would double with this project.

The Board recessed for a few minutes.

Upon return, Mr. Swenson motioned Arizona Agribusiness and Equine Center be approved as an Achievement District, Mr. Partridge seconded, and the motion passed unanimously. Next, Mr. Swenson motioned that consistent with the framework discussed on the previous application, the Board would like to provide credit enhancement funding totaling \$7.4 million for the project costs of the Mesa campus and \$9.3 million for the expansion of the Estrella Mountain campus, contingent upon maintaining an AA- rating. Mr. Partridge seconded, and the motion passed unanimously.

Public Comments

There were no public comments.

Adjourn

With no further business before the Board, the meeting adjourned at 1:12pm.