



## **PUBLIC SCHOOL CREDIT ENHANCEMENT BOARD MINUTES**

### **General Meeting – June 1, 2017 10:30AM**

**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, and Kristin Sorensen

### **Call to Order, Welcome & Introductions**

Mr. Kirk Adams called the meeting to order at 10:39AM.

#### Board Meeting Minutes – Agenda Item 2:

Mr. Adams then called for a motion to approve the April 25, 2017 Board meeting minutes as presented. Clark Partridge asked for motion to amend the minutes to alter the phrase from "requested a motion to move" to "moved to." Staff made note of the amendment. Mr. Adams asked again for a motion to approve the minutes as amended. Mr. Partridge moved for approval of the minutes, Mr. Mark Swenson seconded, and the motion passed unanimously.

#### Board Discussion and Possible Action – Agenda Item 3 (a):

Next, Mr. Adams called for motion to move into executive session to receive legal advice. The motion was approved and the Board went into executive session.

Upon returning to open session, Mr. Swenson moved to authorize counsel to prepare standard forms for the terms and conditions agreement, fund certificates and reimbursement agreements and for staff to review and confirm that bond documents conform to the terms and provisions in these documents. Mr. Partridge seconded and with no discussion the motion passed unanimously.

#### Great Hearts – Agenda Item 3 (b):

Mr. Adams then called for the review and action of the application from Great Hearts Academies. Mrs. Wallace presented on the school, its credit enhancement request, and staff recommendations. Great Hearts operates 22 charter schools throughout the Phoenix area with a current enrollment of 11,414 students. Great Hearts provides a rigorous curriculum that includes significant exposure to

the arts, intense focus on math and science, and a school culture that is based on an honor code, uniforms, and they have extracurricular programs. Great Hearts is requesting \$36 million to refinance debt and fund projects that will increase enrollment capacity. This financing would increase capacity by 1,086 students through the expansion of Maryvale Preparatory Academy and refinance \$19.9 million in existing debt. Maryvale Preparatory brings a Great Heart education to the underserved families of West Phoenix. The campus began with 140 students in K-3 and has grown to serve 450 students in K-7. Great Hearts meets the Board criteria for conditional approval for credit enhancement with an underlying credit rating of BBB- expected to be assigned to the proposed financing. If approved as submitted, approximately 10% of the credit enhancement program's total capacity would be used towards the Great Hearts financing request. Staff recommended that Great Hearts receive approval of the application to qualify as an Achievement District School.

Next, Mr. Eric Twist spoke on behalf of Great Hearts about the two projects. He spoke about the Veritas campus, which includes both the Veritas Archway Campus and the Maryvale Preparatory campuses. Veritas Archway Campus is the founding academy for Great Hearts, and has been in high demand over the last 15 years. The waitlist at the Veritas Archway Campus currently is twice the size of their enrollment capacity and this project would allow them to draw down that waitlist. Mr. Twist made note that 47% of the Veritas community live in zip codes that fall below the median income of Maricopa County. Maryvale Preparatory aims to provide an elite education for families that cannot afford private education. Maryvale Preparatory is one of their largest academies with 1,200 students, and is part of the revitalization of Camelback corridor. Maryvale Preparatory is in the top 10% of schools serving low income kids in the state. Overall, Great Hearts is adding around 1,000 new seats with both project requests, reducing waitlists, and growing Maryvale Preparatory from two to four sections of each grade level served. Mr. Twist showed the Board a rendering of the Maryvale project, which has three stages. Stages two and three are being funded philanthropically.

Mr. Adams asked Mr. Twist to clarify the growth of quality seats at Maryvale Preparatory with funding approval requested for expansion. Mr. Twist said it would grow by about 800 students since they are expanding the number of sections in grade levels as well as taking the school all the way to 12<sup>th</sup> grade. Mr. Adams asked how many commuter students attend Maryvale. Mr. Twist said upward of 80% of the student population resides in the local area and many walk to school. There are approximately 75,000 K-12 students within 3 mile radius of Maryvale; it's the most densely populated K-12 population in Arizona. Mr. Adams asked if most students switched from Cartwright School District, Mr. Twist said yes. Mr. Adams then asked the percentage of students that are English as a Second Language (ESL). Mr. Twist did not know exact percentage but said he believed the majority were ESL. He said the student population is about 78% Latino at Maryvale and majority FRL (free and reduced lunch) student population. Mr. Adams asked Mr. Twist to explain the methods used to market the school or recruit students. Mr. Twist said initially they walked the neighborhood. Both English and Spanish speakers went out and spoke about the programs and about charter schools. They also work with the Hispanic Chamber and daycares to get the word out, as well as social media. Next, Mr. Adams asked if they have had to institute specific ESL programs. Mr. Twist said that Great Hearts does a lot of intervention work, especially in primary grades to reduce the achievement gap in literacy. One of the ideas for the current project is to continue the work in early intervention in K-2. They have two teachers in each classroom and one of those teachers works exclusively with ESL students. There are currently 120 kids at Maryvale receiving summer school based on the data collected throughout the year in order to keep them on track and to make up literacy gaps. Mr. Adams asked if Maryvale has any existing partnerships with Grand

Canyon University (GCU). Mr. Twist said no, they have had talks with them in preparation for this project, and there are programs GCU has that Great Hearts would like to get involved with.

Mr. Adams asked for a motion to approve Great Hearts as an Achievement District. Mr. Partridge moved, Mr. Swenson seconded, and the motion passed unanimously. Next, Mr. Adams asked for a motion to approve the Maryvale portion of Great Hearts' application for a total of \$16 million subject to approval of all terms and conditions. Mr. Partridge moved to approve the application for the Maryvale campus in the amount of \$16 million in accordance with the requirements that the Board stated. Mr. Swenson seconded and with no discussion the motion passed unanimously. Mrs. Wallace asked that they amend the motion to include the participation fees that are required under this program, which are 25 basis points. Mr. Swenson moved that the agreement to provide the credit enhancement of \$16 million for the Maryvale project also include the 25 basis point participation fee that is charged as part of this program. Mr. Partridge seconded and the motion passed unanimously.

Mr. Adams moved to discussion on the Veritas Archway project. He asked Mr. Twist to provide more demographic data about the site. Mr. Twist said Veritas is 74% white, but if you take the median income in Maricopa County and break it up by zip codes, 47% of their students live in zip codes below the median income. It is not diverse from an ethnic standpoint but it is diverse from an economic standpoint. These extra seats afford them the opportunity to tactically target families south of Thomas Street as well as South Scottsdale families. Mr. Adams then asked if it was Great Hearts' intention that the conversion would add 280 students. Mr. Twist said that number was high, and it would actually swing 120 seats down from upper school, into a coherent K-6 program. By moving to a four section K-6, they would not be taking in new students in the middle school, which is better in order to get students into the program earlier.

Mr. Swenson asked when the new seats would be available. Mr. Twist said the fall of 2018. Mr. Swenson then asked staff about maintaining AA- rating and whether they had heard anything back. Mrs. Wallace said they have been in contact with S&P but have not received a solid answer. She said if they were to approve this request in full, the dashboard would show the Board has provided \$60-70 million, which is a good chunk in two meetings, but in the engagement letter from S&P there were no set of assumptions, though that does not mean that they wouldn't start to evaluate the program differently. Mrs. Wallace stated that since the application process went live, the Board has only received four applications and has not received any in the last month and a half. Therefore it is unlikely that the Board will be ruling on additional applications until the fall.

Mr. Partridge noted that there must be at least 10 borrowers in the pool in order to be considered a pool, which is one of the concerns in dealing with this request and the restrictions of the program. And to that point, he thinks they can deal with things creatively to best accommodate additional schools. He asked Mr. Twist if Great Hearts had considered asking for an additional \$800,000 in financing to take care of that renovation to accommodate the expansion of 280 students. Rob Zoromski, Great Hearts' CFO, said they had not specifically talked about that, but in terms of the additional seats today's refinancing request is needed to fund the \$800,000. Also, he noted that Great Hearts has a group of 15 schools that is considered the obligated group, and the intent of the bond was to bring them together to create one pool of funds which then becomes a greater obligated group. By bringing Veritas in, it helps the overall quality of that portfolio, and because, for Great Hearts, it would have all 18 schools in the group, if they were to default, the entire pool of 18 schools would be tapped first instead of the fund from the Credit Enhancement. Mr. Partridge suggested that the Board continue to evaluate creative ideas as to the expansion without the \$19.9

million and come up with the \$800,000 simply to take care of the costs associated with that. Great Hearts' financial advisor clarified that the \$800,000 is the cost of the improvements, while the savings are over \$2.5 million from the refinancing. He also noted that S&P says in their report that should there be an increase in leverage (meaning above 3.5:1 ratio) while the number of participating schools remains below 10, the rating will likely be adjusted to reflect a modified weak-link approach that is more dependent upon specific school credit quality. He states that this reason is exactly why the Board should want an investment grade participant in the pool. While there are three schools directly benefiting, there are 18 schools supporting this. Therefore, if the program only has 10 participants, this ask would fit exactly into the criteria. Mr. Zoromski noted that the savings from refinancing is freeing up the money that allows them to invest. To get a loan for the \$800,000 would require additional money Great Hearts would have to repay. Mr. Partridge asked what the remaining savings would be used for. Mr. Twist said the savings would go into long term viability. Great Hearts will be down 1% in total revenue from the state next year, so these are ways they are trying to be very responsible in thinking about maintaining the viability of their schools and avoiding any cuts in programs or staff. This is an important part of their expansion and in many ways funding their waitlist. But it also allows them to strengthen the overall long term viability of the economics of the school. Mr. Partridge commented that while he does not know all of Great Hearts' financial future projections, he believes that they would currently have a budget that could support the \$19.9 million and asked Great Hearts to contemplate other options. Unless they are projecting to run in a deficit in the future, which he did not believe was indicated by any of their financial statements, he would not expect a deficit. Therefore, Great Hearts should be open to options on how to expand without chewing the fund up.

Mr. Swenson said he was concerned about the number of projects that can be approved because at the previous meeting they didn't fund the full request of the other two applicants. But he believes that having an investment grade rating charter school in their pool is going to benefit the program and he is prepared to approve the full request for the Veritas campus. Mr. Adams asked staff for clarification on the S&P letter and the fact that they have been operating on the assumption of 10 schools and it seems to be a little more nuanced than that. Mrs. Wallace said there has been a lot of nuance and at the next meeting they will agendize the credit rating and provide an update on conversations with S&P. She also said that while the Board cannot direct schools to only bring in students from specific communities, what might be helpful is to acknowledge that they have been given that information by the applicant. Mr. Adams asked if they could include intent language. Mrs. Wallace said that she conferred with counsel, and they could not. But as a Board they have made several statements related to why they feel these are important projects for the public good and providing all students access and quality school options. She suggested they can at least state their intentions.

With no further questions, Mr. Adams asked for a motion on the Veritas portion of the application. Mr. Swenson moved to approve the \$19.9 million refinancing request for the applicant and directed staff to prepare all of the necessary terms and conditions as well as the 25 basis point fee. Mr. Partridge seconded the motion. Mr. Adams asked for discussion. Mr. Swenson said in the history of financing for charter schools, there are not a lot of investment grade charter schools. He believes to get them in and anchoring the pool is a wise move in the overall credit quality in addition to how the credit agency will view not only this action, but further actions. He also said the demographics, the neighborhood enhancement, and servicing the lower income families also drives his support. Mr. Partridge agreed and commended Great Hearts in leading education in Arizona and what they are trying to do here to target additional students in need of additional high-quality educational

opportunities in Arizona. He also commended them for their choice of relocation. Mr. Adams commented that he appreciates the quality of the application and of the institution and most importantly the education being provided by the Great Hearts system. The Maryvale campus is particularly noteworthy because it breaks a lot of stereotypes regarding high quality education. He believes it is a demonstration of Governor Ducey's vision that every child, no matter their zip code, deserves access to a high quality education. As it relates to the Veritas campus, he notes that 47% of the student population lives in low income zip codes, and the intention of the leadership at Great Hearts is to recruit additional students in those zip codes further advances the vision of Governor Ducey. Mr. Adams asked if there were any other comments. With none and the motion on the table, Mr. Adams asked for all in favor to vote aye. The Board passed the application unanimously.

Before moving on to public comments, Mr. Adams requested that staff make note that when they agendaize the credit rating discussion at the next meeting, he would like to include how decisions in previous meetings may be impacted.

### **Public Comments**

There were no public comments.

### **Adjourn**

With no further business before the Board, the meeting adjourned at 12:00PM.