



STATE OF ARIZONA  
OFFICE OF THE GOVERNOR

DOUGLAS A. DUCEY  
GOVERNOR

EXECUTIVE OFFICE

DATE: June 18, 2018

TO: Credit Enhancement Eligibility Board

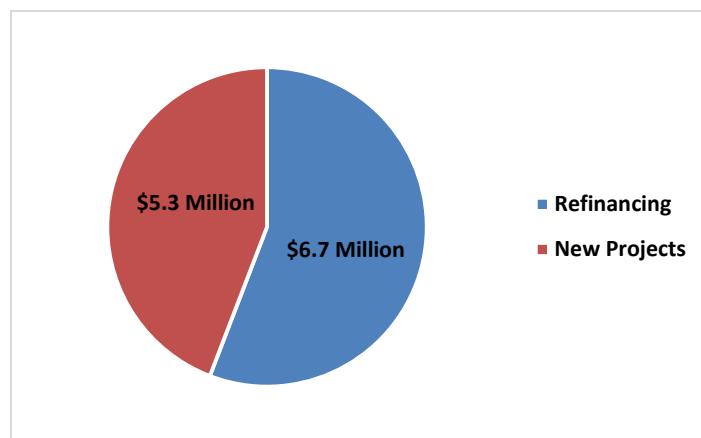
THRU: Dawn Wallace, Senior Advisor for Education, Governor's Office

FROM: Charlie Martin, Budget Manager, Governor's Office of Strategic Planning and Budgeting

SUBJECT: Vista College Preparatory – Application for the Public School Credit Enhancement Program

**Summary of the Request**

Vista College Preparatory (VCP) has applied as an Achievement District School and for participation in the Public School Credit Enhancement Program for up to \$12 million in proposed financing. In summary, VCP requests enhancement for about \$6.7 million in new debt that will be used to build new facilities to increase enrollment capacity and about \$5.3 million to refinance loans on existing facilities. The proposed financing will enable VCP to serve an additional 440 students (see Impact of Proposed Financing).



Based on staff review, Vista College Preparatory meets the requirements to qualify for conditional approval for the Public School Credit Enhancement Program.

**Recommendation**

The Board has the following two options regarding VCP's application as an Achievement District School:

1. Approval as an Achievement District School (**Staff recommendation**).
2. Denial of the application to qualify as an Achievement District School.

If the Board does not approve the Achievement District application, VCP is not eligible for the Public School Credit Enhancement Program. If the Board approves the Achievement District application, the following three options are available for the Board to consider:

1. Approval of credit enhancement for the full amount of the proposed financing of \$12 million.
2. Approval of credit enhancement for an amount that is less than the full amount of the proposed financing.
3. Denial of credit enhancement for any portion of the proposed financing.

Note: Final Board approval of credit enhancement is subject to the applicant's execution of the Terms and Conditions Agreement and Reimbursement Agreement prior to the issuance of a Fund Certificate, which will confirm the guarantee of timely payments of principal and interest on the financing.

## **Analysis**

### Applicant Overview

Vista College Preparatory currently operates two charter schools in Arizona. Both schools are located in Phoenix. Vista College Prep Hadley (VCP Hadley) is located at 6<sup>th</sup> Avenue and Hadley Street in downtown Phoenix and Vista College Prep Maryvale (VCP Maryvale) is located at McDowell Road and 45<sup>th</sup> Avenue. The two schools had a combined enrollment of 379 students in kindergarten through fifth grade as of October 1, 2017. According to the application, VCP was founded with the belief that college preparation begins in kindergarten. The applicant reports that students' scores on the AzMERIT test are in the top 6% for literacy and the top 11% for math among all schools and that VCP students have the highest literacy scores in the state among schools in which 90% of students qualify for free and reduced price lunch.

### Application Details:

Date Received: 5/17/2018

Date Complete: 6/7/2018

Deadline to Approve/Deny: 8/6/2018

Applicant Contact: Julia Meyerson, Founder and Executive Director

Borrower's Counsel: Lewis Roca Rothberger

Bond Counsel: Greenberg Traurig

Underwriter: RBC Capital Markets

Bond Issuer: Phoenix IDA

### Achievement District Qualification

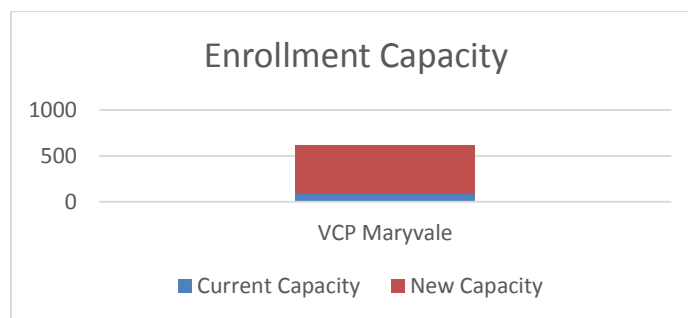
ARS §15-2141 establishes criteria that an applicant must meet to qualify as an Achievement District School. Based on the review of documents provided by VCP in their application, VCP has met the criteria established in statute.

Requirement	Status
Assigned a letter grade of A, or an equivalent successor classification	Verified
Proven instructional strategies and curricula that demonstrate high academic outcomes	Materials Provided
Verifiable enrollment demand, including the placement of prospective pupils on a waiting list	Attestation
Sound financial plan that contemplates operational costs and future enrollment growth	Financial Documents
Commitment to provide technical assistance to an underperforming school	Letter Submitted

At the time of application, VCP reported a wait list of 267 potential students based on expressed intent to enroll. Additionally, VCP has reported that school staff have identified an additional 670 students that are eligible to enroll based on age and geographic location. The application also includes VCP’s analysis of enrollment demand and the need for high performing schools in the area surrounding VCP Maryvale. VCP has partnered with Empower College Prep, an underperforming charter school in Phoenix, to assist in the areas of curriculum and instructional support. Over 90% of students at both VCP schools qualify for free or reduced-price lunch: 93% of students at VCP Hadley and 92.5% of students at VCP Maryvale.

Impact of the Proposed Financing

Vista College Preparatory anticipates that the proposed financing will increase student capacity by 440 seats. The proposed financing includes about \$6.5 million in new debt to fund the construction of 35,000 square feet of additional space that will be adjacent to the existing 8,432 square foot facility at the VCP Maryvale campus. While the new building will be owned by VCP, the underlying land is leased. The additional space will include 22 state-of-the-art classrooms, a library, office space, a gymnasium, and outdoor space. The proposed financing also includes about \$5.5 million to refinance debt related to the VCP Hadley campus. VCP estimates that the refinancing will save about \$1 million over the life of the financing, or about \$33,000 per year, and plans to allocate the savings to additional investments in staffing, professional development, and instructional resources staffing, professional development, and instructional resources.



### Eligibility for Credit Enhancement

ARS §15-2155 requires that applicants provide proof as an Achievement District School, show sustainability of financial operations, provide information about the financing proposed to be guaranteed, and identify any property being pledged as collateral. Charter school applicants are additionally required to demonstrate experience in operating and managing charter schools and acknowledge that the financing will include a debt service reserve fund that is equal to at least the maximum amount permitted by federal law.

VCP's proposed financing meets Board criteria for conditional approval for credit enhancement and compliance with the Terms and Conditions Agreement and Reimbursement Agreement will ensure that all program requirements are met. VCP has not previously been assigned an underlying credit rating and the underlying credit rating on the proposed financing could be B+ or lower. Based on S&P's rating medians for charter schools, VCP has healthy operating margins and cash reserves that are in line with higher-rated charter schools, but is very small and will have high debt levels after accounting for the proposed financing. The majority of charter schools that have an underlying credit rating are rated BB, BB+, BBB- or BBB.

### Impact on Credit Enhancement Program

The approval of any individual financing affects the Arizona Public School Credit Enhancement Program's capacity to enhance future financings, compliance with statutory ratios, and potentially the enhanced credit rating assigned to current and future financings.

If the proposed financing is approved as submitted, approximately 3.4% of the program's total capacity will be used to enhance this financing.

ARS §15-2155 requires that the Board ensure that the program leverage ratio, which is the ratio of the principal amount of guaranteed financings to the amount on deposit in the Arizona Public School Credit Enhancement Fund, not exceed 3.5 to 1. It also requires that, upon the guarantee of 10 enhanced financings, not more than 25% of the aggregate principal amount of guaranteed financings have an underlying, or unenhanced, credit rating of B+ or lower. If the full amount of the proposed financing is approved for credit enhancement, the program will remain in compliance with the maximum program leverage ratio. While the Board will have not yet approved 10 financings, it is uncertain whether the applicant will have an underlying credit rating of BB- or higher. If the applicant fails to obtain an underlying credit rating of BB- or higher, the financing would count against the maximum 25% of the aggregate principal amount of guaranteed financings that may have an underlying credit rating of B+ or lower.

The Board should also consider the impact of approving the proposed financing on the enhanced credit rating assigned to financings. The higher the enhanced credit rating assigned to guaranteed financings, the greater the benefit of the program to participants. The assumptions made by rating agency Standard and Poor's in an initial review of the program included that the program would have approximately 35 participants with an average enhanced financing of \$10 million each. VCP's proposed financing is somewhat larger than the average size of an enhanced financing assumed in this initial analysis.

Additional Considerations

VCP has certified that no board members, employees, or immediate relatives of board members or employees will benefit from the proposed financing.