

A Review of the Achievement District Proposed Rules

KUTAK
ROCK^{LLP}

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Introductory Information

- **Baseline Information**
 - Authority for the Rules Chapter 129, Laws 2016
 - Achievement District Board has the authority issue rules that are exempt from the rulemaking requirements of Title 41.
 - Requesting the Board authorize rule making
- **Drafting and Public Input**
 - Team approach to the initial draft (RBC, Kutak Rock, OSPB and Governor's Office)- Treasurer staff reviewed initial draft.
 - Used a strawman draft and solicited informal input from stakeholders
 - Additional comments will be accepted until December 29th
- **Next Board meeting is targeted to formally adopt rules after additional public comment**

Rules are Divided into the Two Major Sections

- **Participation in the Achievement District**
 - Requirements to participate for charter and district schools
 - Application process and timelines
- **Credit Enhancement**
 - Requirements to participate for charter and district schools
 - Application process and timelines
 - Additional financial requirements
 - Criteria for the Board to prioritize applications
 - Applicants can apply concurrently for District participation and financing

Application Requirements to Participate in the Achievement District

- **Academic Performance** ARS 15-2141 (B) (1) and ARS 15-2141 (B) 2
 - School has a letter grade of “A” or an equivalent rating on a successor classification
 - Charter schools must demonstrate they are in compliance with their Charter
 - Rating is school specific
 - Narrative on proven instructional strategies
- **Enrollment Demand** ARS 5-2141 (B) 3
 - Provide evidence of a wait list, open enrollment demand and a description of the methodology used
- **Financial** ARS 15-2141 (B) 4
 - Present a sound financial plan and audited financial statements for most recent year
 - Sound financial plan that accounts for current enrollment and future growth
- **Community Support and Serving Low-income Students** ARS 15-2141 (B) (5) and ARS 15-2141 (B) (6)
 - Agree to support an “Underperforming School” (C or below)
 - Required to submit free and reduced lunch data

Timelines and Approval Process for the Achievement District Application

- Administrative completeness determinations
 - Within 30 days of submission
- 60 days for substantive review
- Board is required to notify applicants within 10 business days of the decision ARS 15-241 (C)
- Board required to meet every other month
 - Additional meetings may be called
 - Meetings can be canceled if there is no action before the Board

Arizona Public School Credit Enhancement – Application Criteria

Academic

- “A” school at the time of application ARS 15-2141 (B) (1)
 - Charters demonstrate success in operating for two years ARS 15-2155 (B) 3
- Information of teacher turnover rate, parent surveys and conflict of interest disclosure ARS-15-2155 (B) (7)
- **Enrollment Demand** ARS 5-2141 (B) 2
 - Wait list, open enrollment demand and a description of methodology used
 - Demonstrate sustainability
- **Community Support and Serving Low-income Students** ARS 15-2141 (B) (5) and ARS 15-2141 (B) (6)
 - Agree to support an “Underperforming School” (C or below)
 - Required to submit free and reduced lunch data
- **Financial** ARS 15-2155 (B) 2
 - Exhibited financial viability and sustainability in financial operations

Disclosure Requirements for All Applying Schools

Demonstrate Financial Viability

- At least two years audited financial statements
 - If audit has not been completed for the most recent year, a statement of revenues and expenditures or balance sheet may utilized
- Additional audited financials can be required
- School current year budget with line items

Description of How the Funds are to be Used

- Timing of financing and schedule of estimated sources and payments?
- How financing will be utilized to reduce enrollment demand?
- If it is a refinancing of existing debt, what are the savings and how will they be used?

Requirements for Charter Schools to Qualify for Financing

- Provide information on corporate board and key staff
- Disclosure of material or substantial lawsuits
- Narrative of academic outcomes for two years
- Student enrollment statistics by grade for the most recent five years (Shorter lookback can be approved for newer schools)
- Five years of enrollment projections
- Demonstrate sufficient liquidity (45 days cash on hand or 30 days with a net increase from prior year)

Additional Financial Requirements for Charter Schools

Disclosure of Financial Information

- Projection of revenues and expenditures and net cash flows for ensuing three-year period
- List of all current outstanding debts including documentation that debts are not in default
- If charter has rated debt what is the bond rating?

Specific Conditions for School District Financing

With General Obligation Bonds (3 years of the property tax collection must average 90% or more)

With other sources (Demonstration of adequate and pledged revenues/budget capacity of at 110% of payments due)

For Guaranteed Financing Secured by Real Property

- Describe the ownership status of the property (fee simple, leased, other)
 - Lease agreement and payment terms must be disclosed
- Identification of the property to be pledged with independent appraisal of current valuation within 90 days of the financing
 - Copies of leases or must be provided within 30 calendar days but not more than 60 days
- Appraisal of the “As built” value of the property and must be equal to or greater than the principal amount to be financed
 - Provided to Board not less than 30 days but not more than 60 days before financing
- For refinancing
 - Applicant may provide a security interest to a related financing if the security interest is subordinate
- New construction must have a GMP Contract (+ \$500,000) or other method to secure completion

Financing Timeframes and Fees

Timeframe to Complete Financing

- Once the financing is approved the applicants have 120 days to complete financing
- Board may grant an additional 60 day extension

Fees

- Legislation requires a minimum fee of 25 basis points for Charter school financing. Higher fees can be authorized by the Board ARS 15 2155
(E)
- No statutory requirement to charge fees for District schools.
- Board may taken into account credit quality, value of collateral being pledged, amount of the financing and the projected savings

Financing Terms

Financing Terms all Achievement District Financings

- Finance term is limited to 35 years
- No-more than two years interest only
- For projections not secured by property tax the estimated debt-service coverage ratio shall be either:
 - Ratio of net cash flow with the proposed debt must be 110% or
 - Ratio of net cash flow must be 110% excluding the debt financing and projected new cash flow with the proposed debt must be at least 110%.
 - Requires an independent CPA of financial consultant to attest

Preferences Identified in Selecting Projects for Financing

- The impact that the financing has on students from low socio-economic backgrounds
- The geographic distribution of financing throughout Arizona
- The extent to which the financing impacts enrollment demand
- Program financing will maintain the statutory program design requirements ARS 15 2155 (C)
 - Program leverage ratio of 3 ½ to 1 is maintained
 - After 10 financings not more than 25% of principal amount are rated less than BB-

Rules and Application Process Designed to be User Friendly

Applications are designed to be submitted electronically

Guidance documents are being designed to answer frequently asked questions

Questions?