



ZIONS PUBLIC FINANCE, INC.

## MEMORANDUM

**DATE:** Wednesday, January 3, 2024

**TO:** Marlo Oaks, State Treasurer and Utah Charter School Finance Authority Board

**FROM:** Japheth McGee, Vice President and Johnathan Ward, Senior Vice President of Zions Public Finance

**RE:** Summit Academy, Inc. Application to the Utah Charter School Finance Authority and Credit Enhancement Program

### Conflicts of Interest

In general, Zions Bancorporation, National Association is made up of many departments and provides various services. Some of those services and departments can be involved on the same transaction. Zions Public Finance Inc. and Zions Corporate Trust are affiliated entities operating under Zions Bancorporation and we all benefit from a strong stock price derived from strong performance by the company and its component members and affiliates across the country. Zions Public Finance does not receive financial or other benefits in association with transactions performed by Zions Corporate Trust who may act as Trustee on charter school transactions. Likewise, Zions Public Finance operates separately from commercial loan divisions of the Bancorporation who may have provided private financing to developers or charter schools to construct the school initially. Zions Public Finance is not aware of the circumstances where this occurs unless told when a charter school applies. Zions Public Finance does not receive financial or other benefits that could result from actions taken by the Charter School Finance Authority outside of the agreed upon fees for services rendered to the Authority.

Zions' entities engaged with the School:

Zions Public Finance:	<b>Yes. (Advisor to the Authority)</b>
Zions Corporate Trust:	<b>No</b>
Zions Commercial Involvement:	<b>No</b>

### Executive Summary

Borrower:	Summit Academy, Inc.
Management Company:	Business Administrator: Brad Wilkinson
Municipal Advisor:	LRB Public Finance Advisors, Inc.: David Robertson
Borrower's Counsel:	Farnsworth Johnson: Brandon Johnson
Underwriter:	DA Davidson: Eric Duran
Bond Counsel:	Chapman & Cutler LLP: Eric Hunter

Issuer's Counsel:	Gilmore & Bell PC: Jacob Carlton
Trustee:	US Bank: Laurel Bailey
Par Amount:	\$16,460,000 in tax-exempt bonds.
Enhancement Requested:	Yes
Purpose:	Refund the School's existing financing, fund a debt service reserve fund, and pay costs of issuance.
Structure:	Bonds will be repaid with a roughly level amortization of principal and interest over 20 years. The bonds will carry a fixed rate of interest.
Term:	Final maturity in 2043. Bonds will likely carry a 10-yr call feature.
Rating:	S&P Global Ratings: BBB-
Costs of Issuance Estimate:	\$265,000
Underwriter Fee Estimate:	\$4.50/\$1,000 (est. \$74,070)
Litigation:	None of which we are aware.
Summary:	The School's high school bonds were issued as a direct placement that carries a reset. When those reset they will likely reset to a higher rate. The School is hoping to minimize interest rate risk by fixing the rate now. Consolidating all of the School's debt under the same indenture will also reduce administrative burden. The School recently combined its high school and K-8 campuses into a single LEA. The School meets each standard for credit enhancement after adjusting for non-cash audit changes. Historical enrollment projections were overly optimistic and the School saw significant COVID-19 enrollment declines. However, the School enrollment has stabilized and the School continues to operate with a strong cash position and has no immediate plans for additional debt. This should allow the School to continue to meet its debt obligations.

## Purpose

The purpose of this memo is to document the adherence of Summit Academy, Inc. ("Summit," or the "School") to the application requirements of the Utah Charter School Finance Authority (the "Authority") Credit Enhancement Program Standards and provide credit analysis of the School for the Authority's consideration. The analysis contained herein is based on Summit's application to the Authority and inquiry for clarification of the Municipal Advisor to the Authority.

## Introduction

The School is a non-profit, 501c3 designated, public K-12 charter school with three campuses in Bluffdale and one in Draper. The School was approved by the Utah State Charter School Board (the "SCSB") and opened for grades K-6 in 2004, grades 7-9 in 2008, and through grade 12 in 2010.

### **MISSION STATEMENT**

Summit Academy excites a student's desire to learn and succeed now and in the future. Our dynamic student-teacher-family community sees each student as a whole person and together creates a challenging individualized educational journey toward intellectual success and personal well-being.

## Enrollment/Student Demand

October enrollment for the 2023 - 2024 school year was 2,564 students. LEA-wide enrollment is down roughly 400 students from the October 2019 count with the bulk of that decline having come in the 2020-2021 school year. The School had a small waitlist at the beginning of this school year. Retention at the School is typically above or near State averages. Average daily membership is above 99%.

	ADM		Re-enrollment Rates		
			'19-'20	'21-'22	'22-'23
2023	99%	Summit K-8	84%	86%	86%
2022	99%	Summit High	83%	81%	79%
2021	99%	Utah	80%	83%	83%

### Summit Academy LEA Enrollment

Grade	Historic						Projected			
	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28
K	291	265	233	224	255	252	265	265	265	265
1	296	278	214	246	229	251	259	264	264	264
2	274	310	245	208	245	237	243	253	253	253
3	283	275	255	250	221	240	247	250	250	250
4	266	291	237	257	244	211	215	215	215	215
5	261	263	262	235	241	234	234	232	232	232
6	236	249	223	235	206	212	213	213	213	213
7	250	241	200	187	197	184	185	185	185	185
8	214	240	192	185	180	195	178	178	178	178
9	152	151	152	166	142	147	145	145	145	145
10	148	139	118	142	137	144	147	147	147	147
11	136	132	120	116	123	126	126	126	126	126
12	138	120	111	108	108	131	124	125	125	125
Totals	2,945	2,954	2,562	2,559	2,528	2,564	2,581	2,598	2,598	2,598

### Summit Academy LEA Waitlist by School Year

Grade	'20-'21	'21-'22	'22-'23	'23-'24
K	-	-	-	-
1	-	-	-	2
2	-	-	-	1
3	-	-	-	-
4	-	-	-	8
5	-	-	-	2
6	-	-	-	26
7	-	-	-	-
8	-	-	-	-
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
Totals	-	-	-	39
Total Enrollment	2,562	2,559	2,528	2,564

**Bluffdale Campus Enrollment**

Grade	Historic						Projected			
	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28
K	86	77	77	64	90	90	90	90	90	90
1	92	74	55	81	77	95	94	94	94	94
2	78	95	67	48	86	83	80	85	85	85
3	71	72	70	61	51	85	90	95	95	95
4	63	67	53	57	65	54	55	55	55	55
5	67	55	55	45	52	61	60	60	60	60
6	57	60	44	53	49	49	51	51	51	51
<b>Totals</b>	<b>514</b>	<b>500</b>	<b>421</b>	<b>409</b>	<b>470</b>	<b>517</b>	<b>520</b>	<b>530</b>	<b>530</b>	<b>530</b>

**Independence Campus Enrollment**

Grade	Historic						Projected			
	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28
K	104	90	73	82	86	86	85	85	85	85
1	106	107	87	77	77	89	90	90	90	90
2	102	110	90	89	75	76	78	78	78	78
3	104	104	101	97	87	81	82	80	80	80
4	103	108	95	107	94	90	90	90	90	90
5	91	104	104	92	97	93	92	90	90	90
6	90	93	94	102	87	95	90	90	90	90
7	128	134	119	110	120	112	110	110	110	110
8	104	122	110	107	107	118	102	102	102	102
<b>Totals</b>	<b>932</b>	<b>972</b>	<b>873</b>	<b>863</b>	<b>830</b>	<b>840</b>	<b>819</b>	<b>815</b>	<b>815</b>	<b>815</b>

**Draper Campus Enrollment**

Grade	Historic						Projected			
	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28
K	101	98	83	78	79	76	90	90	90	90
1	98	97	72	88	75	67	75	80	80	80
2	94	105	88	71	84	78	85	90	90	90
3	108	99	84	92	83	74	75	75	75	75
4	100	116	89	93	85	67	70	70	70	70
5	103	104	103	98	92	80	82	82	82	82
6	89	96	85	80	70	68	72	72	72	72
7	122	107	81	77	77	72	75	75	75	75
8	110	118	82	78	73	77	76	76	76	76
<b>Totals</b>	<b>925</b>	<b>940</b>	<b>767</b>	<b>755</b>	<b>718</b>	<b>659</b>	<b>700</b>	<b>710</b>	<b>710</b>	<b>710</b>

**High School Campus Enrollment**

Grade	Historic						Projected			
	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28
9	152	151	152	166	142	147	145	145	145	145
10	148	139	118	142	137	144	147	147	147	147
11	136	132	120	116	123	126	126	126	126	126
12	138	120	111	108	108	131	124	125	125	125
<b>Totals</b>	<b>574</b>	<b>542</b>	<b>501</b>	<b>532</b>	<b>510</b>	<b>548</b>	<b>542</b>	<b>543</b>	<b>543</b>	<b>543</b>

The School submitted enrollment projections with its 2019 bond applications for both the high school and K-8 schools. Expected enrollment for the high school was 100 students higher than actual while expected enrollment at the K-8 school was nearly 500 students higher than the actual enrollment for FY 2023.

## Academic Performance

	2023 Proficiency Rates			
	Summit	Jordan SD	Canyons SD	Utah
Language Arts	49%	44%	53%	44%
Mathematics	48%	38%	49%	40%
Science	57%	44%	53%	45%

## Management

1. The School currently has a six-member board. The board members have backgrounds in: marketing, education, business management, financial technology, the military, and medical research.
2. The School employs Dr. Molly Hart as Executive Director. Dr. Hart joined Summit in 2023. She has worked in education for over 20 years as a teacher, paraprofessional, assistant principal, and principal. She most recently served as the principal at Albion Middle School in the Canyons School District.
3. Brad Wilkinson serves as the Business Administrator for the School. Brad joined the School as business administrator in 2020. He has an accounting degree from Southern Utah University. He served in various capacities in the accounting and business administration fields prior to joining the School including service as the business manager for Steele Canyon Charter High School and South Bay Union School District.
4. The School has formal policies for cash handling, fundraising, procurement, and donations. No formal policies on debt, investments, and budgeting were found.

## Plan of Finance

The School is seeking authorization to sell up to \$16,460,000 of BBB- rated bonds via negotiated sale with DA Davidson and Co. serving as the Underwriter. The School is seeking credit enhancement through the Utah Charter School Credit Enhancement Program. The bonds will be tax-exempt bonds for the purpose of refunding the High School's Series 2011A bonds to place them on a parity with the bonds issued to finance the K-8 campuses, funding a debt service reserve fund, and paying costs of issuance. The bonds will carry a fixed rate of interest for 19 years and will likely carry a 10-year call. The call could be timed to match up with the K-8 campus bonds in April of 2030. The bonds are secured by an assignment and secured interest in the revenues of the School and trust accounts and a security interest and pledge of the deed of trust in the land and building located at:

- Draper Elementary, 1285 East 13200 South, Draper, UT 84020
- Draper Jr. High, 1225 East 13200 South, Draper, UT 84020
- Independence, 15327 South Noell Nelson Dr., Bluffdale, UT 84065
- Bluffdale, 1940 West 14400 South, Bluffdale, UT 84065

- High School, 14942 South 560 West, Bluffdale, UT 84065

An appraisal has been ordered.

## Ratings

The bonds are rated BBB- by S&P Global Ratings. Noted the following positive factors in its rating report.

- Healthy operating scale based off enrollment size.
- Improved academics.
- Solid reserves.

The following factors for concern were noted:

- High overall debt levels.
- Management turnover.
- Lower lease-adjusted MADS compared with rated peers.

## Financial Performance

### Summary:

In FY 2023, the School chose a new auditor. This new auditor required three things that made sense to adjust for when presenting the information below. In each case, both the audited financial result and an adjusted result is shown for FY 2023. The adjustments largely affected the elementary grades, the pre-school program, and an Employee Retention Tax Credit received by the School. The new auditor required 34 journal entries for items the School's former auditor deemed Ade minimis. These items decreased revenues and increased expenditures in FY 2023 on a non-cash basis. Accumulating multiple years' worth of journal entries into a single year might not reflect an accurate accounting of the School's financial position. The School was also not allowed to recognize the roughly \$5 million Employee Retention Tax Credit ("ERC") as revenues but was required to recognize the expense related to a consultant who was procured to assist with the ERC process. Where the more pessimistic audited financials do not detrimentally affect the School's performance relative to credit enhancement requirement's, this memo presents figures as shown in the financials.

1. The School had budgetary misses in FY 2019, 2021, and 2022 above the 5% threshold expected under the Credit Enhancement Program Standards. In FY 2022 revenue increases more than offset the higher-than-expected expenditures. FY 2019 was a bond issuance year which tends to bring higher expenditures that are later reimbursed through bond proceeds. FY 2021 was the main budget year where schools across the State dealt with the budgetary effects of the COVID-19 pandemic and accelerating inflationary pressures.

	Actual Variation from Budget				
	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23
Revenue	1.4%	0.0%	3.6%	5.9%	-1.4%
Expenditures	7.0%	0.7%	8.5%	5.2%	2.0%

## 2. Cash Position

Requirement	Measure at end of FY 2023
At least 30 days	188

The School's cash on hand of 188 DCOH falls in the "Strong" rating assessment under S&P Global Ratings Charter School criteria. The lower bound for the highest rating category "Very Strong" is 250 days cash on hand. This was noted as a strength by S&P in its rating report.

Days Cash on Hand				
'18-'19	'19-'20	'20-'21	'21-'22	'22-'23
175	193	166	164	258
			Adjusted	188

## 3. Fund Balance

Requirement	Measure at end of FY 2023
At least 15% of following year expenses	35%

At the end of FY 2023, the School's unassigned fund balance was \$7,993,939. This amount was lower than the prior year's unassigned fund balance due to the unearned revenue classification related to the School's Employee Retention Tax Credit cash. Even without recognizing those funds as unencumbered, the School achieves this requirement.

	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23
Fund Balance	9,872,408	12,364,019	12,790,809	12,958,145	7,993,939
Following Year Operating Expenses	19,789,629	21,003,936	23,245,732	25,815,750	23,009,991
Fund Balance % of Future Expenses	50%	59%	55%	50%	35%

  

	'23-'24	'24-'25	'25-'26	'26-'27
Fund Balance	9,315,573	10,790,883	12,404,504	14,159,858
Following Year Operating Expenses	23,700,291	24,411,299	25,143,638	25,897,947
Fund Balance % of Future Expenses	39%	44%	49%	55%

## 4. Debt Coverage Ratio

Requirement	Measure at end of FY 2023
At least 105%	118%

In FY 2023 the combined Schools' audited financials show a net deficit and coverage under 100%. The School provided a cash basis certification of its debt service coverage ratio showing 111% coverage on the K-8 school debt. When combining the adjusted K-8 and high school coverage together the School shows net coverage of total debt at 118%. The School's indenture carries a debt service coverage covenant of 110%.

	High School	K-8	Combined
Net Income Available for Debt Service	1,605,388	3,164,503	4,769,891
Annual Debt Service	1,202,129	2,845,750	4,047,879
Debt Coverage Ratio	133.5%	111.2%	117.8%

  

	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23
Net Income Available for Debt Service	6,570,999	6,789,382	5,584,110	6,105,115	4,010,010
Annual Debt Service	6,518,724	5,822,934	4,039,950	4,050,595	4,036,162
Debt Coverage Ratio	101%	117%	138%	151%	99%

  

	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28
Net Income Available for Debt Service	5,950,562	6,129,079	6,312,952	6,502,340	6,697,410
Annual Debt Service	4,188,384	4,161,998	4,161,458	4,161,868	4,168,427
Debt Coverage Ratio	142%	147%	152%	156%	161%

## 5. Debt Burden Ratio

Requirement	Measure at end of FY 2023
Less than 25%	13.5%

The School's fund balance ratio of 70.6% as of FY 2023 puts the School in the debt burden range of less than 25%. The School's debt burden is expected to continue to decrease over the next five years. The School does have a potential small expansion (\$1-\$2 million) at the Bluffdale campus for language programs but that project may be cash funded. With no significant debt plans over the next five years, a decline in the School's debt burden seems reasonable.

	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23
Maximum Annual Debt Service	6,518,724	5,822,934	4,039,950	4,050,595	4,036,162
Unrestricted Operating Revenues	25,683,797	26,579,011	26,588,046	29,350,847	29,825,760
Debt Burden Ratio	25.4%	21.9%	15.2%	13.8%	13.5%

  

	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28
Maximum Annual Debt Service	4,188,384	4,188,384	4,188,384	4,188,384	4,188,384
Unrestricted Operating Revenues	28,960,553	29,829,370	30,724,251	31,645,978	32,595,357
Debt Burden Ratio	14.5%	14.0%	13.6%	13.2%	12.8%



## 6. Operating Margin

Requirement	Measure at end of FY 2023
At least 7%	13.4%

The operating margin requirement is a function of the level of the School's fund balance ratio or days cash on hand. The fund balance ratio of 70.6% and days cash on hand of 188 place the School in the operating margin requirement range of at least 7%. The School was well above this metric in each year of operations and is expected to maintain that margin. The required auditor classifications lowered this metric in FY 2023 but the School expects that one time classification not to affect future margins.

	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23
Net Income Available for Debt Service	6,570,999	6,789,382	5,584,110	6,105,115	4,010,010
Revenues	25,683,797	26,579,011	26,588,046	29,350,847	29,825,760
Operating Margin	25.6%	25.5%	21.0%	20.8%	13.4%

  

	'23-'24	'24-'25	'25-'26	'26-'27	'27-'28
Net Income Available for Debt Service	5,950,562	6,129,079	6,312,952	6,502,340	6,697,410
Revenues	28,960,553	29,829,370	30,724,251	31,645,978	32,595,357
Operating Margin	20.5%	20.5%	20.5%	20.5%	20.5%

## 7. Current Ratio

Requirement	Measure at end of FY 2023
At least 150%	246%

The current ratio is defined as current unrestricted assets divided by current liabilities (including current year debt service). The School's current ratio is above the requirement and has been over 200% each of the past five years. Removing the unearned revenue from liabilities while also removing the cash from the ERC would result in a roughly equal current ratio.

	'18-'19	'19-'20	'20-'21	'21-'22	'22-'23
Current Assets	9,709,839	11,586,317	10,996,554	11,966,759	18,517,828
Current Liabilities	4,150,473	5,536,231	4,497,818	5,460,029	7,528,114
Current Ratio	234%	209%	244%	219%	246%

**Employee Retention Tax Credit**

The Employee Retention Tax Credit was authorized under the CARES Act pandemic relief. Businesses that saw government mandated shutdowns were eligible to receive a credit to support employee wages. The credit can be applied for up through April of 2024. Governments were not eligible to receive the ERC but independent schools were. There is some ambiguity about how charter schools fit under these two definitions. There could potentially be a determination that the School does not qualify for these funds at which point the School would be required to rebate the funds.

## **Bond Documents**

Legal bond documents are being reviewed by Gilmore & Bell P.C. in its capacity as Issuer's Special Counsel to the Authority, and all requirements are being incorporated. In addition, Chapman & Cutler, as Bond Counsel, will confirm that each of the required legal provisions will be present if not already in the bond documents.

## **Continuing Disclosure**

The School has had several late and missed filings over the past 5 years including within months of issuing bonds in 2019. The School adopted an updated continuing disclosure policy in March of 2023.

## **Conclusion**

The School has a relatively long history as a charter in the south part of Salt Lake County. It operates in a fast-growing area with lots of young families. It has a strong cash position and no additional plans for debt in the next five years. Enrollment declines after the Covid-19 pandemic resulted in an apparently permanent student count reduction, 13% smaller than pre-pandemic. However, the School has had steady numbers for several years. The School meets each of the requirements for the Credit Enhancement Program when controlling for audit changes.