David C. Damschen

Utah State Treasurer

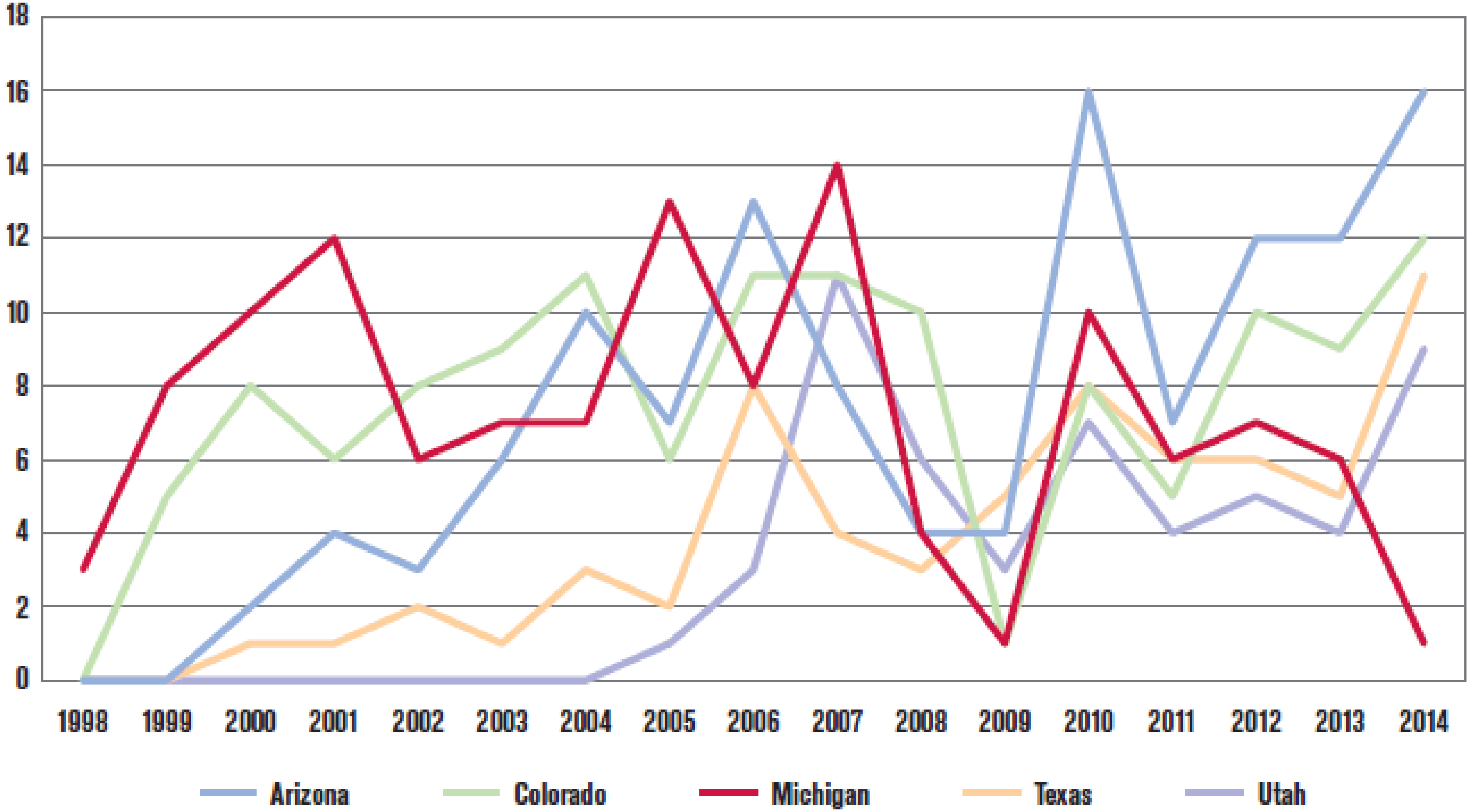
Bonds 101

For Utah Charter Schools

December, 2016

David Damschen, CTP
Utah State Treasurer

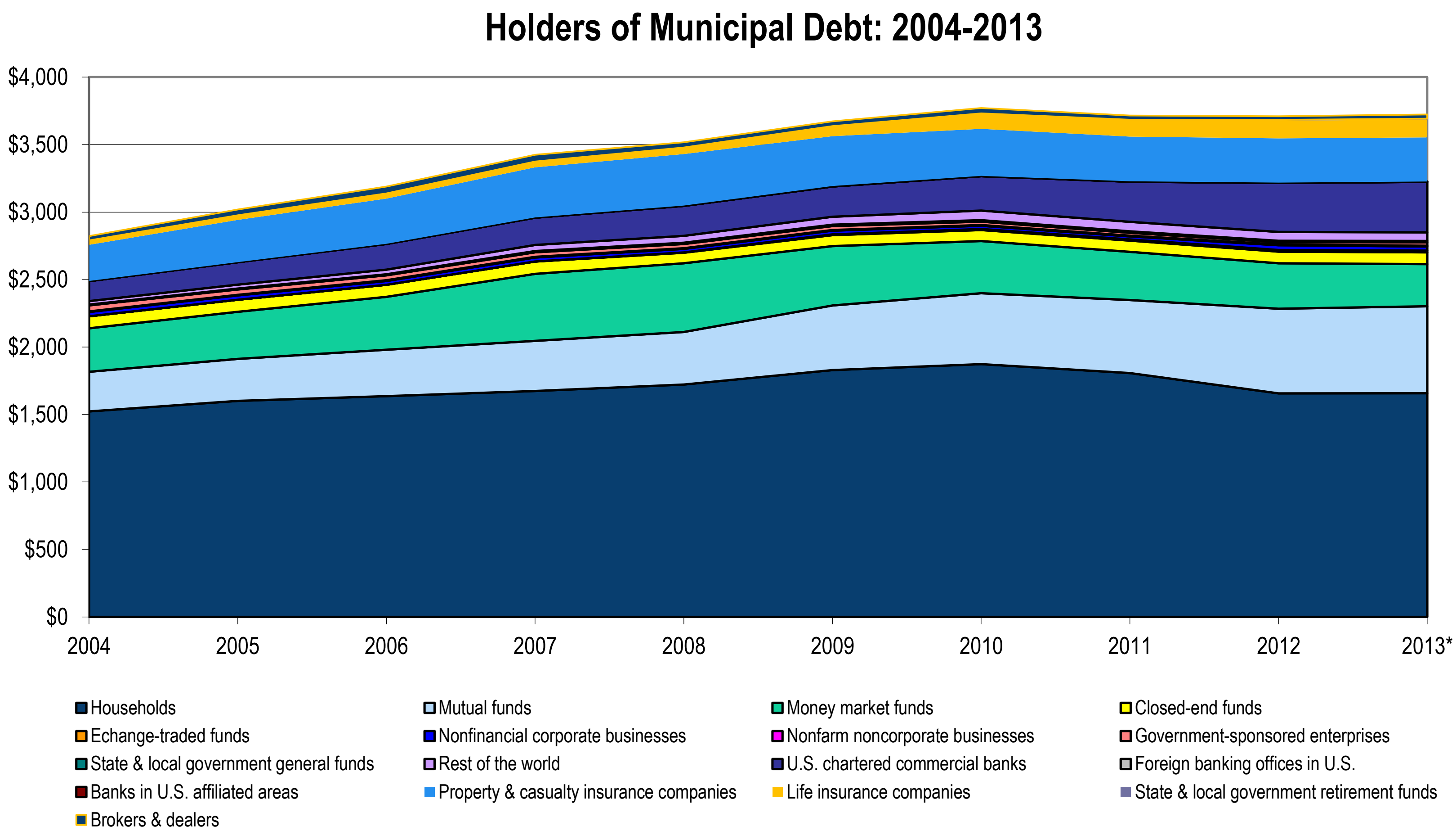
Top Five Most Active States - Charter School Bond Issuance (Number of Issues)



What is Tax Exempt Financing?

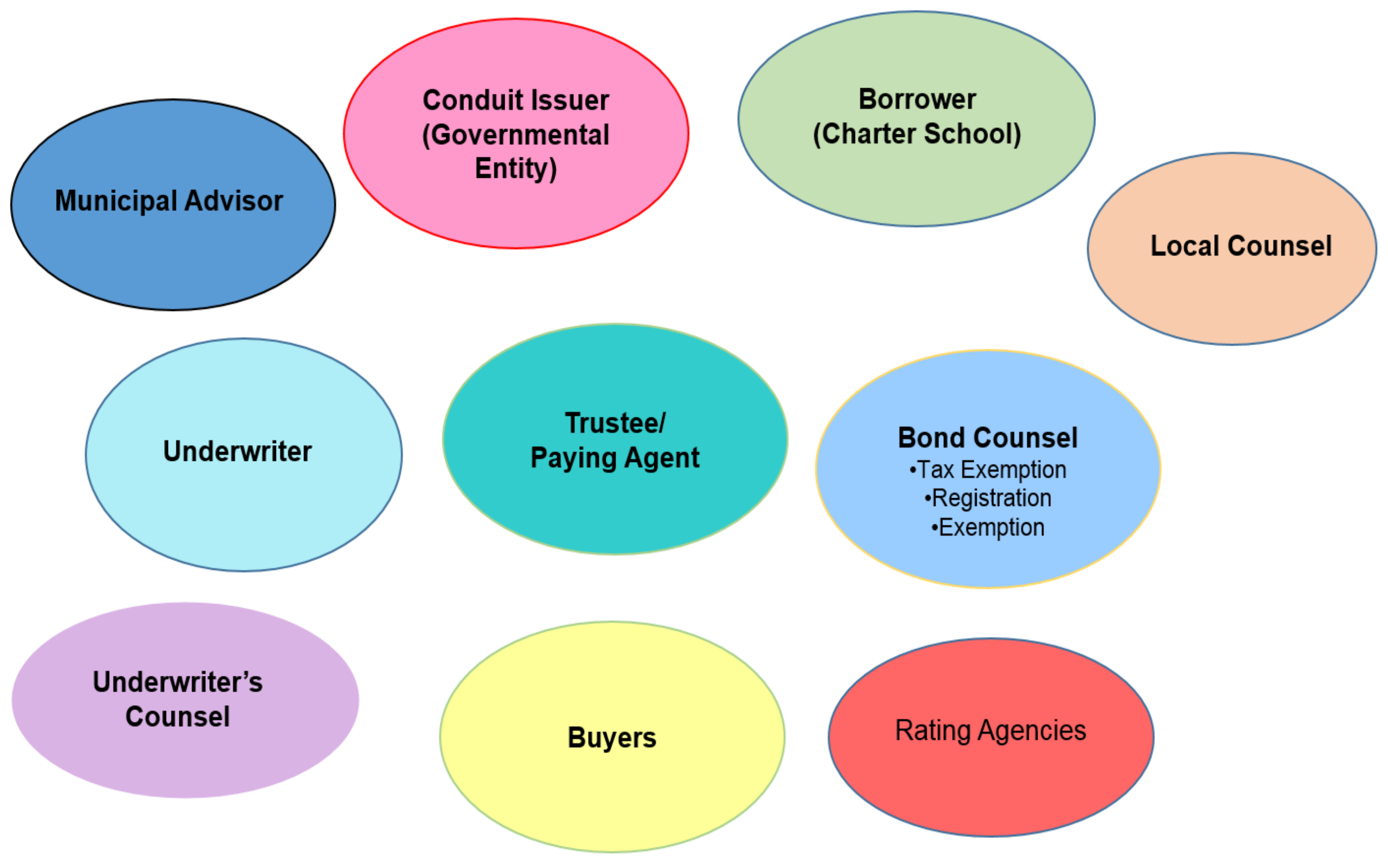
- Bonds - long term “IOUs” that governments issue to borrow money
- The federal government cannot tax states and individual states do not tax themselves
- Investors who buy tax-exempt bonds do not pay taxes on interest they earn, so they are willing to accept lower interest rates

Who buys tax-exempt municipal bonds?



*Figures for 2013 are as of March 31, preliminary, and seasonally unadjusted. Dollar amounts are in billions of dollars. Components may not add to totals because of rounding. Source: Federal Reserve Board, Flow of Funds Accounts, Flows and Outstandings; First Quarter, 2013.

Participants in Issuing Municipal Bonds



Borrower (Charter School)

- Selects the conduit issuer and local counsel
- May select the Municipal Advisor and Underwriter (subject to approval from the conduit issuer)
- Approves financing terms and loan documents
- Responsible for repayment of debt
- Responsible for the accuracy and completeness of the debt offering document (i.e., Official Statement, Private Placement Memorandum)
- Responsible for complying with terms and covenants in financing documents

Conduit Issuer

- May select or limit financing team members
- Approves financing terms and documents, and ultimately issues the debt instruments and lends the bond proceeds to the Borrower
- If the issue is enhanced under the Utah Charter School Moral Obligation Program, the Utah Charter School Finance Authority must be the Conduit Issuer and must review the Charter School's application for the enhancement program.

Municipal Advisor

- Has a fiduciary duty to the Issuer or Borrower (acts in the Issuer’s or Borrower’s best interests) (MSRB Rule G-17 and proposed Rule G-36)
- Assists Issuer and/or Borrower in the selection of other financing team members
- Advises on wide range of financial issues; may be specific to an issuance of debt, or ongoing
- Quarterbacks the bond issuance process; runs the calendar; coordinates other team members; assists with applications or other information required by the Conduit Issuer.

Bond Counsel

- Nationally recognized law firm with experience in municipal debt financing (Red book)
- Works with the Issuer, Borrower and the financing team to bring the issue to a successful closing
- Has primary responsibility for preparation of legal documents (resolutions, indentures, security documents, trust agreements, tax certificates, etc.)
- Renders opinion concerning the validity of the bond issue with respect to statutory authority, constitutionally, procedural conformity and, if tax-exempt, exemption of interest from Federal and State income taxes

Underwriter

- Investment bank (broker-dealer) hired to sell the bonds into the marketplace. Initially purchases the bonds for immediate resale
- May provide input into structuring the financing and drafting the Official Statement and related documents
- Directs the pre-sale marketing efforts to investors
- Proposes interest rates and offering terms based on market feedback; accepts orders from investors, and may commit capital to underwrite unsold bonds
- Has an inherent conflict with the Issuer/Borrower

Trustee/Paying Agent/Registrar

- Retained by Issuer, but represents bondholders' interests
- Manages trustee-held bond funds (reserves, construction funds, etc.)
- Receives interest and principal payments from Issuer/Borrower and distributes to Bondholders
- Maintains the list of owners of the bonds
- Holds liens and security interests and exercises remedies, for bondholders, in the event of a default

Counsel to the Issuer

- May be internal or outside or general counsel; may not be hired specifically for bond issues
- Reviews all legal documents on behalf of Issuer/Borrower
- May assist in drafting an Offering Statement and additional disclosure documents, and may opine as to accuracy
- Issues the required local counsel’s opinion

Underwriter's Counsel

- Nationally recognized law firm representing the underwriters, with experience in debt financing
- Advises and opines on matters relating to the Offering Statement, including matters relating to disclosure under SEC regulations and other standards; may have the principal role in drafting Offering Statement
- Prepares underwriting documents – Blue Sky Survey, Legal Investment Memorandum, Agreement Among Underwriters, Selling Group Agreement, and the Bond Purchase Contract
- Responsible for participating in "due diligence" before the bond issue is offered to investors

Rating Agencies

- National organizations that provide rating on debt of public and private organizations
  - Standard & Poor's Corporation
  - Moody's Investor Service, Inc.
  - Fitch Ratings
- Authoritative sources that assess a borrower's ability to repay
- Ratings have direct impact on cost of borrowing

STANDARD & POOR'S RATINGS SERVICES

FitchRatings

Bond Ratings

MOODY'S	S&P'S	FITCH'S	
Investment Grade			
Aaa	AAA	AAA	Highest
Aa1	AA+	AA+	Top Quality; "Gilted-edged" High Grade; Very Strong
Aa2	AA	AA	
Aa3	AA−	AA−	
A1	A+	A+	Upper Medium Grade; Strong
A2	A	A	
A3	A−	A−	
Baa1	BBB+	BBB+	Medium Grade; Adequate
Baa2	BBB	BBB	
Baa3	BBB−	BBB−	

GFOA Recommended Practices

- "There is a lack of understanding among many debt issuers about the appropriate roles of underwriters and financial advisers and the fiduciary relationship that each has, or does not have, with respect to state and local government issuers."

GFOA Debt Committee Draft "Best Practices" Document Dated June 9, 2007

GFOA Recommended Practices

- “The relationship between issuer and financial advisor is one of ‘trust and confidence’ which is in the ‘nature of a fiduciary relationship’. This is in contrast to the relationship between the issuer and underwriter where the relationship is one of some common purposes but also some competing objectives, especially at the time of bond pricing.”

GFOA Debt Committee Draft “Best Practices” Document Dated June 9, 2007

Disclosure

Disclosure

- Preliminary (“POS”) and Final Official Statements (“OS”)
- Distributed to “Wall Street” via email and web sites

NEW ISSUE
BOOK-ENTRY-ONLY

RATING: Standard & Poor’s “BB+”
(See: “MISCELLANEOUS—Ratings”)

In the opinion of Bond Counsel to the Authority, based on existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain certifications and compliance with certain covenants, interest on the Series 2016A Bonds is excludable from gross income for federal income tax purposes. Interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, but such interest is included in adjusted current earnings in computing the federal alternative minimum taxes imposed on certain corporations. Interest on the Series 2016B Bonds is taxable as ordinary income for federal income tax purposes. Bond Counsel is also of the opinion based on existing laws of the State of Utah as enacted and construed that interest on the Series 2016 Bonds is exempt from Utah individual income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2016 Bonds. See "TAX MATTERS" herein.

$12,260,000
UTAH CHARTER SCHOOL FINANCE AUTHORITY
Charter School Revenue Refunding Bonds
(Reagan Academy Project)
Series 2016A

$140,000
UTAH CHARTER SCHOOL FINANCE AUTHORITY
Charter School Revenue Refunding Bonds
(Reagan Academy Project)
Series 2016B (Federally Taxable)

Dated: Date of Delivery

Due: As shown on the inside cover

The Series 2016 Bonds will be issued by the Utah Charter School Finance Authority (the "Authority") as fully registered bonds pursuant to a Trust Indenture, dated as of September 1, 2016, between the Authority and ZB, National Association, dba Zions Bank, as trustee (the "Trustee"). The Series 2016 Bonds will be issued in Authorized Denominations and bear interest payable semiannually on February 15 and August 15 of each year, commencing February 15, 2017, until maturity or earlier redemption. DTC will act as securities depository for the Series 2016 Bonds, and the Series 2016 Bonds will be registered in the name of Cede & Co., as nominee of DTC. Capitalized terms used on this cover page are defined in APPENDIX F and in the Introduction to this Limited Offering Memorandum.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES, AND CUSIPS ARE SHOWN ON INSIDE COVER.

The proceeds derived from the sale of the Series 2016 Bonds will be loaned by the Authority to the Ronald Wilson Reagan Academy (the "Charter School") pursuant to the Loan Agreement, dated as of September 1, 2016, by and between the Authority and the Charter School to (i) refund certain bonds previously issued by Utah County, Utah (the "Prior Issuer") for the purpose of assisting in financing the acquisition by the Charter School of certain school facilities and the land located at 1143 West Center, Springville, Utah 84663 (the "Facilities"), (ii) finance the acquisition and construction of an expansion to the Facilities (the "Expansion Project" and together with the Facilities, the "Series 2016 Facilities"), (iii) finance certain improvements to the Facilities, (iv) fund a debt service reserve fund as set forth herein and (v) pay certain issuance expenses.

The Series 2016 Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity as set forth herein.

The Series 2016 Bonds constitute limited obligations of the Authority and except to the extent payable from Series 2016 Bond proceeds and investment income, are payable solely from certain payments, revenues and other amounts derived by the Authority pursuant to the Loan Agreement. The Series 2016 Bonds are secured solely by the Trust Estate, which is limited to (a) the rights and interests of the Authority under the Loan Agreement, except the Authority's Unassigned Rights, (b) the Facilities and all rights and interests of the Authority in the Facilities, subject to Permitted Encumbrances, except the Authority's Unassigned Rights, (c) the Pledged Revenues and all rights and interests of the Authority in the Pledged Revenues, subject to Permitted Encumbrances, except the Authority's Unassigned Rights, (d) the rights and interests of the Authority and the Charter School under the Mortgage and the Promissory Note, and (e) all Funds created in the Indenture (other than the Cost of Issuance Fund and the Rebate Fund), except for moneys or obligations deposited with or paid to the Trustee for the payment or redemption of Series 2016 Bonds that are no longer deemed to be Outstanding, and all trust accounts containing all insurance and condemnation proceeds and all revenues payable to the Trustee by or for the account of the Authority pursuant to the Loan Agreement and the Indenture, subject to the provisions of the Indenture.

THE SERIES 2016 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE, DO NOT GIVE RISE TO A GENERAL OBLIGATION OR LIABILITY OF THE AUTHORITY OR CHARGE AGAINST ITS GENERAL CREDIT AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A PECUNIARY LIABILITY OF THE AUTHORITY. THE SERIES 2016 BONDS DO NOT CONSTITUTE A DEBT, MORAL OBLIGATION, LIABILITY OR LOAN OF CREDIT OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE STATE OF UTAH OR OF ANY POLITICAL SUBDIVISION THEREOF.

Unless the Series 2016 Bonds have received an Investment Grade Rating, the Series 2016 Bonds may be transferred only to an "accredited investor" as that term is defined in Rule 501 of Regulation D under the Securities Act or a "qualified institutional buyer" as that term is defined under Rule 144A of the Securities Act. On the Closing Date, initial purchasers of the Series 2016 Bonds will be required to execute a letter substantially in the form attached hereto as APPENDIX J.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read this entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption "RISK FACTORS."

The Series 2016 Bonds are offered when, as, and if issued by the Authority subject to the approval of legality and certain other matters by Ballard Spahr LLP, as Bond Counsel. Certain legal matters will be passed upon for the Charter School by their counsel Kirton McConkie PC, Lehi, Utah, and for the Authority by its general counsel, the Attorney General of the State of Utah, and Chapman and Cutler LLP, Salt Lake City, Utah. Kline Alvarado Veio, P.C., Denver, Colorado, is acting as counsel to the underwriter named below. Zions Bank Public Finance is acting as financial advisor to the Authority in connection with the issuance of the Series 2016 Bonds. Lewis Young Robertson & Burningham, Inc. is acting as financial advisor to the Charter School in connection with the issuance of the Series 2016 Bonds. It is expected that the Series 2016 Bonds will be available for delivery through the facilities of DTC on or about September 13, 2016.

D|A DAVIDSON
D.A. Davidson & Co. member SIPC

This Limited Offering Memorandum is dated August 24, 2016.

Disclosure

- Continuing Disclosure
  - Beginning in January 1996, municipal entities issuing debt (subject to certain exemptions) were required to comply with Rule 15c2-12, Municipal Securities Disclosure of the Securities Exchange Act of 1934
- Internet website, www.emma.msrb.org

Numbers

Key Concepts – Basic Terminology

Dated Date	Accrued Interest
Delivery Date	Debt Service
Maturity Date	Original Issue Discount
Principal	Original Issue Premium
Serial Bonds	Bond Proceeds
Term Bonds and Sinking Funds	Capital Appreciation Bonds
Coupon	Callable Bonds
Yield	Bond Insurance
Price	Bond Conventions
Interest	Tax status

Principal and Maturity

- **Dated Date:** Date on which bonds begin to accrue interest
- **Delivery Date:** Date on which bonds are delivered in exchange for payment from investor. Also called "Settlement Date"
- **Maturity Date**: Date on which principal payments are due.
  - Most bond issues have principal maturing each year until the final maturity date of the series
- **Principal:** Also known as par amount, or face value, of a bond to be paid back on the maturity date
  - Typically, bonds are sold in $5,000 denominations often $100,000 for variable rate bonds

Maturity Date	Principal
10/1/2016	$7,885,000
10/1/2017	8,065,000
10/1/2018	8,285,000
10/1/2019	8,535,000
10/1/2020	8,660,000
10/1/2021	8,815,000
Total	$50,245,000

Serial and Term Bonds

- Bonds can either mature annually (serial bonds) or as term bonds.
  - A **Serial** bond is a single principal payment on a single maturity date.
  - A **Term** bond is a series of sequential principal amortizations. Payments of principal prior to the term bond's final maturity are referred to as sinking fund payments.

Maturity Date	Principal	Coupon	
10/1/2016	$7,885,000	2.250%	Serial Bonds
10/1/2017	8,065,000	2.750%	Serial Bonds
10/1/2018	8,285,000	3.000%	Serial Bonds
10/1/2019	8,535,000	1.500%	Serial Bonds
10/1/2020	8,660,000[1]	1.750%	Term Bond
10/1/2021	8,815,000	1.750%	Term Bond
Total	$50,245,000		

(1) Sinking fund payment.

Coupon, Interest and Debt Service

- **Coupon**: Percentage rate (based on principal/par amount) of annual interest paid on outstanding bonds
  - Fixed: Coupon rate does not change before maturity date or
  - Variable: Coupon changes before maturity date

- **Interest**: Frequent payment that is due on principal based upon coupon
  - Usually paid periodically, semi-annually for fixed-rate bond and more frequently, often monthly, for variable-rate bonds
  - Interest is calculated by multiplying principal by coupon and portion of year (e.g. for semi-annual multiply by 50%)

- **Accrued Interest:** Interest on a bond that has accrued since the most recent interest payment or the Dated Date of the bonds. Investors pay the dollar price plus accrued interest for bonds.

- **Debt Service:** Sum of all principal and interest on a bond or a set of bonds during a certain period
  - For example can be Annual Debt Service or Semi-Annual Debt Service
  - Need to qualify "debt service": calendar year, bond year, fiscal year

Bond Pricing

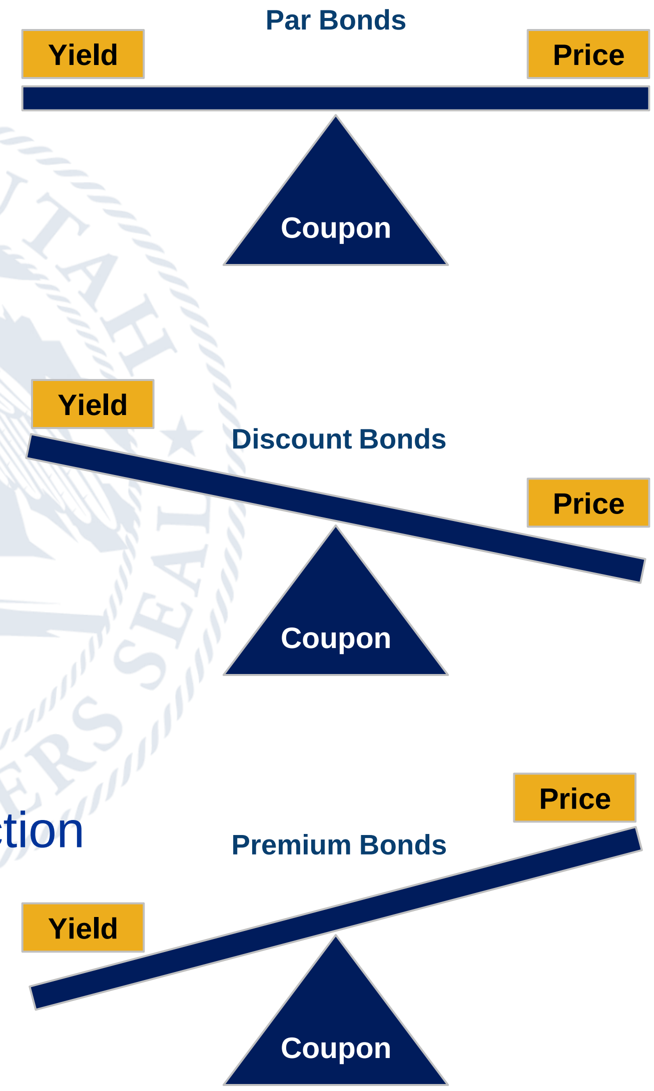
- **Price:** Present value of debt service on an individual maturity discounted at the yield to the delivery date.
  - Prices of municipal bonds are <u>truncated</u> to 3 decimals (e.g. 107.37482 = 107.374)
- **Yield**: The discount rate used for valuing a bond. It represents the measure of return that the investor is seeking from the bond.
  - Yields of municipal bonds are <u>rounded</u> to 3 decimals (e.g. 4.6245% = 4.625%)

Bond Pricing (Cont'd)

- Price and yield move in opposite directions:
  - – Higher yield, lower price
  - – Lower yield, higher price

Par, Discount, and Premium Bonds

- Par Bonds Yield and Price
  - Coupon = yield
  - Purchase price = principal amount
- Discount Bonds Yield
  - Coupon < yield
  - Purchase price < principal amount
- Premium Bonds
  - Coupon > yield
  - Purchase price > principal amount
- Price and coupon move in the same direction
  - Lower coupon, lower price
  - Higher coupon, higher price



Par, Discount, and Premium Bonds

(Cont'd)

Maturity Date	Principal	Coupon	Yield	Price	
10/1/2016	$7,885,000	2.250%	0.450%	103.579	Premium Bonds
10/1/2017	8,065,000	2.750%	0.800%	105.768	
10/1/2018	8,285,000	3.000%	1.110%	107.374	
10/1/2019	8,535,000	1.500%	1.500%	100.000	Par Bond
10/1/2020	8,660,000	1.750%	1.940%	98.761	Discount Bonds
10/1/2021	8,815,000	1.750%	1.940%	98.761	
Total	**$50,245,000**				

Bond Conventions

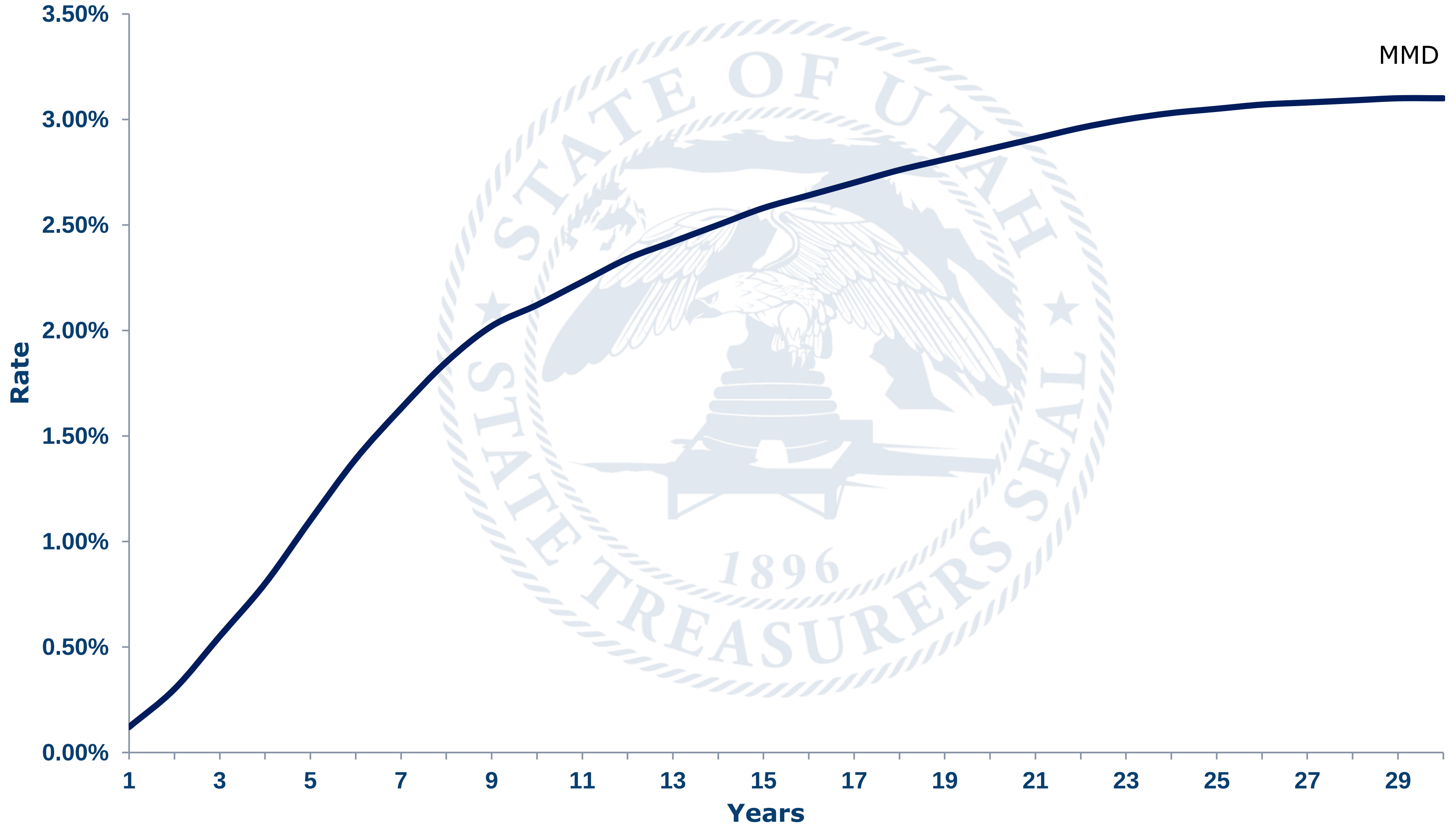
- **Basis Point**
  - Yields on bonds are usually quoted in terms of basis points, with one basis point equal to one one-hundredth of 1 percent
    - 0.50% = 50 basis points

- **Day Count**
  - 30/360
    - Usually for municipal fixed rate bonds
  - Actual/Actual
    - Usually for municipal variable rate bonds

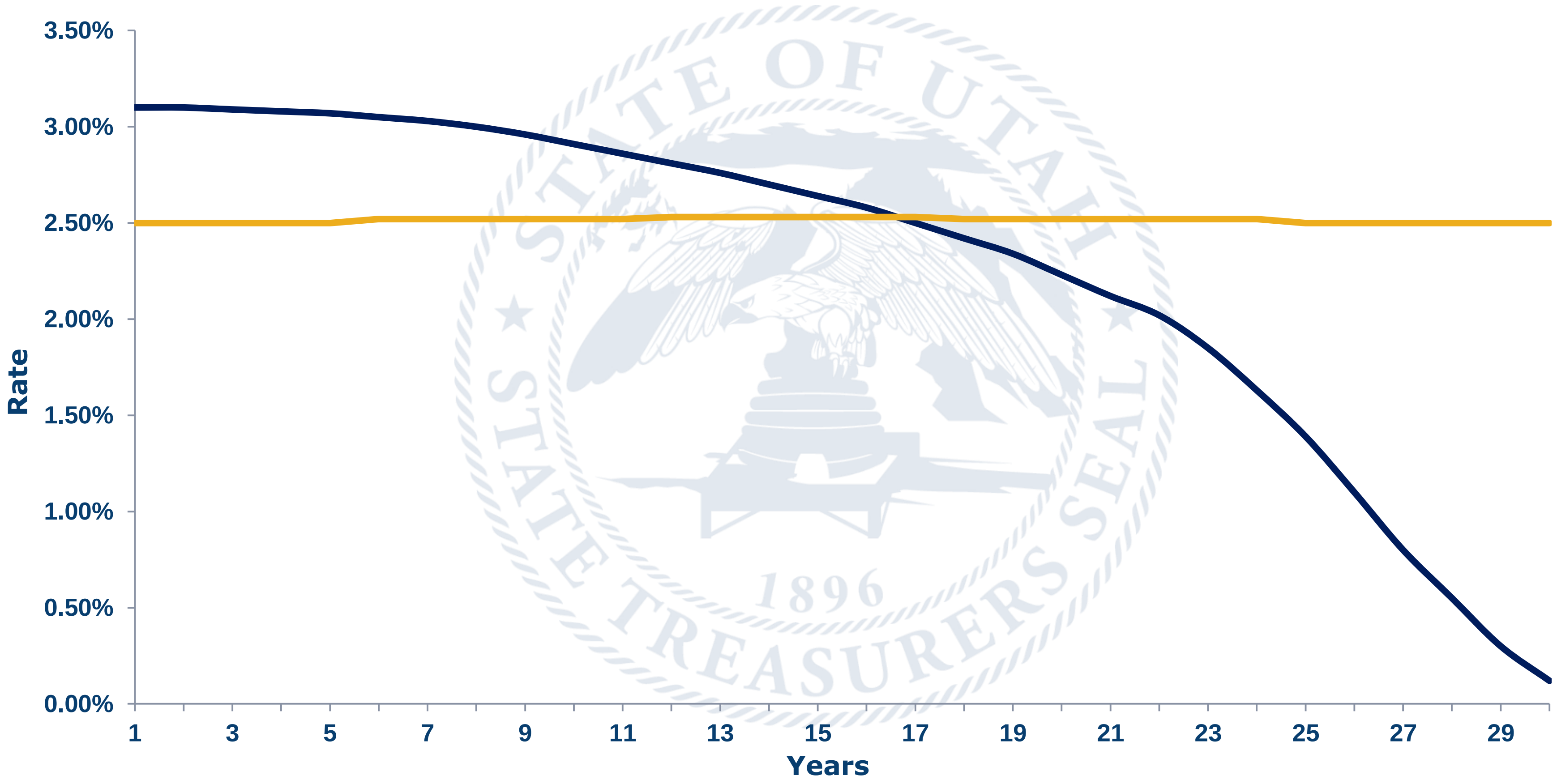
- **Pricing**
  - Price for municipal bond is truncated to 3 decimals
  - Yield for municipal bond is rounded to 3 decimals

- **Payment Frequency**
  - Fixed rate municipal bonds usually pay semi-annually (twice a year), so ½ of annual of interest
  - Variable rate municipal bonds often pay monthly on the first business day of the month
  - Interest is earned on the delivery date and not earned on the maturity date of a bond

Yield Curve: Normal



Yield Curves: Flat and Inverted



Municipal Indexes and Yield Curves

- **MMD**: The theoretical AAA tax-exempt yield curve representing bonds with a 5% coupon callable in 10 years at par.
  - Most widely used proxy for tax advantage municipal bonds
  - All market yields are "spread" off of MMD
  - "Manufactured" by Municipal Market Data on a daily basis, updated at 3pm, based upon market conditions – no public formula about exact calculation methodology (3 guys in a room…)

- **U.S. Treasury:** Observed market yields based upon trades of U.S. Treasury notes and bonds. Represents a yield curve that is a proxy for theoretically risk free interest rates. Taxable bond yields are spread off of this curve.

Municipal Indexes and Yield Curves

- **LIBOR index:** Benchmark short term rate, based upon what leading banks charge each other for short-term loans. There are 35 different flavors based upon currency and term. Most common is 3-month US $ rate.

- **LIBOR swap curve:** The fixed leg of an interest rate swap where the variable leg is the LIBOR index.

- **SIFMA municipal swap index:** Benchmark tax-exempt variable rate/short term index of VRDBs with certain characteristics.

- **SIFMA swap curve:** The fixed leg of an interest rate swap where the variable leg is the SIFMA municipal swap index.

- **Basis:** The relationship between SIFMA rates and LIBOR rates.

Early, Mid, Late MMD

MMD represents yields with maturity date in each year exactly on the anniversary date of the levels provided.

MMD is published by Municipal Market Data, Thomson Reuters

Early, Mid & Late MMD Yields as of August 28, 2014

Year	MMD	January Early	June Mid	December Late
2015	0.12%	0.08%	0.11%	0.16%
2016	0.30%	0.20%	0.28%	0.34%
2017	0.55%	0.40%	0.51%	0.59%
2018	0.80%	0.65%	0.76%	0.87%
2019	1.08%	0.92%	1.04%	1.16%
2020	1.37%	1.23%	1.33%	1.43%
2021	1.61%	1.50%	1.58%	1.67%
2022	1.83%	1.73%	1.81%	1.89%
2023	1.98%	1.90%	1.96%	2.00%
2024	2.08%	2.02%	2.06%	2.10%
2025	2.18%	2.12%	2.16%	2.21%
2026	2.29%	2.23%	2.27%	2.31%
2027	2.37%	2.33%	2.36%	2.39%
2028	2.45%	2.45%	2.45%	2.45%
2029	2.52%	2.52%	2.52%	2.52%
2030	2.58%	2.58%	2.58%	2.58%
2031	2.64%	2.64%	2.64%	2.64%
2032	2.70%	2.70%	2.70%	2.70%
2033	2.75%	2.75%	2.75%	2.75%
2034	2.80%	2.80%	2.80%	2.80%
2035	2.85%	2.85%	2.85%	2.85%
2036	2.90%	2.90%	2.90%	2.90%
2037	2.94%	2.94%	2.94%	2.94%
2038	2.97%	2.97%	2.97%	2.97%
2039	2.99%	2.99%	2.99%	2.99%
2040	3.01%	3.01%	3.01%	3.01%
2041	3.02%	3.02%	3.02%	3.02%
2042	3.03%	3.03%	3.03%	3.03%
2043	3.04%	3.04%	3.04%	3.04%

Yield Curve Terminology

- **Ratio:** "The muni to Treasury ratio in the 10 year spot is 99%"
  - Muni yield divided by U.S. Treasury yield; useful in measuring if muni yields are high or low relative to historical ratios.
- **Spread:** "Bonds are trading at a 20 basis point spread to MMD in the 20 year spot"
  - Spread represents the additional yield relative some other yield curve.
- **Basis point:** "That 8 year call feature will cost the issuer 20 basis points"
  - Basis point = 0.01%, so 100 basis points = 1%
- **Rich vs. cheap:** "Munis are rich to Treasuries in the 15 year spot"
  - Rich means that muni yields are low in historical terms compared to U.S. Treasury yields.
- **Bump vs. Cut:** "Given the demand we were able to bump the scale 2 basis points in 2019 and 2020"
  - Bump means lower yields and cut means raise yields (think in terms of dollar price).

Yield Curve Terminology

- What drives the municipal yield curve?
  - Supply and demand: limited demand fro longest maturities
  - Absolute level of rates
  - Expectation of future tax rates
  - “Cross over buyers” – Are munis cheap?
  - Unlike U.S. Treasuries, highly rated munis do not get full benefit of “flight to quality”
  - Investors in tax-exempt municipal bonds are ultimately retail investors seeking tax advantage
  - Limited demand from non-US taxpayers

UTAH
CHARTER SCHOOL
CREDIT ENHANCEMENT
PROGRAM

Credit Enhancement Program

- Senate Bill 152 (2012 legislative session)
- Genesis of the idea:
  - Texas and Colorado programs
  - Utah's higher education moral obligation program
- Creates a moral obligation enhancement program for Utah charter schools
- Authorizes UCSFA to establish criteria for participation
- Creates a "Charter School Reserve Account" (a program-wide reserve fund) initially funded at $3 million

Credit Enhancement Program

- ***Requires*** the Trustee to notify the UCSFA of any shortfalls in an individual school financing's debt service reserve fund. (Must occur by November 15th)

- ***Requires*** the UCSFA to certify to the Governor the amount of such shortfall. (Must occur by December 1st)

- ***Requires*** the Governor to request an appropriation from the legislature to replenish the shortfall in the debt service reserve fund.

- This is stronger than the statutory language for the higher education moral obligation which uses the word "may" instead of "shall" under the Governor's duties.

Credit Enhancement Program

- The new statute limits the par amount of bonds that may be outstanding under the moral obligation program.

- The limitation is calculated as:
  - The ratio of charter school students to total students in the state (as of October 1^{st} of each year) multiplied by 1.3 multiplied by the outstanding par amount of bonds issued under the State School Bond Guaranty Program.

- Current limitation:

  7.638% x 1.3 x $2,670,675,722 = $265,182,293

Flow of Funds Waterfall

State WPU Funds

Trustee

P&I to Bondholders

Debt Service Reserve

Other Reserves (R&R)

Charter School (Operations)

STANDARDS FOR PARTICIPATION

Standards for Participation

- Basic Eligibility
- Enrollment/Student Demand
- Academic Performance
- Management
- Financial Performance
- Requirements for Bond Documents
- Program Fees
- Other

Standards for Participation

- **Basic Eligibility**
  - Must Issue through USCFA
  - Must be in compliance with all chartering requirements
  - Must obtain an investment grade underlying rating
  - Must demonstrate stable operating results for at least 3 years
  - Must submit a mission statement and identify any special emphasis in curriculum

Standards for Participation

- **Enrollment/Student Demand**
  - Should have a minimum of 400 students (UCSFA can accept less if waiting list is sufficient to offset risk of smaller enrollment)
  - Enrollment should be stable or growing
  - Re-enrollment rate should be 80% or more (some exceptions)
  - Waiting list must be refreshed every year and documented

Standards for Participation

- **Academic Performance**
  - Must meet at least 80% of chartering entity's recommended standards
  - Includes standards in the following areas:
    - Attendance rates
    - Progress scores
    - Proficiency levels on state assessments by subject
    - Proficiency levels in reading and math
    - High school graduation rates
    - College entrance exam composite and subtest measures

Standards for Participation

- **Management**
  - Must have sound written policies regarding finances, debt, risk management , minimum reserves, and debt coverage.
  - Must have a professionally diverse board with good expertise, staggered terms, and no involvement in day-to-day management.
  - Must have a financial officer (or professional management company) with at least 3 years of experience and professional qualifications.
  - Must demonstrate reasonable proficiency in forecasting revenues and expenditures.

Standards for Participation

- **Financial Performance**
  - Enrollment and cash flow projections must be based on reasonable assumptions (in line with Governor's office projections of WPU).
  - Must meet the following Debt Coverage Ratio:

If Enrollment is:	Then	Debt Coverage Ratio must be:
Less than 350		At Least 125%
351 to 499		At Least 120%
500 to 750		At Least 115%
Over 750		At least 110%

The Debt Coverage Ratio is calculated using the following formula:
(Revenues – expenditures + interest costs + depreciation) / annual debt service

Standards for Participation

- **Financial Performance**
  - Must meet the following Debt Burden Ratio:

If Fund Balance is:	Then	Debt Burden Ratio must be:
8% to 12%		Less than 20%
12% to 15%		Less than 23%
Over 15%		Less than 25%

The Debt Burden ratio is calculated as maximum annual debt service divided by unrestricted operating revenues. The Fund Balance ratio is calculated as unrestricted cash (excluding debt service related cash) to operating expenditures.

Standards for Participation

- **Financial Performance**
  – Must meet the following Operating Margin Requirement:

If Days Cash On Hand is:	Or	Fund Balance is:	Then	Operating Margin Must be:
30 to 40 days		8% to 11%		At least 6%
41 to 55 days		12% to 15%		At least 5%
56 to 65 days		16% to 18%		At least 4%
Over 65 days		Over 18%		At Least 3%

Standards for Participation

- **Financial Performance**
  - **Days Cash On Hand** is defined as cash as shown on the Applicant's financial statements divided by the quotient of operating expenses divided by 365. Days cash on hand will be measured twice per year, on June 30th and December 31st. The Operating Margin (also known as the working capital reserve) is defined as (unrestricted operating revenues less unrestricted operating expenses + interest costs + depreciation) divided by unrestricted revenues. Day's Cash On Hand and Fund Balance will be exclusive of any bond proceeds and may include federal funds receivable for services already rendered or for expenditures previously incurred.

  - Must have a Current Ratio of at least 150%
    - The Current Ratio is defined as current assets (excluding restricted assets) divided by current liabilities which excludes short term debt such as lines of credit and loans used for operating purposes.

Standards for Participation

- **Bond Documents** must include:
  - Full faith and credit pledge from the school;
  - 1st lien mortgage on financed facilities;
  - Fully funded DSR based upon MADS;
  - April 15th and October 15th payment dates;
    (This allows for replenishment of the reserve funds by the end of the next legislative session if needed)
  - Flow of funds to allow Trustee to intercept WPU to make payment on the bonds first;

Standards for Participation

- **Bond Documents** must include:
  - Requirement to maintain insurance on all collateral for the life of the bonds;
  - Covenant to maintain debt coverage ratio in accordance with matrix or greater;
  - ABT covenant equal to or greater than debt coverage ratio requirement from matrix;
  - Acceptable environmental report (at least a Phase I);
  - UCSFA must consent to amendments to the General Indenture or Supplemental Indenture, or changes in the debt service schedule;

Standards for Participation

- **Bond Documents** must include:
  - UCSFA must receive notice in the event of any defaults, draws on DSR, refundings, changes in trustee, legal proceedings against the school, or bankruptcy filings;
  - Requirement that the school replenish any draws on the Charter School Reserve Fund;
  - Requirement for a roughly level debt service schedule (some exceptions).

Standards for Participation

- **Bond Documents** must include:
  - In the event of a draw on the moral obligation, the UCSFA will gain the rights typically associated with a bond insurance company, including:
    - right to direct proceedings to enforce remedies;
    - right to receive all notices;
    - Indemnification from the school in connection with enforcement, defense, or preservation of rights.
  - School must covenant to supply certain continuing disclosure to the UCSFA
  - School must notify the UCSFA if it fails to meet its debt service coverage ratio

Standards for Participation

- **Program Fees**
  - The UCSFA will charge a one-time up-front fee of 1.5% of the par amount of the bond issue. This fee will be deposited into the Charter School Reserve Fund (net of UCSFA fees and expenses);
  - The UCSFA will charge an ongoing, annual fee of 0.20% of the outstanding par amount on the bonds. This fee will be deposited into the Charter School Reserve Fund (net of expenses);
  - In the event that a participant fails to meet its requirements under the program, the annual fee may be increased up to 0.50%.

Glossary

- **Advance Refunding:** refinancing an existing bond series with a new financing by escrowing sufficient proceeds from the new bonds to fully redeem the prior series on the first applicable call date in the future. While the prior series remains outstanding until the call date, they are considered legally defeased and secured by the escrow, which is typically composed of United States Treasury obligations.

- **Authorizer:** the legal sponsor of a charter school—often a school district, university, or state board of education—whose responsibilities include approving initial charters and determining renewals for existing charters. There is a wide variation among authorizers on oversight activities, i.e., the ongoing monitoring of accountability measures.

- **Bond Rating:** an independent assessment of credit quality, i.e., measuring the likelihood of full and timely payment. Municipal bond ratings are generally provided by one of the three independent rating agencies: Fitch Ratings; Moody's Investors Service and Standard & Poor's.

Glossary (continued)

- **Bond Yield:** the return an investor will realize on a bond investment; it is often the same as the interest rate, but only if the investor pays the face value of the bond (if the investor pays more for the bond [i.e., a premium], the yield will be less than the interest rate and conversely, if the investor pays less than the par amount of the bond [i.e., a discount], the yield will be lower than the stated interest rate).

- **Charter Management Organization (CMO):** a not-for-profit organization that manages and operates multiple charter schools with a shared educational program and mission.

- **Costs of Issuance:** the costs incurred by a borrower in order to access the tax-exempt bond market, including fees paid to the underwriter, various legal counsel, financial advisor, trustee and rating agency.

- **Coupon:** the stated interest rate associated with a particular bond maturity.

- **Credit Enhancement:** additional security pledged to bondholders to enhance the creditworthiness of a particular bond transaction; in many cases, the borrower's credit is substituted by that of the higher rated credit enhancer's.

Glossary (continued)

- **Current Refunding:** the refinancing of an existing bond series with proceeds from a new series of bonds in order to fully redeem the prior series at the time the new bonds are issued; generally done for savings on debt service payments.

- **CUSIP:** acronym for Committee on Uniform Security Identification Procedures, which issues a nine character alphanumeric code that allows for the precise identification of securities based on individual borrower, project and maturity date.

- **Defeased Bonds:** bonds that are legally retired, but may still be outstanding until the first available call date. These outstanding bonds are generally secured by an escrow account rather than pledged revenues.

- **Education Management Organization (EMO):** a for-profit entity that manages and operates multiple charter schools for a fee.

- **Electronic Municipal Market Access (EMMA):** a website that posts detailed disclosure information on tax-exempt bond transactions.

Glossary (continued)

- **Financial Advisor (FA) or Municipal Advisor:** a consultant with a fiduciary responsibility to the borrower that advises on capital financing matters, including the most appropriate type of debt product (e.g. tax-exempt bonds, New Markets Tax Credits, CDFI loans, alternative loans), structure, timing to market, interest rates, rating agency strategies, terms, fairness of pricing, as well as the best transaction partners, e.g. legal team, underwriter, issuer, rating agency, etc. Since 2014, all financial advisors who deal with governmental entities, including charter schools, are required to be registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

- **General Obligation Bonds:** debt obligations where the legal security is the full faith and credit of the borrower, often with the pledge of unlimited taxation to repay the bonds.

Glossary (continued)

- **Investment Grade Rating:** a credit assessment in the form of a rating that indicates that a municipal or corporate bond has a relatively low risk of default. Ratings vary by firm (Fitch, Moody's and S&P) but generally vary from the highest rating of "AAA"/"Aaa"/"AAA" to "BBB-"/"Baa3"/"BBB-." Credit ratings for bonds below these designations are considered "non-investment grade" or "junk bonds". (See Appendix B for more details.)

- **Moral Obligation (MO) Program:** a promise by a governmental entity—typically a state—to restore funds to the Debt Service Reserve Fund (DSRF) once it has been tapped in the event a borrower is unable to meet its scheduled debt service payment; the "promise" is not legally binding, however, in order to appropriate monies to replenish the DSRF, legislative approval must be in place.

- **Official Statement (OS):** the primary marketing and disclosure document used when a government or not-for-profit organization accesses the tax-exempt bond market.

Glossary (continued)

- **Par Amount:** the principal amount of bonds.
- **Placement Agent:** intermediaries, generally investment banking firms that typically act in an underwriting capacity, that “place” the bonds directly with investors identified early on in the process rather than offer—or sell—the bonds to the general public.
- **Private Placement:** a transaction where bonds are sold directly to investors rather than via a public offering.
- **Refunded Bonds:** bonds that are fully paid off prior to their maturity date with proceeds from a new bond issuance, generally undertaken for interest rate savings.
- **Revenue Bonds:** bonds where the legal security, or source of repayment, is a pledge of specific revenues, typically from an enterprise system (e.g., water sewer system charges, highway tolls or charter school per pupil tuition.)

Glossary (continued)

- **Spread to MMD:** on any given day, the difference in yield between the highest-rated tax-exempt paper sold that day and another tax-exempt transaction issued that same day.
- **Trustee:** an entity, generally a bank's trust department, that acts in a fiduciary role on behalf of bondholders to administer the provisions of the bond transaction.
- **Underlying Rating:** a rating based solely on the borrower's ability to pay with no regard to credit enhancement.
- **Underwriter:** an investment banking firm that purchases the initial issuance of bonds from the borrower and markets and resells them to investors.
- **Underwriter's Discount:** fee paid to the underwriting firm/investment bank that represents the difference between the price paid to the borrower and the amount received from reselling the securities (e.g., tax-exempt bonds), to investors.