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Board Discussion Materials

Endeavor Charter School

September 22, 2020

Review of Prior Discussions

Notes & Observations

- The School's primary financing objectives are summarized in the table below:

Strategic Goals and Objectives
▪ Test feasibility and ensure sustainability
▪ Preserve cash flow and budgetary flexibility
▪ Reduce risks (market, credit, tax, etc.) in the School's debt portfolio
▪ Lower cost and ensure smooth execution
▪ Limit the burden on staff and maintain missional focus

- The School's three broad financing options are summarized in the table below:

Financing Option	Amortization & Term	Interest Rate	Comments
Public Market Bond Financing	▪ 30-35 Year Amortization ▪ Full-Term Commitment	▪ Fixed Rate ▪ Relatively Higher Rate ▪ Reduced Risk Post-Issuance	▪ Market Currently Dislocated ▪ Burdensome Process ▪ Most Costly & Slowest
Bank Transaction	▪ 25 Year Amortization ▪ 5-7 Year Commitment	▪ Relatively Lower Rate ▪ Subject to Market/Rate Risk	▪ Thin Bank Market ▪ Slower Funding vs. Interim
Interim Construction Loan	▪ 1-2 Year Term ▪ Interest Only	▪ Lower Short-Term Rate ▪ Subject to Market/Rate Risk	▪ Faster & Cheaper Execution ▪ Lighter Covenants ▪ Better for Construction

BBVA Proposal -- $11.5 Million Loan

- To ensure best pricing for Endeavor, First Tryon solicited proposals for an interim loan solution from a number of banks, including BBVA—the School's current bank partner and the existing lender for the School's 2016 loan (the "2016 Loan").
- BBVA responded with an offer to finance $11.5 million of the new project's total estimated cost of $12.4 million (including FFE).
  - BBVA's proposal does not require refinancing the 2016 Loan or modifying the associated swap, which will remain untouched, saving the School approximately $250,000 in swap termination costs.
  - BBVA's proposal would also eliminate the need for a two-step financing process, reducing costs and interest rate risk, and would not require funding a debt service reserve fund, reducing the School's total borrowing need.
- As part of BBVA's proposed structure, the School will contribute approximately $1.2 million of equity to fund:
  - $900,000 of project costs (reflecting the difference between $12.4 million in project costs and the $11.5 million loan); and
  - $300,000 of costs of issuance associated with the financing.
- The $11.5 million loan allows for a 25-year amortization, eliminating 5 to 10 years of debt service payments for the new project when compared to a publicly sold bond financing.
  - While BBVA is committing to holding the loan for only 10 years, the indicative fixed rate of 3.00% from the anticipated swap produces significant debt service savings compared to the public market transaction, allowing the School to amortize its debt more quickly and build reserves to hedge against future interest rate risk.
  - The 2020 Loan will be "wrapped" around the School's debt service obligation for the 2016 Loan so that the School's total annual debt service obligation—taking into account both loans—will remain approximately level over the 25-year term.
- Based on the School's current budget and latest projections, the School expects to have a healthy cushion to meet the 2020 Loan's two primary financial covenants, which are listed below:
  - Debt service coverage ratio not less than **1.15x** (see pro forma on following page); and
  - Days cash on hand not less than **60 days** (not projected to fall below 100 days, despite the $1.2 million equity contribution).

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BBVA Proposal -- $11.5 Million Loan

Updated Pro Forma

Budget Assumptions	*Pro-Forma* 2021	*Pro-Forma* 2022	*Pro-Forma* 2023	*Pro-Forma* 2024	*Pro-Forma* 2025	*Pro-Forma* 2026
General (#)						
Student Headcount	530	750	750	750	750	750
Headcount for Local Funding	530	750	750	750	750	750
EC Enrollment	40	68	68	68	68	68
Revenues (YoY Growth %)						
State Allotment (Wake)	3.84%	0.00%	1.00%	1.50%	1.50%	1.50%
Weighted Average Local Allotment	-5.00%	0.00%	1.00%	1.50%	1.50%	1.50%
Annual Expense Assumptions						
FTEs - Teachers	41	53	53	53	53	53
FTEs - Staff	9	19	19	19	19	19
Weighted Average Salary - Teachers	49,038	49,038	49,038	49,528	50,271	51,277
Weighted Average Salary - Staff	48,017	48,017	48,017	48,497	49,225	50,209
Burden Rate for Pension & Benefits	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%
Other Expense Assumptions (YoY Growth %)						
Salary increase	0.00%	0.00%	0.00%	1.00%	1.50%	2.00%

Debt Service Coverage Calculation

Modeled Scenario - Assumed Covenant	*1.15*					
Fixed Charge Coverage Ratio	*1.37*	*1.61*	*1.67*	*1.72*	*1.74*	*1.75*
In Compliance with Covenant?	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*
Covenant Cushion (Deficiency)	*173,965*	*447,122*	*510,952*	*557,019*	*580,643*	*583,164*
Funds Remaining After Fixed Charges	*290,503*	*593,724*	*657,091*	*703,419*	*727,138*	*729,385*

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