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## Colorado Educational & Cultural Facilities Authority Peak To Peak Charter School - Prairie View Inc.; Charter Schools

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### Table Of Contents

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Rationale

Outlook

Enterprise Profile

Financial Profile

# Colorado Educational & Cultural Facilities Authority

## Peak To Peak Charter School - Prairie View Inc.; Charter Schools

### Credit Profile

#### Colorado Educl & Cultural Facs Auth, Colorado

Peak to Peak Charter Sch - Prairie View Inc., Colorado

Colorado Educl & Cultural Facs Auth (Peak to Peak Charter Sch - Prairie View Inc.) CHARTERSCH

<i>Long Term Rating</i>	A/Stable	Current
<i>Underlying Rating for Credit Program</i>	BBB+/Stable	Affirmed

### Rationale

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'BBB+' issuer credit rating (ICR) on Peak to Peak Charter School – Prairie View Inc. (P2P). The 'A' long-term rating on the Colorado Educational & Cultural Facilities Authority's series 2014 revenue bonds, issued for P2P is based on the school's inclusion in the Colorado Charter School Moral Obligation Program.

We assessed P2P's enterprise profile as strong characterized by the school's stable enrollment with significant demand on the waitlist, top academic performance, sophisticated management team, and exceptional district authorizer support. We assessed the school's financial profile as adequate based on acceptable financial performance metrics, additional support in the form of mill levy participation that provides a diverse revenue base for the charter school, slim but acceptable liquidity for the rating, and a debt burden that continues to moderate. P2P experienced a significant \$9.6 million increase in its net asset position in fiscal 2016 due primarily to a one-time grant from BVSD. Although certain financial metrics are below P2P's similarly rated peer, we feel the improvement in the organization's net assets offsets the only acceptable liquidity position. We believe that combined, these credit factors lead to an indicative standalone credit profile of 'bbb+' and a final rating of 'BBB+'.

The revision to stable outlook reflects the school's improvement in financial performance metrics over the past two years, the school's participation in the district's bond issue that allowed P2P to invest over \$10 million in capital at no expense to the charter school, and the establishment of an endowment currently valued in excess of \$1 million.

The rating reflects our view of:

- Stable enrollment and healthy demand bolstered by the charter school's national recognition and impressive academic performance;
- Significant support from mill levy overrides, which provides diversity to the organizations revenue base;
- Positive relationship between the charter school and district authorizer, with a district bond issue financing providing over \$10 million for the charter school (at no cost to the charter school) and the renewal of the charter for

a 10-year period; and

- Capable management team that is data focused and utilizes multi-year scenario budgeting.

In our opinion, partly offsetting credit factors include:

- Only acceptable maximum annual debt service (MADS) coverage for the rating category;
- Highly leveraged balance sheet with a debt to capitalization ratio in excess of 80%, although this is typical for the charter school sector; and
- Revocation and renewal risk shared by all charter schools subject to charter approval prior to debt maturity.

Peak to Peak is a kindergarten to 12th grade (K-12) charter school located in Boulder Valley School District No. RE-2 (BVSD), the charter authorizer. The school was initially chartered in 2000 for a five-year period and has been renewed three times: for five years in fiscal 2005, for five years in fiscal 2010, and for 10 years in fiscal 2015 through fiscal 2025. BVSD imposes an enrollment cap of 1,444 students on P2P.

The debt is secured by lease payments, subject to annual appropriation by the charter school board. A mortgage and security interest on facilities provide additional bondholder security. Covenants are consistent with other Colorado charter schools, with an 8% of operating expenses general fund balance requirement, 70 days' cash on hand, and emergency and other reserve requirements. We understand there is no history of covenant violations, and we do not believe the charter school is at risk of violation during the outlook period.

## Outlook

The stable outlook reflects our opinion of P2P's improved financial performance metrics over the past two years and our anticipation that future performance will remain consistent as state and local funding levels will likely increase during the outlook period. We also anticipate the school will maintain its exceptional enterprise profile and acceptable balance sheet metrics.

### Downside scenario

We could lower the rating during the two-year outlook if the charter school is unable to maintain acceptable MADS coverage, days' cash on hand levels decline, or P2P does not maintain its exceptional enterprise profile.

### Upside scenario

We do not believe a positive rating action is likely during the outlook period given the organization's only acceptable financial metrics for the rating.

## Enterprise Profile

Peak to Peak is located in Boulder County, approximately 30 miles northwest of Denver. The county's population is healthy at about 110,000 and is expected to grow moderately with projections indicating 2.3% growth through 2022.

### Industry risk

Industry risk addresses the charter school sector's overall cyclical and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth

trends observed in the industry. We believe the charter school sector represents a moderately high credit risk when compared with other industries and sectors.

### **Market position**

P2P has solid enrollment and demand, in our opinion, with stable enrollment at its charter cap of 1,444 students for more than five consecutive years. We consider the charter cap as an offsetting factor, as it limits enrollment flexibility in the event the charter school needed to grow enrollment to offset the potential for state funding cuts. P2P maintains a very healthy, annually-purged waitlist of more than 100% of enrollment that reflects the charter school's solid market position as a destination charter school. The charter school has a history of achieving the top academic rating of performance from the state, an impressive 26.3 average ACT score, a 100% college acceptance rate for graduating seniors, and ranks as one of the 100 top high schools in the country for nine consecutive years. We do not anticipate any significant changes to the school's demand profile over the next few years.

The statutory framework assessment reflects our opinion that, while there may be some areas of risk, the framework is not likely to negatively affect its future ability to pay debt service. State per-pupil funding has been increasing; funding was \$7,232 per student for fiscal 2016, compared with \$6,937 the previous school year. Management indicates the funding environment in Colorado continues to improve modestly with fiscal 2017 funding expected to be \$7,351 per student.

We believe P2P and its authorizer have an exceptionally good relationship despite inherent conflicts of interest of being authorized by the school district in which P2P operates. Authorizers in Colorado are permitted to take a portion (up to 5%) of charter school per pupil funding to reimburse it for the cost of authorizing; BVSD currently does not reduce P2P's funding, which we view favorably. BVSD also allows P2P to participate in six reoccurring mill levies that do not sunset to the tune of over \$3 million per year. Finally, BVSD recently conducted a \$570 million capital bond issuance in 2014, and provided over \$10 million to P2P for capital expenditures at no cost to the charter school.

### **Management and governance**

Management and governance have been stable during the past year and are among the best of all charter schools we rate. P2P has a finance committee of advisors that serves the board to aid with financial management. The management team is very sophisticated in its collection of data and monitoring of progress on strategic initiatives: academic and financial goals. In addition, P2P actively performs trend analysis and multi-year budgeting against benchmarks. We view these as best practices, and believe there is a good track record of management successfully executing its plans, and we do not anticipate any changes in the next few years.

## **Financial Profile**

In line with our Dec. 15, 2015, publication "Incorporating GASB 68: Evaluating Pension Obligations under Standard & Poor's Higher Education and Charter School Criteria," we have made certain adjustments to the financial statements of public colleges and universities and certain public charter schools for financial results beginning with fiscal year end June 30, 2015, to enhance analytical clarity regarding the economic substance of the funding of liabilities, expenses and deferred inflows and outflows of resources associated with pension plan obligations and a change in accounting principle as detailed in GASB 68, "Accounting and Financial Reporting for Pensions—an amendment of GASB

Statement No. 27". We believe these adjustments enhance analytical clarity from a credit perspective and result in more comparable financial metrics as long as states continue to be able and willing to fund these pension liabilities.

P2P has had improved operating performance during the past two audited years. We adjusted fiscal 2016 operations to account for the one-time grant received from the BVSD. As a result, fiscal 2016 produced a full-accrual surplus of about \$855,000 (5.2% excess margin) down from a \$2.3 million surplus in fiscal 2015 (13.4% margin). We understand fiscal 2015 operations were affected by significant fundraising that occurred that year and we do not anticipate margins returning to fiscal 2015 levels in the near term. As a result, MADS coverage for fiscal 2016 and fiscal 2015 were 1.6x and 2.3x, respectively. This is improved from 1.2x coverage in fiscal 2014. Management projects fiscal 2017 operations will result in another surplus, though margins may be slightly lower than the prior two years. We believe operations will meet management's projections given the charter school's track record for financial performance.

The charter school participates in six annual mill levies that are not scheduled to expire. This accounts for over \$3 million in revenues per year and makes up a significant portion of the organizations operating budget. We believe this provides greater revenue diversity than we typically see for the charter school sector, and according to management, the mill levy will increase by over \$474,000 in fiscal 2017, which we also view positively.

### **Liquidity and financial flexibility**

P2P has acceptable liquidity for the rating, in our opinion. As of fiscal year-end 2016, the school had 108 days' cash on hand, which is down slightly from the prior year's level of 122 days'. We understand the small decline in cash was due to management's decision to use internal funds of about \$650,000 to complete capital projects. We understand management has no additional plans to draw on cash and we expect continued positive operating performance should assist the school in maintaining an acceptable liquidity position.

P2P's unrestricted reserves as percentage of debt for fiscal 2016 was 24% which we view as acceptable for the rating. We understand that P2P established an endowment in fiscal 2015 for the purpose of assisting students with costs of higher education through scholarships. As of fiscal year-end 2016 the endowment value was about \$1 million. In addition, management's budget to increase unrestricted reserves through positive operating cash flow should further boost unrestricted reserves.

### **Debt burden**

As of June 30, 2016, P2P had about \$17.4 million in long-term debt, all of which consisted of the series 2014 bonds, which refunded the series 2004 bonds. Debt service is relatively level at about MADS in fiscal 2018, at \$1.4 million. The debt burden is manageable, in our opinion, at 9.0% of fiscal 2016 expenses.

P2P's debt levels and capital planning are good for the rating. P2P recently completed material capital plans for which it incurred very little costs due to the sizable grant from BVSD. Recently completed capital projects include a college counseling center, a tutoring center, four additional elementary and three additional middle school classrooms, a new varsity gymnasium, expanded cafeteria, and enhancements to the recreation area for middle school students. The school does not have any plans for additional debt at this time, and we understand there are no additional capital plans.

## Financial policies

The school has formal policies for investment allocation, liquidity, and debt. P2P meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies to comparable providers.

Peak To Peak Charter School, Colo. Financial Statistics				
	--Fiscal year ended June 30--			
	2017	2016	2015	2014
<b>Enrollment</b>				
Total headcount	1,443	1,445	1,444	1,444
Total waiting list	1,639	1,727	1,726	2,000
Waiting list as % of enrollment	113.6	119.5	119.5	138.5
<b>Financial performance</b>				
Total revenues (\$000s)	N.A.	26,298	17,385	14,747
Total expenses (\$000s)	N.A.	15,632	15,052	14,619
Lease adjusted annual debt service coverage (x)	N.A.	1.64	6.04	1.14
Lease adjusted annual debt service burden (% total revenues)	N.A.	5.3	3.2	10.4
Lease adjusted annual debt service burden (% total expenses)	N.A.	8.9	3.7	10.5
MADS (\$000s)	N.A.	1,413	1,423	1,423
Lease adjusted MADS coverage (x)	N.A.	1.62	2.36	1.23
Lease adjusted MADS burden (% total revenues)	N.A.	5.4	8.2	9.6
Lease adjusted MADS burden (% total expenses)	N.A.	9.0	9.5	9.7
Total revenue per student (\$)	N.A.	18,199	12,039	10,213
<b>Balance Sheet Metrics</b>				
Days' cash on hand	N.A.	107.8	121.7	102.6
Total long-term debt (\$000s)	N.A.	17,410	17,880	19,305
Unrestricted reserves to debt (%)	N.A.	24.0	25.4	20.2
Unrestricted net assets as % of expenses	N.A.	19.3	23.6	18.8
General fund balance (\$000s)	N.A.	3,330	3,871	3,120
Debt to capitalization (%)	N.A.	86.1	84.4	88.1
Debt per student (\$)	N.A.	12,462	12,940	13,654

N.A.--not available. N/A not applicable. MNR--median not reported. MADS--maximum annual debt service.

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