S&P Global
Ratings

RatingsDirect®

Peak to Peak Charter School–Prairie View Inc., Colorado; School State Program

Primary Credit Analyst:
Luke J Gildner, Columbia (1) 303-721-4124; luke.gildner@spglobal.com

Secondary Contact:
David Holmes, Farmers Branch + 214 871 1427; david.holmes@spglobal.com

Table Of Contents

Peak to Peak Charter School–Prairie View Inc., Colorado; School State Program

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

Rationale

S&P Global Ratings affirmed its 'BBB+' underlying rating on Peak to Peak Charter School–Prairie View Inc. (P2P), Colo. The outlook is stable.

The 'A+' enhanced program 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 very stable enrollment, excellent student retention, a significant waitlist, top academic performance, sophisticated management team, and exceptional district authorizer support. In our opinion, the enterprise profile is constrained by the size of the organization with lower enrollment levels when compared to similarly rated peers. We assessed the school's financial profile as adequate based on good and consistent financial performance metrics, additional support in the form of mill levy, good and growing liquidity, and a debt burden that continues to moderate. We also believe the school's access to an endowment, valued at about $1.4 million as of fiscal 2020 year-end, provides additional credit strength. We believe that combined, these credit factors lead to an indicative standalone credit profile of 'bbb+' and a final rating of 'BBB+'.

As a result of the COVID-19 pandemic and broader public safety concerns, P2P closed campus in March until further notice and transitioned to distance learning for the rest of the school year. P2P reports the transition to online learning was well managed, that student engagement was positive, and per pupil funding in Colorado was not impacted in fiscal 2020. While we expect state per pupil funding for fiscal 2021 to decrease by about 5.5%, P2P received over $574,000 in CARES (Coronavirus Aid, Relief, and Economic Security) Act funds with no payback requirement. We understand the CARES Act funds along with mill levy support from the local district and additional actions taken by management should allow P2P to produce above break-even operating results for fiscal 2021 which we view positively given the challenging operating environment. In our opinion, uncertainty related to the duration of the COVID-19 pandemic and potential for further funding cuts may pressure the rating over the next few years though we believe P2P's healthy liquidity with over 150 days' cash on hand provides some cushion for uneven operating results over the next few years.

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 some diversity to the organizations revenue base;
- Positive relationship between the charter school and district authorizer; and
- Capable management team that is data focused and utilizes multiyear scenario budgeting.

In our opinion, partly offsetting credit factors include:

- A challenging operating environment due to COVID-19 pandemic with material state funding cuts for fiscal 2021 and uncertainty regarding the duration of the pandemic;
- Highly leveraged balance sheet with a debt-to-capitalization ratio close to 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 and fiscal 2010, and for 10 years in fiscals 2015-2025. BVSD imposes an enrollment cap of 1,445 students on P2P.

As of fiscal 2020 year-end, the school had $14.8 million in long-term debt. 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.

The stable outlook reflects our opinion of P2P's healthier financial performance metrics over the past few years that have allowed the organization to build on its reserves and liquidity. We anticipate future performance will remain acceptable for the rating though we acknowledge uncertainty due to the challenging operating environment. We anticipate the school will maintain its exceptional enterprise profile and acceptable balance sheet metrics.

Environmental, social, and governance factors

We view the risks posed by COVID-19 pandemic to public health and safety as an elevated social risk for all charter schools under our environmental, social, and governance factors due to the organization's reliance on state funding. We believe this is a social risk for P2P due to potential for further per-pupil funding reductions that might occur as a result of recessionary pressures. Despite the elevated social risk, we believe the school's environmental and governance risk are in line with our view of the sector as a whole.

Stable Outlook

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 materially, or P2P does not maintain its exceptional enterprise profile. Although we believe P2P has taken steps to address potential effects of the pandemic, we could also consider a negative rating action should unforeseen pressures related to the pandemic materially affect demand, finances, or the organization's trajectory.

Upside scenario

We do not believe a positive rating action is likely during the outlook period given the organization's limited size compared to similarly rated peers and operating uncertainty associated with the COVID-19 pandemic.

Enterprise Profile

Peak to Peak is located in Boulder County, approximately 30 miles northwest of Denver. The county's population is healthy at about 105,000 and is expected to decline moderately with projections indicating a 0.9% decline over the next five years.

Industry risk

Industry risk addresses the charter school sector's overall cyclicality 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 facility cap of 1,445 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, though mill levy funding provides a certain level diversity and partly mitigates this concern. P2P maintains a healthy, annually purged waitlist of more than 1,200 students 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 1,280 average SAT score, a 100% college acceptance rate for graduating seniors, and ranks as one of the top high schools in the country for 10 consecutive years by US News & World Report. 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 $8,425 per student for fiscal 2020, a 4.6% increase from prior year. As previously cited, management expects about a 5.5% decrease in state per pupil funding for fiscal 2021 due to the ongoing COVID-19 pandemic.

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.

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 multiyear 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

We have made certain adjustments to financial statements of public colleges and universities and certain public charter schools for financial results beginning with fiscal 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, as well as regarding a change in accounting principles under Governmental Accounting Standards Board Statement No. 68. We believe these adjustments enhance analytical clarity from a credit perspective and result in more comparable financial metrics.

Colorado passed legislation to address the state pension plan in June 2018. Key components of the recently enacted legislation include:

- A 2% employee contribution increase (down from a proposed 3% increase as initially introduced in Senate Bill 18-200) phased in July 1, 2019;
- A 0.25% employer contribution increase (down from a proposed 2% increase as initially introduced in the bill) taking effect July 1, 2019; and
- $225 million per year to go directly from the state to Public Employees' Retirement Assn. to help address unfunded liabilities now and into the future.

While the enacted plan is designed to provide 100% funding for 30 years (current net pension liability is at about 64.5%), we believe that the measures approved could materially reduce the likelihood of increased pension costs for the academy over the outlook horizon. P2P participates in the school division trust fund administered by Public Employees' Retirement Assn. of Colorado and continues to make 100% of its statutorily determined contributions. For fiscal 2020, this equated to a 11% of total expenses. In addition, all employees are eligible to receive other postemployment benefits through a cost-sharing, multiple-employer, defined benefit, postemployment health care plan administered by the state, for which the academy's contribution was approximately $44,000 in fiscal 2020. We will monitor the impact that the recently adopted measures will have on the school's financial profile.

Financial performance

P2P has consistently produced adjusted operating surpluses on a full accrual basis, which we view positively. Fiscal 2020 resulted in an (unaudited) adjusted surplus of about $1.3 million (6.7% excess margin), which is consistent with fiscal 2019 results and materially improved from the surpluses prior to fiscal 2019 when margins fluctuated between 4-5%. In addition, MADS coverage for fiscal 2020 and fiscal 2019 were 2.1x and 2.3x, respectively. We anticipate fiscal 2021 operations will result in another full accrual surplus (after accounting for the CARES Act dollars) though margins will likely be softer reflecting the significant reduction in state funding. While maintenance of acceptable debt service coverage levels will be required to maintain the current rating, we believe P2P's healthy reserve level provides some cushion for the organization to manage thinner operating performance over the near term. The charter school participates in six annual mill levies that are not scheduled to expire. This has historically accounted for over $4 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.

Liquidity and financial flexibility

P2P's unrestricted reserves have shown good growth over the past two years due to healthier operating outcomes. As of fiscal year-end 2020, the school had 158 days' cash on hand, which reflects an increase from 142 days in fiscal 2019 and 116 days in fiscal 2018. is consistent with the prior years' level. We understand management has no plans to draw on cash, and any capital projects associated with a recent land acquisition will be financed through fundraising or grants. We expect continued positive operating performance to assist the school in maintaining an acceptable liquidity position.

P2P's unrestricted reserves as percentage of debt for fiscal 2020 was 48.3%, which we view as good 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. The endowment value is currently over $1.4 million.

Debt burden

As of June 30, 2020, P2P had about $14.8 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 of $1.4 million. The debt burden is manageable, in our opinion, at 7.3% of fiscal 2020 revenues.

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.

Financial policies

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. -- Enterprise And Financial Statistics

	--Fiscal year ended June 30--				
	2021	**Draft Audit 2020**	**2019**	**2018**	**2017**
Enrollment					
Total headcount	1,450	1,450	1,445	1,445	1,443
Total waiting list	N.A.	1,263	1,590	1,250	1,639
Waiting list as % of enrollment	N.A.	87.1	110.0	86.5	113.6
Financial performance					
Accounting standard	N.A.	GASB	GASB	GASB	GASB
Total revenues ($000s)	N.A.	19,789	19,777	18,169	17,432
Total expenses ($000s)	N.A.	18,455	18,116	17,296	16,595
EBIDA ($000s)	N.A.	2,970	3,306	2,658	2,622
EBIDA margin (%)	N.A.	15.0	16.7	14.6	15.0
Excess revenues over expenses ($000s)	N.A.	1,334	1,661	873	837
Excess income margin (%)	N.A.	6.7	8.4	4.8	4.8
Pension/OPEB adjustments ($000)	N.A.	4,357	3,681	(9,953)	(7,688)
Lease-adjusted MADS ($000s)	N.A.	1,435	1,433	1,413	1,413
Lease-adjusted MADS coverage (x)	N.A.	2.07	2.31	1.88	1.86
Lease-adjusted MADS burden (% total revenues)	N.A.	7.3	7.2	7.8	8.1
Total revenue per student ($)	N.A.	13,647.6	13,686.5	12,573.7	12,080.4
Balance sheet metrics					
Unrestricted reserves ($000s)	N.A.	7,624.0	6,753.0	5,231.0	5,289.0
Days' cash on hand	N.A.	157.6	142.2	116.4	122.8
Total long-term debt ($000s)	N.A.	14,815	15,495	16,150	16,790
Unrestricted reserves to debt (%)	N.A.	48.2	40.8	30.3	29.5
Unrestricted net assets as % of expenses	N.A.	22.6	20.3	15.0	22.5
Debt to capitalization (%)	N.A.	78.8	81.5	86.8	82.6
Debt per student ($)	N.A.	10,217	10,723	11,176	11,635

N.A.--Not available. N/A--Not applicable. MNR--Median not reported. MADS--Maximum annual debt service. Operating lease expense--Annual amount paid in facilities/capital lease payments; excludes equipment/nonfacility lease payments and excludes payments related to principal and interest on bonds. Net revenue available for debt service = EBIDA+operating lease expense. Lease-adjusted MADS coverage = (Net revenue available for debt service + operating lease expense) / (Lease-adjusted MADS). Total expenses include pension and OPEB adjustments. Pension and OPEB adjustments= reconciling adjustments made to financial information to account for differences in GASB 68 and GASB75.