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## Colorado Educational & Cultural Facilities Authority Peak to Peak Charter School-Prairie View Inc; School State Program

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### Table Of Contents

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Rationale

Stable Outlook

Credit Opinion

Enterprise Profile

Financial Profile

Related Research

# Colorado Educational & Cultural Facilities Authority

## Peak to Peak Charter School-Prairie View Inc; 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

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

### Rationale

S&P Global Ratings underlying rating on Peak to Peak Charter School-Prairie View Inc (P2P), Colo. is 'BBB+'. 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.

As of fiscal 2021 year-end, the school had \$14.1 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. There is no history of covenant violations, and we do not believe the charter school is at risk of violation during the outlook period.

In fiscal 2021, the academy recognized approximately \$850,000 in pandemic-related relief funding, this nonrecurring revenue source helped offset COVID-19-related expenses experienced during the 2020-2021 school year keeping operations consistent with prior-year results, which we view positively given the challenging operating environment. After completing the 2020-2021 school year mostly in distance-learning mode, P2P returned to in-person instruction for all students for the start of the 2021-2022 school year in accordance with local and state guidelines. In addition to the stimulus funding noted above, P2P received about \$790,000 in additional pandemic-related funding which management anticipates spending largely on additional instructional staff and teacher compensation during the current school year. We anticipate this funding, as well as the school's very stable enrollment and associated revenue, will continue to offset additional expenses associated with the ongoing pandemic over the current school year.

### Credit overview

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 with those of 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, accounting for \$1.7 million of the organization's restricted investments as of fiscal 2021 year-end, provides additional credit strength. We believe that combined, these credit factors lead to an anchor rating of 'bbb+' and a final rating of 'BBB+'.

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 organization's 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, partially offsetting credit factors include:

- Leveraged balance sheet with a debt-to-capitalization ratio close to 70%, 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 twelfth grade (K-12) charter school 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 fiscal years 2015-2025. BVSD imposes an enrollment cap of 1,445 students on P2P.

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, but we acknowledge some 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 to public health and safety as an elevated social risk for all charter schools under our environmental, social, and governance (ESG) factors. This reflects the potential effects on enrollment and mode of instruction as the current school year progresses and the potential for a long-term effect of state funding, on which charter schools depend to support operations. That said, P2P's enrollment and demand remained resilient throughout the pandemic and we do not anticipate any material enrollment declines within the outlook period. We consider the school's governance and environmental risks to be in line with the sector.

## Stable Outlook

### Downside scenario

We could lower the rating during the two-year outlook if the charter school is unable to maintain acceptable maximum annual debt service (MADS) coverage, days' cash on hand levels decline materially, or P2P does not maintain its impressive demand profile.

### Upside scenario

We do not believe a positive rating action is likely during the outlook period given the organization's limited size compared with that of similarly rated peers as well as capital plans that, while not final, could moderately affect unrestricted reserves over the outlook horizon.

## Credit Opinion

## Enterprise Profile

### 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, although mill levy funding provides a certain level diversity and partially mitigates this risk. P2P maintains a healthy, annually purged waitlist of more than 1,000 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 and it 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 might be some areas of risk, the framework is not likely to negatively affect its future ability to pay debt service. Following a moderate 4.7% cut to state per-pupil funding in fiscal 2021, management expects a 9.1% increase in fiscal 2022.

We believe P2P and its authorizer have a 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.

Peak to Peak is in Boulder County, approximately 30 miles northwest of Denver. The county's population is healthy at about 103,000 and is expected to decline moderately, with projections indicating a 1.5% decline over the next five years.

## 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. We understand P2P's executive director is expected to retire in the summer of 2022 and the CFO is expected to retire in summer 2023. We will monitor the transitions over the outlook period, at this time we anticipate the transition will be smooth.

## Financial Profile

We analyze the materiality, strategy, and funding of pension and other postemployment benefits (OPEB) plans separately from our analysis of a school's long-term debt ratios or operating margin. Consequently, we might make certain adjustments to the calculations of debt ratios or operating margin for schools with substantial multiemployer cost-sharing defined benefit pension plans or OPEB plans to separate out the net pension liability or noncash expense accrual. In our view, these adjustments enhance analytical clarity from a credit perspective and result in more comparable debt and operating metrics across accounting methods.

## Financial performance

P2P has consistently produced adjusted operating surpluses on a full accrual basis, which we view positively. Fiscal 2021 resulted in an adjusted surplus of about \$1.2 million (6.1% excess margin), which is consistent with fiscal 2020 results and improved from the surpluses prior to fiscal 2019 when margins fluctuated between 4-5%. In addition, MADS coverage for fiscal 2021 and fiscal 2020 were 2.0x and 2.1x, respectively. We anticipate fiscal 2022 operations will result in another full accrual surplus reflecting the improved state funding levels and consistent enrollment levels. The charter school also participates in six annual mill levies that are not scheduled to expire. This accounted for over \$5 million in revenues in fiscal 2021 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 consecutive years of good growth due to healthier operating outcomes. As of fiscal year-end 2021, the school had close to 170 days' cash on hand, which reflects a material increase from 116 days in fiscal 2018. We understand management has no immediate plans to draw on cash, although a portion could be used on student innovation and performing arts related capital projects over the next several years. 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 2021 was 55.5%, 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 \$1.7 million and it is not included in our calculation of unrestricted reserves.

## Debt burden

As of June 30, 2021, P2P had about \$14.1 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 7.1% of fiscal 2021 revenues. The school does not have any plans for additional debt at this time.

P2P's debt levels and capital planning are good for the rating. P2P has a history of completing material capital plans for which it incurred very little costs due to the sizable grant from BVSD. 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.

<b>Peak to Peak Charter School, Colo.--Enterprise And Financial Statistics</b>				
<b>--Fiscal year ended June 30--</b>				
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Statement basis	Demand data	Audited	Audited	Audited
<b>Economic fundamentals</b>				
Primary service area	Boulder County	Boulder County	Boulder County	Boulder County
Geographic measure	County	County	County	County
Minor population in service area (000s)	103	103	104	107
Projected five-year minor population growth rate (%)	(1.5)	(1.6)	(2.0)	(0.6)
<b>Enrollment</b>				
Total headcount	1,447	1,449	1,450	1,445
Change in headcount (%)	(0.1)	(0.1)	0.3	0.0
Total waiting list	1,024	1,209	1,263	1,590
Waiting list as % of enrollment	70.8	83.4	87.1	110.0
Student retention rate (%)	94.0	96.0	97.0	85.0
State grade or performance score	N.A.	N.A.	N.A.	Performance
<b>Charter and facility limitations</b>				
Charter authorizer	Boulder Valley School District No. RE-2			
Charter expiration date	06/30/2025	06/30/2025	06/30/2025	06/30/2025
Charter capacity utilized	100.1	100.3	100.3	102.1
Charter capacity	1,445	1,445	1,445	1,415
Facility capacity utilized	100.1	100.3	100.3	100.0
Capacity of facility	1,445	1,445	1,445	1,445
<b>Financial performance</b>				
Total revenues (\$000s)	N.A.	20,121	19,804	19,777
Total expenses (\$000s)	N.A.	18,895	18,467	18,116
EBIDA (\$000s)	N.A.	2,860	2,973	3,306
EBIDA margin (%)	N.A.	14.21	15.01	16.72
Excess revenues over expenses (\$000s)	N.A.	1,226	1,337	1,661

**Peak to Peak Charter School, Colo.--Enterprise And Financial Statistics (cont.)**

	<b>--Fiscal year ended June 30--</b>			
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Excess income margin (%)	N.A.	6.09	6.75	8.40
Lease adjusted annual debt service coverage (x)	N.A.	1.88	1.96	2.31
Lease adjusted annual debt service burden (% total revenues)	N.A.	7.6	7.7	7.2
Lease adjusted annual debt service burden (% total expenses)	N.A.	8.1	8.2	7.9
MADS (\$000s)	N.A.	1,435	1,435	1,433
Lease adjusted MADS coverage (x)	N.A.	1.99	2.07	2.31
Lease adjusted MADS burden (% total revenues)	N.A.	7.1	7.2	7.2
Lease adjusted MADS burden (% total expenses)	N.A.	7.6	7.8	7.9
Total revenue per student (\$)	N.A.	13,886	13,658	13,687
<b>Balance-sheet metrics</b>				
Unrestricted reserves (\$000s)	N.A.	8,348	7,624	6,753
Contingent liabilities (\$000s)	N.A.	N.A.	N.A.	N.A.
Adjusted unrestricted net assets (\$000s)	N.A.	6,091	5,362	4,691
Days' cash on hand	N.A.	168.6	157.5	142.2
Total long-term debt (\$000s)	N.A.	14,105	14,815	15,495
Unrestricted reserves to debt (%)	N.A.	55.5	48.2	40.8
Unrestricted net assets as % of expenses	N.A.	33.7	30.3	27.1
General fund balance (\$000s)	N.A.	6,559	5,618	5,190
Debt to capitalization (%)	N.A.	69.8	73.4	76.8
Debt per student (\$)	N.A.	9,734	10,217	10,723

MADS--Maximum annual debt service. N.A.--Not available.

## Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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