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Peak To Peak Charter School-Prairie View Inc., Colorado Colorado Educational & Cultural Facilities Authority; School State Program

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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

Credit Highlights

- S&P Global Ratings affirmed its 'BBB+' underling 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, reflects the school's inclusion in the Colorado Charter School Moral Obligation Program.

Security

As of fiscal 2022 year-end, the school had \$13.4 million in long-term debt. Securing the bonds is the school's revenue, which consists primarily of per-pupil funding from the state. A mortgage and security interest on facilities provide additional bondholder security.

Credit overview

The rating is supported by the school's very stable enrollment at charter and facility capacity, 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. The financial profile can be characterized by a history of 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 acknowledge fiscal 2022's financial performance, while still positive, moderated compared with previous years as the school implemented pay increases for faculty and staff. While the pay increases are an important strategic initiative for P2P to continue delivering excellent academic results, we anticipate future operating margins will likely remain lower than levels achieved before fiscal 2022. We assessed the enterprise profile as strong and the financial profile as adequate; combined, these credit factors lead to an anchor rating of 'bbb+' and a final rating of 'BBB+'.

Also supporting the rating is the recent voter approval of the Boulder Valley School District (BSVD) No. RE-2's \$350

million capital construction bond issue, of which P2P anticipates receiving at least \$10.7 million by way of grant funding over the outlook period. This grant funding will provide a significant level of capital support in the next few years, which we believe will allow the school to further enhance its already impressive academic results, although we do not anticipate this funding will provide an opportunity for P2P to increase its enrollment capacity.

The rating reflects our view of the school's:

- Stable enrollment and healthy demand bolstered by P2P'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, with the expectation of material grant funding for capital purposes over the next few years; and
- Capable management team that is data focused and uses multiyear scenario budgeting.

In our opinion, partially offsetting credit factors include:

- Moderating financial performance following the implementation of a new compensation package for faculty and staff in fiscal 2022, which will likely affect future operating budgets; and
- Revocation and renewal risk shared by all charter schools subject to charter approval prior to debt maturity.

Environmental, social, and governance

We analyzed the academy's environmental, social, and governance (ESG) risks and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our opinion of P2P's very impressive enterprise profile, which we anticipate will be sustained and mitigate the moderation experienced in financial performance. We anticipate future performance will remain acceptable for the rating, although we acknowledge minimal flexibility at the current rating level for unfavorable variances from expectations. P2P's ability to grow liquidity over the past few years as well as management's expectation of more than \$10.7 million in grant funding over the next few years also support the stable outlook.

Downside scenario

We could lower the rating during the two-year outlook if the charter school fails 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 the moderation in financial performance experienced in fiscal 2022, which will likely continue.

Credit Opinion

Enterprise Profile

Market position

P2P has very healthy demand, in our opinion, with stable enrollment at its facility cap of about 1,445. We consider the charter cap as an offsetting factor, as it limits enrollment flexibility in the event the charter school needs to grow enrollment to offset the potential for state funding cuts, although mill levy funding provides a certain level of diversity and partially mitigates this risk. P2P maintains a healthy, annually purged waitlist of about 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 by U.S. News & World Report. We do not anticipate any significant changes to the school's demand profile over the next few years.

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. BVSD also allows P2P to participate in six reoccurring mill levies that do not sunset and are expected to provide at least \$10.7 million in grant funding over the next few years for capital purposes, which we believe is significant. 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.

Peak to Peak is in Boulder County, approximately 30 miles northwest of Denver. The county's minor population is healthy at about 102,000 and is expected to decline moderately, with projections indicating a 2.8% decline over the next five years.

Management and governance

P2P's former executive director retired in the summer of 2022 and was replaced by Jennifer Klein who has significant educational experience, most recently with Aurora Public Schools. We understand the school's CFO is expected to retire in summer 2023 and P2P added to its financial team in preparation of the transition. We will monitor the transitions over the outlook period; at this time we anticipate the transition will be smooth. 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.

Financial Profile

Financial performance

P2P has consistently produced adjusted operating surpluses on a full-accrual basis, which we view positively. Fiscal 2022 resulted in an adjusted surplus of about \$224,00 million (1.0% excess margin), which is lower than historical results when margins fluctuated between 4% and 6%. In addition, MADS coverage for fiscal 2022 was approximately

1.4x, which is down from levels closer to 2.0x in recent years. Management implemented a new pay scale for faculty and staff in efforts to maintain the organization's historically healthy teacher retention and academic outcomes. While these changes resulted in some one-time retroactive pay expenses of about \$200,000, a significant portion of these higher instructional costs will be maintained in future operating years. We will continue to monitor future operating performance; at this time, we believe results will remain acceptable for the current rating.

The charter school participates in six annual mill levies that are not scheduled to expire. This accounted for more than \$5.5 million in revenues in fiscal 2022 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. State funding is expected to increase by approximately 6% in fiscal 2023, and management expects continued moderate increases in state funding over the next few years.

Liquidity and financial flexibility

P2P's unrestricted reserves have shown consecutive years of good growth due to consistent operating surpluses. As of fiscal year-end 2022, the school had close to 165 days' cash on hand, which reflects a material increase from 116 days in fiscal 2018. Management anticipates a modest spenddown of approximately \$700,000 in fiscal 2023 due to a variety of capital projects, while we believe P2P has capacity for a modest spenddown at the current rating level, and further declines in unrestricted reserves could pressure the rating. We expect continued positive operating performance will assist the school in maintaining an acceptable liquidity position.

P2P's unrestricted reserves as percent of debt for fiscal 2022 was 62.6%, 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 more than \$1.4 million and it is not included in our calculation of unrestricted reserves.

Debt burden

As of June 30, 2022, P2P had about \$13.4 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 of \$1.4 million. The debt burden is manageable, in our opinion, at 6.7% of fiscal 2022 revenues. The school does not have any plans for additional debt at this time. As with most charter schools P2P's debt-to-capitalization ratio of 68.5% reflects elevated leverage, although this ratio continues to improve due to consistently positive operating performance.

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.

Peak to Peak Charter School-Prairie View Inc., Colo.--Enterprise And Financial Statistics					
	--Fiscal year ended June 30--				--Medians reported for 'BBB+' rated charter schools--
	2023	2022	2021	2020	2021
Enrollment					
Total headcount	1,450	1,448	1,449	1,450	2,436

Peak to Peak Charter School-Prairie View Inc., Colo.--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--				--Medians reported for 'BBB+' rated charter schools--
	2023	2022	2021	2020	2021
Total waitlist	950	1,024	1,209	1,263	MNR
Waitlist as % of enrollment	65.5	70.7	83.4	87.1	79.0
Financial performance					
Accounting standard	N.A.	GASB	GASB	GASB	N.A.
Total revenues (\$000s)	N.A.	21,379	20,121	19,804	36,606
Total expenses (\$000s)	N.A.	21,155	18,895	18,467	MNR
EBIDA (\$000s)	N.A.	1,959	2,986	3,099	MNR
EBIDA margin (%)	N.A.	9.2	14.8	15.6	18.3
Excess revenues over expenses (\$000s)	N.A.	224	1,226	1,337	MNR
Excess income margin (%)	N.A.	1.0	6.1	6.8	9.6
Operating lease expense (\$000)	N.A.	N.A.	N.A.	N.A.	MNR
Pension/OPEB adjustments (\$000)	N.A.	6,536	5,758	3,419	MNR
Lease-adjusted MADS (\$000s)	N.A.	1,435	1,435	1,435	3,221
Lease-adjusted MADS coverage (x)	N.A.	1.37	2.08	2.16	2.40
Lease-adjusted MADS burden (% total revenues)	N.A.	6.7	7.1	7.2	8.0
Total revenue per student (\$)	N.A.	14,764.5	13,886.1	13,657.9	MNR
Balance sheet metrics					
Unrestricted reserves (\$000s)	N.A.	9,066.0	8,348.0	7,624.0	MNR
Days' cash on hand	N.A.	163.8	169.8	158.6	216.00
Total long-term debt (\$000s)	N.A.	13,365	14,105	14,815	MNR
Unrestricted reserves to debt (%)	N.A.	62.6	55.5	48.2	56.0
Unrestricted net assets as % of expenses	N.A.	30.5	33.9	30.6	39.0
Debt to capitalization (%)	N.A.	68.5	69.8	73.4	70
Debt per student (\$)	N.A.	9,230	9,734	10,217	14,936

GASB--Governmental Accounting Standards Board. 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 other postemployment benefits (OPEB) adjustments. Pension and OPEB adjustments= reconciling adjustments made to financial information to account for differences in GASB Statement Nos. 68 and 75. N.A.--Not available. N/A--Not applicable. MNR--Median not reported.

Credit Snapshot

- Organization: P2P is a kindergarten to twelfth grade (K-12) charter school in BVSD, the charter authorizer with a stable enrollment at 1,450 for fall 2022, its facility and charter cap of 1,445 students for more than five consecutive years.
- Group rating methodology: N/A.
- Bond covenants: 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.
- Charter authorizer and term: BVSD is the charter authorizer. The school was initially chartered in 2000 for a five-year period and has been renewed three times, for five years from fiscal years 2005-2010, and for 10 years from fiscal years 2015-2025.
- Management type: Freestanding. P2P has a finance committee of advisors that serves the board to aid with financial management.
- State enhancement: 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.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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