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Ratings

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

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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 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 good and consistent financial performance metrics, additional support in the form of mill levy participation that provides a diverse revenue base for the charter school, acceptable liquidity for the rating, and a debt burden that continues to moderate. We also believe the school's access to an endowment, valued over $1.35 million as of fiscal 2018 year-end, 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 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 in 2016 (at no cost to the charter school) and the renewal of the charter for a 10-year period in 2015; and
- Capable management team that is data focused and utilizes multiyear scenario budgeting.

In our opinion, partly offsetting credit factors include:

- Only acceptable maximum annual debt service (MADS) coverage and unrestricted cash levels for the rating;
- Highly leveraged balance sheet with a debt-to-capitalization ratio in excess of 85%, 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 2018 year-end, the school had $16.15 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.

Outlook

The stable outlook reflects our opinion of P2P's acceptable performance metrics over the past few 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 and limited size 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 107,000 and is expected to decline moderately with projections indicating a 0.6% 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 none are expected through the outlook period. P2P maintains a very healthy, annually purged waitlist of more than 1,500 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 1,252 average SAT score, a 100% college acceptance rate for graduating seniors, and ranks as one of the 100 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 $8,058 per student for fiscal 2019, compared with $7,572 the previous school year, an increase of over 6%. Management indicates the funding environment in Colorado continues to improve, though more modestly with fiscal 2020 funding expected to grow by about 4%.

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 $4 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 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 analyze the materiality, strategy, and funding of pension plans separately from our analysis of a school's long-term debt ratios or operating margin. Consequently, we may make certain adjustments to the calculation of debt ratios or operating margin for schools with substantial multiple employer, cost-sharing, defined-benefit pension plans to separate out the net pension liability or non-cash 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

2018 resulted in an adjusted surplus of about $870,000 (4.8% excess margin), which is consistent with fiscal 2017 results. 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). In addition, MADS coverage for fiscal 2018 and fiscal 2017 were 1.88x and 1.86x, respectively. We anticipate fiscal 2019 operations will result in another full accrual surplus.

The charter school participates in six annual mill levies that are not scheduled to expire. This accounted for over $4.2 million in revenues per year and makes up a significant portion of the organizations operating budget. The size of the mill levy revenue has grown by about $960,000 over the past two years, which we view positively. We believe this provides greater revenue diversity than we typically see for the charter school sector; in fiscal 2018, the mill levy accounted for over 20% of operating revenue.

Liquidity and financial flexibility

P2P has acceptable liquidity for the rating, in our opinion. As of fiscal year-end 2018, the school had 116 days' cash on hand, which 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. 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 2018 was 30.3%, 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. The endowment value is currently over $1.4 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, 2018, P2P had about $16.15 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 8.4% of fiscal 2018 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--			
	2019	**2018**	**2017**	**2016**
Enrollment				
Total headcount	1445	1445	1443	1445
Total waiting list	1590	1250	1639	1727
Waiting list as % of enrollment	110	86.5	113.6	119.5
Financial performance				
Total revenues ($000s)	N.A.	18169	17432	26298
Total expenses ($000s)	N.A.	17296	16595	15632
EBIDA ($000s)	N.A.	2658	2622	12102
EBIDA margin (%)	N.A.	14.6	15	46
Excess revenues over expenses ($000s)	N.A.	873	837	10666
Excess income margin (%)	N.A.	4.8	4.8	40.6
Lease-adjusted annual debt service coverage (x)	N.A.	1.73	1.71	1.64
Lease-adjusted annual debt service burden (% total revenues)	N.A.	8.4	8.8	5.3
MADS ($000s)	N.A.	1413	1413	1413
Lease-adjusted MADS coverage (x)	N.A.	1.88	1.86	1.62
Lease-adjusted MADS burden (% total revenues)	N.A.	8.2	8.1	5.4
Total revenue per student ($)	N.A.	12573.7	12080.4	18199.3
Balance sheet metrics				
Days' cash on hand	N.A.	116.4	122.78	107.84
Total long-term debt ($000s)	N.A.	16150	16790	17410
Unrestricted reserves to debt (%)	N.A.	30.3	29.5	24
Unrestricted net assets as % of expenses	N.A.	14.7	22.5	19.3
General fund balance ($000s)	N.A.	4065	3952	3330
Debt to capitalization (%)	N.A.	87.3	83	86.1
Debt per student ($)	N.A.	11482	11995	12462

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. Lease-adjusted MADS coverage = (Net revenue available for debt service + operating lease expense) / (MADS + operating lease expense).