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## Public Finance Authority, Wisconsin Coral Academy Of Science-Las Vegas, Nevada; Charter Schools

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# Public Finance Authority, Wisconsin Coral Academy Of Science-Las Vegas, Nevada; Charter Schools

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US\$13.235 mil charter sch rev bnds (Coral Academy of Science-Las Vegas) ser 2017A dtd 12/06/2017 due 06/01/2053		
<i>Long Term Rating</i>	BBB-/Stable	New
US\$0.885 mil charter sch rev taxable bnds (Coral Academy of Science-Las Vegas) ser 2017B due 06/01/2023		
<i>Long Term Rating</i>	BBB-/Stable	New
<b>Public Fin Auth, Wisconsin</b>		
Coral Academy of Science-Las Vegas, Nevada		
Public Fin Auth (Coral Academy of Science-Las Vegas) CHARTERSCH		
<i>Long Term Rating</i>	BBB-/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'BBB-' rating and stable outlook to Public Finance Authority, Wis.' series 2017A (tax-exempt) and 2017B (taxable) education revenue bonds, issued for Coral Academy of Science-Las Vegas (CASLV), and affirmed its 'BBB-' rating, with a stable outlook, on the authority's existing debt for CASLV.

We assessed CASLV's enterprise profile as strong, characterized by its solid demand with a robust waitlist, growing enrollment, excellent academics, and stable management team. We assessed CASLV's financial profile as adequate, characterized by its financial profile metrics, solid pro forma lease-adjusted maximum annual debt service (MADS) for the rating, manageable debt, sufficient days' cash on hand, and history of positive full-accrual operating performance. We believe that, combined, these credit factors led to an indicative stand-alone credit profile of 'bbb-' and a final rating of 'BBB-'.

In addition, we understand the school has additional debt and expansion plans over the next few years that inherently expose it to growth risk that has the potential to increase pressure on its credit profile. We have partially factored the additional debt into our analysis. However, we will assess the full scope and potential effect of future debt on CASLV as it moves forward with those debt plans.

The rating reflects our opinion of the school's:

- Solid enterprise profile with excellent academic performance, growing enrollment, and healthy waitlist;
- Historically positive operating performance with expectations for positive performance for fiscal 2018;
- Healthy pro forma lease-adjusted MADS coverage of 1.86x based on audited fiscal 2017 results; and
- Operation as a charter school with five campuses across Clark County, coupled with the expectation it will open one additional kindergarten-through-eighth-grade (K-8) charter school for the 2018-2019 school year.

We believe somewhat offsetting these strengths are, what we consider, CASLV's:

- Weakening days' cash on hand due to expenditure growth related to the opening of two campuses for fall 2016 without commensurate reserve growth;
- Growth risk related to expansion that must be mitigated with controlled expenditure growth and the further bolstering of financial operations;
- Lease-renewal risk because two of its five campuses are on leased properties as of fiscal 2018--We, however, recognize that the current leases extend through 2018 and 2020 and that it has extension options on both leases; and
- Risk, as with all charter schools, that the charter authorizer could close the school for nonperformance of its charter or financial distress prior to the bonds' final maturity.

CASLV will use series 2017A and 2017B bond proceeds to:

- Acquire the facilities of its Centennial Hills campus and the adjacent parcel of land--It currently leases both;
- Finance the construction and furnishing of a new gymnasium at its Sandy Ridge campus;
- Pay the soft costs related to construction at its Nellis campus;
- Pay issuance costs; and
- Set up a fully funded debt-service reserve.

The authority is issuing the series 2017A and 2017B bonds on parity with the series 2014 bonds. Revenue of CASLV, primarily per pupil funding from Nevada, secures the bonds. Bonds include certain debt-service covenants. The school agrees to maintain 60 days' cash on hand and annual debt service coverage (DSC) of 1.1x. The violation of these covenants will require CASLV to hire a management consultant. The bonds have an additional bonds test of 1.2x DSC.

CASLV is a prekindergarten through 12th-grade charter school on five campuses across Clark County. Currently, the school operates Tamarus (kindergarten through second grade), Centennial Hills (kindergarten through sixth grade), Nellis Air Force Base (prekindergarten through sixth grade), Windmill (third through fifth grades), and Sandy Ridge (sixth through 12th grades). CASLV expects full enrollment for both Centennial Hills and Nellis at the eighth-grade level during the next few years. CASLV expects to open an additional K-8 charter school (Eastgate) near Sandy Ridge, Tamarus, and Windmill in fall 2018.

The series 2014 bonds financed the costs of acquiring the school's Sandy Ridge facilities. After the series 2017 bond issuance, CASLV will also acquire its Centennial Hills facilities. The school will lease the Eastgate facilities for an initial 10-year term until 2028 with the option for two additional 10-year extensions. We understand the facility at Nellis Air Force Base has been provided rent free for the academy's use because more than 90% of enrolled students are military connected; however, the school's current contract only mandates 20% of enrolled students have this designation. Tamarus and Windmill continue to operate at leased facilities with lease terms ending in 2018 and 2020, respectively, with additional extension options.

Management indicates it plans to build a new building at Nellis and acquire its Tamarus campus over the next few years, but we recognize these plans are still contingent on certain local government approvals. While we view any type of growth as an expansion risk, we believe management has handled growth successfully recently; therefore, we expect it to handle these growth plans similarly.

## Outlook

The stable outlook reflects S&P Global Ratings' opinion that CASLV will likely maintain excellent enrollment growth and demand, achieve positive operations, and continue to grow unrestricted reserves commensurate with expenses. We also expect CASLV will prudently manage growth so its liquidity and lease-adjusted MADS coverage remain at levels we consider consistent with the rating category.

### Downside scenario

We could lower the rating or revise the outlook to negative during the two-year outlook period if management does not meet enrollment projections such that financial performance deteriorates, cash declines, and lease-adjusted MADS coverage weakens. In addition, if CASLV were to issue additional debt that materially impairs financial operations, we could lower the rating or revise the outlook to negative.

### Upside scenario

We could raise the rating or revise the outlook to positive if the school's financial metrics were consistently in-line with a higher-rating category, including the maintenance of pro forma lease-adjusted MADS coverage and the increase in days' cash on hand.

## Enterprise Profile

### Economic fundamentals

CASLV is in Clark County, which covers more than 8,000 square miles in southern Nevada and encompasses Las Vegas and Henderson, where the charter school operates. The county's minor population is healthy at about 702,000; population is expected to continue to grow with projections indicating an increase of 5% 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 compared with other industries and sectors.

### Market position

We view the school's enrollment-and-demand profile as a credit strength, offering some flexibility for the rating. CASLV's demand is supported by a healthy enrollment base, solid enrollment growth, and a robust waitlist. Total enrollment has grown materially recently with up to 75% increases in headcount over the past four years. For fall 2017, student enrollment totaled 2,925. Management indicates it plans to add one additional K-8 campus in Henderson over the 2018-2019 school year. The Eastgate campus will feed into the Sandy Ridge High School campus, and it is also near the Tamarus and Windmill campuses. CASLV's waitlist, which management updates continually throughout the year, is 2,994 as of fall 2017, or, what we view as, a solid 102% of enrollment.

CASLV does not have an enrollment cap. For fall 2018, it expects to increase student enrollment to 3,596, primarily due to the opening of the Eastgate campus, which management expects to reach its full capacity of 650 students when

it opens. Due to CASLV's waitlist and the centralization of a majority of its campuses in the Henderson area, we expect CASLV will meet its enrollment target over the next few years. We expect that enrollment will continue to grow and that the school will likely maintain its waitlist over the next year.

CASLV's impressive academic program further supports its market position. The school outperformed its local school district and Nevada in many components of the state's standardized test scores, and we view its 95.5% graduation rate as good. We expect no significant changes to the school's demand profile over the next few years.

We view CASLV's standing with the authorizer as solid. CASLV has held its charter with Nevada State Public Charter School Authority, the authorizer, for 10 consecutive years. In addition, it has renewed the charter once in 2013, extending through 2019. We view the successful amendment of CASLV's charter over time as a positive factor, adding additional support to the likely positive relationship with its authorizer. We do not have any concerns for charter renewal over the next few years.

The statutory framework assessment reflects our opinion that while there could be some areas of risk, the framework is not likely to negatively affect CASLV's future ability to pay debt service. State per pupil funding has been relatively stable recently: \$6,723 per student for fiscal 2018 compared with \$6,597 for fiscal 2017. Management reports the funding environment in Nevada is stable, and it expects per pupil funding to increase modestly over the next few years.

### **Management and governance**

CASLV's senior management team and board of directors have been stable. Management has made no changes to senior leadership, and it does not expect to do so during the outlook period. The board remains very supportive of management and its ability to handle the school's day-to-day operations.

A seven-member board governs CASLV. Board members have two term limits, and no school employees are board members. CASLV is led by the executive director, who has extensive experience working with charter schools, including in California and Nevada. Other management positions reporting to the executive director include site directors at each of the school's campuses, who manage the campuses and ensure a consistent message across the different schools.

Due to CASLV's plans to open the Eastgate campus in fall 2018, and its potential 2018 debt issuance, we expect management will likely continue to operate effectively; we also consider the potential financial effect of any additional growth and expansion initiatives on CASLV. Management indicates that beyond its articulated plans, it does not currently have any additional expansion plans. We will more fully evaluate the effect of additional debt and expansion on the rating when CASLV finalizes its plans and releases more details

In our view, management remains active in assessing the school's long-term goals and applying solutions to meet those goals. It has set a high academic standard that continues to strengthen the overall school's market profile. We believe management manages financial operations acceptably. We view management as solid, and we do not expect any management changes during the next few years.

## Financial Profile

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. We made these adjustments 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 under Governmental Accounting Standards Board (GASB) Statement No. 68. We believe these adjustments enhance analytical clarity from a credit perspective and result in more-comparable financial metrics.

### Financial performance

CASLV's financial performance can be characterized by consistently positive operating margins with healthy pro forma lease-adjusted MADS coverage. Management attributes the consistent performance to a growing revenue base and its ability to control expense growth in nonexpansion years. The school also budgets conservatively each year, often stressing expenses and understating revenue to generate positive operations at fiscal year-end.

For fiscal year-end June 30, 2017, the school produced an EBIDA margin of 11.07%, or approximately \$2.22 million, which translates to 1.86x pro forma lease-adjusted MADS coverage occurring in fiscal 2020. Pro forma MADS coverage includes debt service on the series 2014 and 2017 bonds, along with its leases at the Windmill and Tamarus campuses and a small operating lease for its central office. Furthermore, in fiscal 2017, the school produced a full-accrual surplus of \$1.33 million, including GASB 68 adjustments, or a 6.6% margin.

Management expects a stronger full-accrual surplus for fiscal 2018, which should help maintain its acceptable MADS coverage for the rating. We expect that due to the school's enrollment growth projections, its revenue base will likely continue to grow over the next couple of fiscal years. We expect controlled expenditure growth and conservative budgeting will help the school bolster operations over the next few fiscal years. We would consider the issuance of additional debt that materially impairs operations negatively. The school's lease-adjusted MADS coverage and history of positive full-accrual operations have afforded CASLV stability at the current rating.

### Liquidity and financial flexibility

The school's unrestricted reserves have continued to grow over the past few fiscal years. In addition, days' cash on hand as a measure of expenses has not kept up with the school's growing expenditure base related to its expansion over the past year. In fall 2016, CASLV opened its Centennial and Nellis campuses, which resulted in expenditure growth of nearly \$8 million. At fiscal year-end 2017, the school had 97.6 days' cash on hand, which we consider low but sufficient for the rating. Alternatively, unrestricted reserves increased since the prior year by \$557,000.

Management indicates it does not currently plan to draw down cash. Since the series 2017 issuance has primarily fixed costs, with the exception of the gymnasium construction, which has a contingency in its budget of 10% of expenses, we do not expect the school to draw on cash reserves over the next few fiscal years. We expect continued positive operating performance should assist the school with improving its liquidity over time, which could provide some additional uplift to its financial profile.

CASLV's pro forma unrestricted reserves as a percent of debt for fiscal 2017 are 21.2%, which we view as acceptable for the rating. The school has increased unrestricted net assets recently. Unrestricted net assets grew by, what we

consider, a solid \$2 million in fiscal 2017 with the expectation for further growth in fiscal 2017.

### Debt burden

CASLV currently has \$9.07 million in long-term debt outstanding, as of the fiscal 2017 audit, related to its series 2014 bonds. The series 2017 bonds will have a 36-year maturity through 2053 with pro forma lease-adjusted MADS of \$1.879 million occurring in fiscal 2020; this translates to, what we consider, good pro forma debt of about 9.4% of fiscal 2017 revenue. The school does not currently have any additional contingent liabilities or off-balance-sheet debt.

We understand CASLV could issue additional debt over the next few years to purchase its currently leased Tamarus campus and finance the construction of a new school on its Nellis Air Force Base campus. We have considered the possibility of additional debt in our analysis, and we believe the school has some additional flexibility at the current rating. Our analysis takes into account the expected growth in operations over the near term and assumes management will continue to manage expenses prudently such that operations continue to grow and are able to absorb the effect of any additional debt on CASLV without significantly impairing its current financial profile. We understand the school's potential debt plans are awaiting approval. We expect CASLV to articulate more-final plans over the next few years, and we will continue to assess the likelihood of future debt and its effect on CASLV's credit quality.

As with many charter schools, the organization's debt-to-capitalization ratio shows significant debt on the balance sheet. For fiscal 2017, the ratio was 81.4%.

### Financial policies

The school has formal investment-allocation, liquidity, and debt policies. CASLV meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that while there could 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, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure; we compare these policies with those of comparable providers.

Coral Academy Of Science-Las Vegas, Nevada Select Demand & Financial Statistics						
	--Fiscal year-end June 30--					'BBB-' charter schools medians
	2018p	2017	2016	2015	2014	2016
<b>Enrollment</b>						
Total headcount	2,925	2,738	1,566	1,488	1,379	932
Total waiting list	2,994	2,206	2,243	2,766	2,079	MNR
Waiting list as % of enrollment	102.4	80.6	143.2	185.9	150.8	37.5
<b>Financial performance</b>						
Total revenue (\$000s)	N.A.	20,078	10,885	10,996	10,163	7,657
Total expenses (\$000s)	N.A.	18,745	10,371	9,524	9,134	MNR
EBIDA (\$000s)	N.A.	2,222	1,069	2,409	1,414	MNR
EBIDA margin (%)	N.A.	11.1	9.8	21.9	13.9	17.7
Excess revenue over expenses (\$000s)	N.A.	1,333	514	1,472	1,029	MNR

## Coral Academy Of Science-Las Vegas, Nevada Select Demand &amp; Financial Statistics (cont.)

	--Fiscal year-end June 30--					'BBB-' charter schools medians
	2018p	2017	2016	2015	2014	2016
Excess income margin (%)	N.A.	6.6	4.7	13.4	10.1	4.5
Lease-adjusted annual debt service coverage (x)	N.A.	1.83	1.34	2.33	2.02	MNR
Lease-adjusted annual debt service burden (% of total revenue)	N.A.	9.5	11.8	12.1	13.6	MNR
Lease-adjusted annual debt service burden (% of total expenses)	N.A.	10.1	12.4	14.0	15.1	MNR
Maximum annual debt service (MADS) (\$000s)	N.A.	1,983	1,323	1,323	1,363	977
Lease-adjusted MADS coverage (x)	N.A.	1.76	1.30	2.35	2.05	1.50
Lease-adjusted MADS burden (% of total revenue)	N.A.	9.9	12.2	12.0	13.4	12.0
Lease-adjusted MADS burden (% of total expenses)	N.A.	10.6	12.8	13.9	14.9	MNR
Pro forma MADS (\$000s)	N.A.	1,879	N.A.	N.A.	2,007	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	1.86	N.A.	N.A.	1.39	MNR
Pro forma lease-adjusted MADS burden (% of total revenue)	N.A.	9.4	N.A.	N.A.	19.7	MNR
Pro forma lease-adjusted MADS burden (% of total expenses)	N.A.	10.0	N.A.	N.A.	22.0	MNR
Total revenue per student (\$)	N.A.	7,333	6,951	7,390	7,370	MNR
<b>Balance sheet metrics</b>						
Days' cash on hand	N.A.	97.6	153.9	186.0	116.7	138.0
Total long-term debt (\$000s)	N.A.	9,070	9,070	9,200	9,260	MNR
Unrestricted reserves to debt (%)	N.A.	54.1	48.0	50.7	30.2	22.0
Unrestricted net assets as % of expenses	N.A.	28.9	38.3	41.0	25.2	32.4
General fund balance (\$000s)	N.A.	5,060	3,949	3,757	2,257	MNR
Debt to capitalization (%)	N.A.	62.3	69.3	70.7	80.7	84.0
Debt per student (\$)	N.A.	3,209	5,702	6,095	6,674	13,571
<b>Pro forma metrics</b>						
Pro forma unrestricted reserves (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma days' cash on hand	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma long-term debt (\$000s)	N.A.	23,190	N.A.	N.A.	N.A.	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	81.4	N.A.	N.A.	N.A.	MNR
Pro forma debt per student (\$)	N.A.	8,470	N.A.	N.A.	N.A.	MNR

p--Projected. N.A.--Not available. MNR--Median not reported.

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