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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

Credit Profile		
US$16.92 mil ed rev bnds (tax-exempt) (Coral Academy of Science-Las Vegas) ser 2018A due 07/01/2053		
Long Term Rating	BBB-/Stable	New
US$0.875 mil ed rev bnds (taxable) (Coral Academy of Science-Las Vegas) ser 2018B due 07/01/2053		
Long Term Rating	BBB-/Stable	New
Public Fin Auth, Wisconsin		
Coral Academy of Science-Las Vegas, Nevada		
Public Fin Auth (Coral Academy of Science-Las Vegas) CHARTERSCH		
Long Term Rating	BBB-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'BBB-' rating to Public Finance Authority, Wis.' series 2018A (tax-exempt) and 2018B (taxable) education revenue bonds, issued for Coral Academy of Science-Las Vegas (CASLV). At the same time, S&P Global Ratings affirmed its 'BBB-' rating on the authority's existing bonds issued for CASLV. The outlook on all ratings is stable.

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 vulnerable, with a moderately high debt burden and high leverage, offset by consistently positive operations, and sufficient pro forma lease-adjusted maximum annual debt service (MADS) coverage, which is expected to improve in fiscal 2019; Combined, we believe these credit factors lead to an indicative standalone credit profile of 'bbb-' and a final long-term rating of 'BBB-'.

The rating reflects our opinion of the academy's:

- Solid enterprise profile with excellent academic performance, large enrollment base, and healthy waitlist;
- History of positive operating performance, generating sufficient pro forma lease-adjusted MADS coverage based on fiscal 2018 unaudited figures, which is expected to improve in fiscal 2019;
- Experienced and stable management team; and
- Good relationship with its authorizer, which characterizes CASLV as a high performing charter school.

Somewhat offsetting the above strengths are our view of CASLV's:

- Moderately high pro forma lease-adjusted MADS burden;

- Weakened days' cash on hand due to expenditure growth related to the opening of multiple campuses over the past few years, although we expect liquidity to improve in fiscal 2018;
- Lease-renewal risk with two of the academy's six campuses on leased facilities post debt issuance, with the school paying a ground lease for the new building;
- Construction risk related to the new Nellis building, although this is somewhat mitigated as the school could continue to operate in its current facility; 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 is a prekindergarten through 12th-grade charter school with six campuses across Clark County. Currently, the school operates Tamarus (kindergarten through third grade), Centennial Hills (kindergarten through seventh grade), Nellis Air Force Base (prekindergarten through seventh grade), Windmill (fourth through sixth grade), Sandy Ridge (seventh through 12th grade), and Eastgate (kindergarten through seventh grade). Nearly all campuses are at full capacity.

The series 2018 bond proceeds will be used to acquire the currently leased facility at the Tamarus campus, provide for tenant improvements at the Tamarus campus, and construct a new facility at the Nellis Air Force Base campus. Bond proceeds will also pay for costs of issuance, fund a debt service reserve, and fund a repair and replacement fund. The new campus will consist of eight single-story structures comprising approximately 46 classrooms, an outdoor area and a landscaped amphitheater. Capacity is expected to accommodate 890 students. Construction is expected to be completed by the fall 2019, with the campus ready for the 2019-2020 school year. Management has communicated it intends to have a guaranteed max price contract in place by the end of 2018 and before construction begins.

The authority is issuing the series 2018A and 2018B bonds on parity with the series 2014 and 2017 bonds. Revenue of CASLV, primarily per pupil funding from Nevada, secures the bonds. Financial covenants include a requirement to maintain 60 days' cash on hand and annual debt service coverage (DSC) of 1.1x. Violation of these covenants will require CASLV to hire a management consultant. The bonds have an additional bonds test of 1.2x based on projected debt service coverage.

CASLV owns the Sandy Ridge and Centennial Hills campus buildings and has lease-agreements with three other campuses. The Windmill campus had an initial lease ending in 2020, which has been extended to 2025. The Eastgate campus facilities are leased for an initial 10-year term until 2028 with the option for two additional 10-year extensions. The Nellis Air Force Base facility has a long-term lease arrangement (30-year ground lease with two additional five year extensions and a final renewal period of three years) and has been provided rent free for the academy's use because more than 90% of enrolled students are military connected. We understand the academy's current contract only mandates 20% of enrolled students have this designation. The academy also has a small central office lease, which the school plans to renew.

Outlook

The stable outlook reflects our expectation that over the two-year outlook period, CASLV will continue to generate positive operating performance, and improve lease adjusted MADS coverage and liquidity in fiscal 2018 and beyond. Additionally, we expect enrollment and academic performance to remain stable and for the academy to receive a full six-year renewal from its authorizer.

Downside scenario

We could take a negative rating action if demand and enrollment deteriorate, delays in construction or additional cost overruns lead to operating deficits and weakened MADS coverage, or liquidity from current levels. Any additional debt--although not currently planned, according to management--may result in a negative rating action, as we believe the academy has limited capacity for additional debt at the current rating level.

Upside scenario

A positive rating action is unlikely during the outlook period as we believe the academy has to grow into its higher debt levels, however, we could consider such an action over time, if the school can improve lease adjusted MADS coverage, grow liquidity, and reduce the debt burden to levels more commensurate with a higher rating, while maintaining a steady demand profile.

Enterprise Profile

Economic fundamentals

CASLV is in Clark County, which covers more than 8,000 square miles in southern Nevada and encompasses Las Vegas, Henderson and Boulder City, where the charter school operates. The county's minor population is healthy at about 702,000 and 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 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 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. Enrollment has grown materially over the past few years, with the opening of the Nellis campus, Centennial Hills campus and most recently the Eastgate campus. This has led to significant enrollment growth, averaging 36% over the past three years. Fall 2018 enrollment was 3,694 compared to 2,925 for fall 2017. We expect enrollment growth to moderate going forward as the new Nellis building will accommodate 100 additional students. Management has communicated plans to reorganize the distribution of its grades served for its Henderson-area campuses. However, we understand the changes were to promote a more consistent feeder pattern and is not expected to have an effect on overall enrollment levels. CASLV's waitlist, which management updates continually throughout the year is 4,390 as of fall 2018, or what we view as a solid 119% of enrollment. CASLV does not have an enrollment cap, and we understand the school has no additional growth plans currently.

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 97% graduation rate as good. The school is only one of two charter schools within the state of Nevada that is a governor's designated STEM school. The number of students taking advanced placement tests and scoring a '3' or higher improved to 83% as of August 2018, which compares favorably to the state of Nevada and global test scores.

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 understand the school is currently undergoing the renewal process and that all indications are positive for a full renewal, which would be for a six-year term. The authorizer speaks highly of the school, which it considers a high performing charter and grants them a one page expedited renewal process.

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, Arizona, 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.

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 analyze the materiality, strategy, and funding of pension plan separately from our analysis of a school's long term debt ratios or operating margin. Consequently, we may make certain adjustments to the calculations of debt ratios or operating margin for schools with substantial multiemployer cost-sharing defined benefit pension 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

CASLV's financial performance can be characterized by consistently positive operating margins and sufficient 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 a $1.33 million full-accrual surplus, or 6.6% margin, after adjusting for accrued pension expenses. EBIDA was approximately $2.22 million or 11.07%.

Based on the fiscal 2018 unaudited figures, pro forma lease-adjusted MADS coverage is 1.24x, after incorporating bond issuance costs, which we believe is still good for the rating. This figure incorporates the additional leases at the Windmill campus, Tamarus campus, Centennial Hills campus, a small central office lease, and a one-time cost to reimburse the government for administrative expenses at the Nellis campus. Management projects a stronger surplus in fiscal 2019, primarily driven by the increase in revenue from the additional students at the Eastgate campus. We believe this should help to strengthen MADS coverage to around 1.4x to 1.6x. While we expect operating expenditures to increase given the expansion costs, we expect CASLV to maintain balanced operations, such that financial performance remains steady and MADS coverage remains consistent with the rating level.

Liquidity and financial flexibility

The school's unrestricted reserves have continued to grow over the past few fiscal years, although days' cash on hand as a measure of expenses have not kept up with peer medians. This is due to the school's growing expense base, which has rapidly increased due to the school's expansions. In fall 2016, CASLV opened its Centennial and Nellis campuses, which increased expenses by nearly $8 million. As of fiscal year-end 2017, the school had approximately 98 days' cash on hand, which we consider relatively low for the rating level. However, based on fiscal 2018 unaudited results, we expect days' cash on hand to improve to over 100 days'. Management indicates it does not currently plan to draw down cash. We expect continued positive operating performance to improve the school's liquidity position back toward historical levels.

CASLV's pro forma unrestricted reserves as a percent of debt for fiscal 2017 was 12.2%, which is low for the rating and reflects the significant increase in debt from the series 2017 and series 2018 bonds.

Debt burden

CASLV has $40.38 million in pro forma long-term debt outstanding. Pro forma debt includes the series 2014 bonds, series 2017 bonds and the proposed series 2018 bonds. The series 2014 bonds financed the costs of acquiring the school's Sandy Ridge facilities. The series 2017 bonds financed the school's acquisition of its Centennial Hills facilities. Pro forma lease-adjusted MADS is $3.72 million occurring in fiscal 2023, translating to a moderately high debt burden 16% of fiscal 2018 revenues (unaudited). The school does not currently have any additional contingent liabilities or off-balance-sheet debt. As with many charter schools, the organization's debt-to-capitalization ratio shows significant debt on the balance sheet. For fiscal 2017, the pro forma figure was 89.5%, which shows high leverage for the rating level.

CASLV contributes to the Public Employees Retirement System of the state of Nevada (PERS) a defined benefit cost-sharing multiple-employer program and all full-time employees are covered under the system. We view the plan as somewhat low funded at 75%. Annual contributions for CASLV in 2017 was $1.94 million or 10.3% of expenses and is expected to fall slightly to 8.8% based on 2018 unaudited figures, which we believe is approaching a level that could signal budgetary stress. We will continue to monitor the funding effect on the school's budget should contribution requirements increase significantly. For more information on the plan, please see the debt and liabilities section in the report published Oct. 4, 2017, on RatingsDirect.

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, Nev.: Enterprise & Financial Statistics

	--Fiscal year ended June 30--					**--Medians for 'BBB-' rated charter schools--**
Enrollment	**2019**	**2018***	**2017**	**2016**	**2015**	**2017**
Total headcount	3,694	2,925	2,738	1,566	1,488	1,020
Total waiting list	4,390	2,994	2,206	2,243	2,766	MNR
Waiting list as % of enrollment	118.80	102.40	80.60	143.20	185.90	39.70
Financial performance						
Total revenues ($000s)	N.A.	23,546	20,078	10,885	10,996	9,796
Total expenses ($000s)	N.A.	22,101	18,745	10,371	9,524	MNR
EBIDA ($000s)	N.A.	2,815	2,222	1,069	2,409	MNR
EBIDA margin (%)	N.A.	12.00	11.10	9.80	21.90	16.40
Excess revenues over expenses ($000s)	N.A.	1,445	1,333	514	1,472	MNR
Excess income margin (%)	N.A.	6.10	6.60	4.70	13.40	4.40
Operating lease expense	N.A.	1,086	1,264	655	701	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	N.A.	1.98	1.34	2.33	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	N.A.	8.80	11.80	12.10	MNR
Lease-adjusted annual debt service burden (% total expenses)	N.A.	N.A.	9.40	12.40	14.00	MNR
MADS ($000s)	N.A.	N.A.	1,983	1,323	1,323	1,107
Lease-adjusted MADS coverage (x)	N.A.	N.A.	1.76	1.30	2.35	1.50
Lease-adjusted MADS burden (% total revenues)	N.A.	N.A.	9.90	12.20	12.00	11.80
Lease-adjusted MADS burden (% total expenses)	N.A.	N.A.	10.60	12.80	13.90	MNR

Coral Academy of Science-Las Vegas, Nev.: Enterprise & Financial Statistics (cont.)						
Pro forma MADS ($000s)	N.A.	3,716	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	1.24	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	15.80	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total expenses)	N.A.	16.80	N.A.	N.A.	N.A.	MNR
Total revenue per student ($)	N.A.	8,050	7,333	6,951	7,390	MNR
Balance sheet metrics						
Days' cash on hand	N.A.	N.A.	97.61	153.90	185.99	143.20
Total long-term debt ($000s)	N.A.	N.A.	9,070	9,070	9,200	MNR
Unrestricted reserves to debt (%)	N.A.	N.A.	54.10	48.00	50.70	24.40
Unrestricted net assets as % of expenses	N.A.	N.A.	25.80	38.30	41.00	33.90
General fund balance ($000s)	N.A.	N.A.	5,060	3,949	3,757	MNR
Debt to capitalization (%)	N.A.	N.A.	65.30	69.30	70.70	83.00
Debt per student ($)	N.A.	N.A.	3,262	5,702	6,095	13,891
Pro forma metrics						
Pro forma unrestricted reserves ($000s)	N.A.	N.A.	4,908	N.A.	N.A.	MNR
Pro forma days' cash on hand	N.A.	N.A.	98	N.A.	N.A.	MNR
Pro forma long-term debt ($000s)	N.A.	40,385	40,385	9,070	9,200	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	12.20	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	N.A.	90.00	70.00	71.00	MNR
Pro forma debt per student ($)	N.A.	N.A.	14,750	5,792	6,183	MNR

*Unaudited. 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)