Choices in Learning Elementary Charter School, Florida; Charter Schools

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Credit Profile		
ICR		
Long Term Rating	BBB-/Stable	New

Rationale

S&P Global Ratings assigned its 'BBB-' issuer credit rating (ICR) to Choices in Learning Elementary Charter School (CIL), Fla. The outlook is stable.

The ICR reflects our opinion of the obligor's overall capacity and willingness to meet financial obligations, and is not specific to any particular bond series.

We assessed CIL's enterprise profile as adequate, characterized by its long history of operations, steady enrollment, excellent academics, very healthy student retention, and stable management team. We assessed CIL's financial profile as adequate, characterized by its healthy liquidity position and sufficient maximum annual debt service (MADS) coverage. The financial profile is constrained by our view of the organization's small operating base and moderately high debt burden. We believe that, combined, these credit factors led to an indicative stand-alone credit profile of 'bbb-' and a final rating of 'BBB-'.

The rating reflects our opinion of the school's:

- Solid enterprise profile, with excellent academic performance, steady enrollment, and very healthy student retention;
- Relatively long history as a charter school with close to 20 years of operations;
- History of successful charter renewals, with the most-recent charter term extending to 2024; and
- Healthy liquidity and acceptable MADS coverage at fiscal year-end 2018.

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

- The school's small operating base, with less than $6 million in annual operating revenue;
- The school's moderately high debt profile with a lease-adjusted MADS burden of about 13% of fiscal 2018 revenue; and
- The risk, as with all charter schools, that the school's charter authorizer can close it for nonperformance of its charter or financial distress prior to the bonds' final maturity.

As of Fiscal 2018 year end, CIL's total debt consisted of the organization's series 2010 bonds with $9.2 million outstanding. The school used series 2010 bond proceeds to build a new facility, and it commenced operations at the facility in November 2011. During fiscal 2019, the organization refunded the debt with a loan from the charter impact fund for interest cost savings. The debt calculations in this analysis are based on payments required on the charter impact loan.

CIL is a single-site, kindergarten-through-fifth-grade charter school in its 17th year of operations. CIL's mission is to cultivate academic excellence in all students.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that during the two-year outlook period, the school will likely sustain enrollment near current levels while maintaining its waitlist, coupled with its maintaining exceptional academic performance and liquidity at current levels. We also expect CIL will likely minimally maintain financial performance near historical levels, resulting in MADS coverage consistent with its peers at the current rating. We do not expect officials to issue additional debt over the outlook period.

Downside scenario

During the outlook period, we could lower the rating or revise the outlook to negative if liquidity were to decline; MADS coverage were to weaken from current levels; or the demand profile were to weaken, including enrollment declines to levels we no longer consider commensurate with those of peers at the current rating.

Upside scenario

We believe a positive rating action is unlikely during the outlook period due to the school's relatively small size coupled with its current debt load. However, we could raise the rating or revise the outlook to positive over the long term if the school's financial profile, including MADS coverage and debt burden were to improve to levels we consider consistent with its higher-rated peers.

Enterprise Profile

CIL is in Seminole County. The county's minor population is healthy at about 137,000; officials expect the population to remain stable with projections indicating a modest decline of less than 1% over the next five years.

Market position

We view the school's enrollment-and-demand profile as sound, supported by steady enrollment in conjunction with very healthy student retention. Total enrollment has remained stable recently with about 1% to 3% increases in headcount over the past three years. There is no limit to the number of students under the charter's terms, but the school must adhere to statewide limits on average class size. The school does not currently plan to increase enrollment materially over the next few years, and we expect enrollment will likely remain steady at about the school's desired capacity during the next two years. For fall 2018, student enrollment totaled 714. CIL's waitlist, which management purges annually, was 314, or, what we view as, a sufficient 44% of enrollment, for fall 2018. There is one kindergarten-through-fifth-grade school and one kindergarten-through-eighth-grade school within 15 miles of CIL's facility.

CIL's impressive academic programs allow it to maintain, what we consider, a good market share. The school outperformed its local school district and state peers in the state's standardized test scores. Historically, the school's standardized test scores have been very good, receiving an 'A' ranking by the state's education department for consecutive years since 2007-2008. The state recently issued rankings for all Florida schools; CIL was ranked first in a majority of academic-performance tests in Seminole County and ninth in the state out of about 1,826 elementary schools statewide. We expect no significant changes to the school's demand profile over the next few years.

We view the school's standing with the authorizer as good. CIL has held its charter with Seminole County Public School District, the authorizer, for more than 15 consecutive years; it has renewed the charter three times, most recently in 2009, extending through 2024.

The school primarily derives operating revenue from the state through per pupil operating revenue to the charter authorizer, which deducts a 2.5% administrative fee, capped at the first 250 students, and remits the revenue to the charter school. The statutory framework assessment reflects our opinion that while there could be some areas of risk, the framework is not likely to negatively affect CIL's future ability to pay debt service. State per pupil funding has been stable; funding is $7,408 per student for fiscal 2019 compared with $7,306 for the previous school year. Management indicates the funding environment in Florida is stable, and it expects per pupil funding will increase modestly during the next few years.

Management and governance

CIL's senior management team and board of directors have been stable with no turnover at the board level outside of normal rotations. Management employs a full-time, in-house finance officer and uses a financial accountant to address operational and financial risks annually. The school provides quarterly financial reports to the charter authorizer; the relationship between the two entities is good, according to both the school and the authorizer. CIL reports there have been no changes at the leadership level over the past year.

A five-member board of trustees, with no term limits, including a parent representative, governs the school. Management indicates there have been no changes at the board outside of normal turnover and anticipates filling one vacant position on the board during the summer months. In our opinion, the school's management team is good and stable.

We expect stability in leadership over the next two years will likely help the school meet its short-term operational and academic goals. We expect the school will likely continue to establish and enforce its internal controls and bolster its risk-and-financial-management initiatives, as well as deepen its strategic planning goals. In our view, management appears to be proactively assessing the school's long- and short-term needs and developing a strategy to meet those goals. Management handles financial operations acceptably. However, we would view more-aggressive financial-performance goals favorably because the school has a small total revenue base and limited enrollment-growth plans.

Financial Profile

Financial performance

The school reports a financial performance with nearly break-even operating margins and sufficient lease-adjusted MADS coverage. For fiscal year-end June 30, 2018, the school produced an EBIDA margin of 18.6%, or approximately $1.06 million, which translated to 1.6x MADS coverage, including a small operating lease. Furthermore, in fiscal 2018, the school produced a full-accrual surplus of $18,000, or a 0.3% margin.

Management expects a similar full-accrual surplus for fiscal 2019, maintaining its acceptable MADS coverage for the credit rating. We do not expect the organization's operating base to expand materially over the next few fiscal years. We think rating maintenance depends on the stability of financial performance. Due to its limited-growth plans, we expect the school will likely continue to balance operations by controlling expenditure growth annually. Management indicates it has budget flexibility to reduce staff-related expenditures, which we view positively. We view the school's operations as somewhat limited by an overall revenue base of less than $6 million.

Liquidity and financial flexibility

We consider the school's balance sheet a credit strength, providing some flexibility at the current rating. Liquidity has grown significantly over the past few fiscal years. As of fiscal year-end 2018, the school had 156 days' cash on hand, which we consider solid for the rating. We recognize management does not currently plan to draw down cash. We expect continued positive operating performance will likely assist the school in maintaining its healthy liquidity. CIL's unrestricted reserves, as a percent of debt, were 24% for fiscal 2018, which we view as acceptable for the rating.

Debt

The school has about $9 million of debt with level annual lease-adjusted debt service payments of approximately $751,000; this translates to moderately elevated debt of about 13.1%. The school does not have any additional contingent liabilities or off-balance-sheet debt. While we view the school's debt as somewhat elevated for the rating, we understand officials do not currently plan to take on additional debt. We believe overall debt should decrease as operations grow due to expected increases in state funding.

As with many charter schools, the organization's debt-to-capitalization ratio shows significant debt on the school's balance sheet; for fiscal 2018, the ratio was 86.2%. We view the school's debt as a constraining rating factor, but we expect these ratios will likely continue to improve over time.

Financial policies

The school has formal investment-allocation, liquidity, and debt policies. CIL 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, liquidity, debt profile, contingent liabilities, and legal structure; we compare these policies with those of comparable providers.

Choices in Learning Elementary Charter School, Fla.--Enterprise and Financial Statistics

	--Fiscal year ended June 30--			
	2019	2018	2017	2016
Enrollment				
Total headcount	714	692	681	674
Total waiting list	314	204	125	108
Waiting list as % of enrollment	44.0	29.5	18.4	16.0
Financial performance				
Total revenues ($000s)	N.A.	5,724	5,518	5,334
Total expenses ($000s)	N.A.	5,706	5,453	5,348
EBIDA ($000s)	N.A.	1,067	1,081	1,024
EBIDA margin (%)	N.A.	18.6	19.6	19.2
Excess revenues over expenses ($000s)	N.A.	18	65	(14)
Excess income margin (%)	N.A.	0.3	1.2	(0.3)
Operating lease expense	N.A.	134	134	137
MADS ($000s)	N.A.	957	957	960
Lease-adjusted MADS coverage (x)	N.A.	1.25	1.27	1.21
Lease-adjusted MADS burden (% total revenues)	N.A.	16.7	17.3	18.0
Pro forma MADS ($000s)	N.A.	751	N.A.	N.A.
Pro forma lease-adjusted MADS coverage (x)	N.A.	1.60	N.A.	N.A.
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	13.1	N.A.	N.A.
Total revenue per student ($)	N.A.	8,271.7	8,102.8	7,913.9
Balance sheet metrics				
Days' cash on hand	N.A.	156.11	155.52	148.65
Total long-term debt ($000s)	N.A.	9,205	9,340	9,465
Unrestricted reserves to debt (%)	N.A.	24.0	22.6	20.8
Unrestricted net assets as % of expenses	N.A.	28.0	28.7	36.5
General fund balance ($000s)	N.A.	3,097	3,059	2,908
Debt to capitalization (%)	N.A.	86.2	86.6	84.1
Debt per student ($)	N.A.	13,473	13,913	14,269

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).