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## Sarasota County, Florida Sarasota School Of Arts & Sciences; Charter Schools

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# Sarasota County, Florida

## Sarasota School Of Arts & Sciences; Charter Schools

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US\$0.0 mil ICR (Sarasota Sch of Arts & Sciences)		
<i>Long Term Rating</i>	BBB-/Stable	New
<b>Sarasota Cnty, Florida</b>		
Sarasota Sch of Arts & Sciences, Florida		
Sarasota Cnty (Sarasota Sch of Arts & Sciences) Charter Sch		
<i>Long Term Rating</i>	BBB-/Stable	Affirmed

### Rating Action

S&P Global Ratings assigned its 'BBB-' issuer credit rating (ICR) and stable outlook on Sarasota School of Arts & Sciences (SSAS), Fla. and affirmed its 'BBB-' rating, with a stable outlook, on SSAS' series 2010 educational facilities revenue debt.

The ICR reflects our opinion of SSAS' overall capacity and willingness to meet financial obligations but is not specific to any particular bond series.

SSAS had about \$9.57 million of long-term debt at fiscal year-end 2019 with level debt service of about \$830,000. The debt is entirely fixed-rate series 2010 bonds, secured by a mortgage and security interest on the facilities. School revenue, defined under the loan-and-trust agreement, secures the bonds.

Bond provisions require SSAS to maintain debt service coverage of, at least, 1.1x each fiscal year and an unrestricted cash balance at fiscal year-end of, at least, 5% of previous-year operating expenses, excluding debt service. Management, however, currently plans to secure an Equitable Facilities Fund (EFF) loan of roughly \$9.5 million to refinance series 2010 bonds.

We understand that due to COVID-19 and broader public-safety concerns, Florida Gov. Ron DeSantis announced the closure of schools for, at least, the duration of school year 2019-2020. SSAS transitioned to a remote-learning curriculum, using app-based programs. Management attributes minimal costs to the transition because it used existing grants to support the purchase of iPads and the application of learning resources.

Despite uncertainty regarding the duration and extent of COVID-19 and the related effects on SSAS' performance, including the ability to resume classes and absorb unreimbursed additional costs, we expect Florida per-pupil funding to continue for fiscal 2020. Florida's fiscal 2021 budget will begin on July 1, 2020; while it approved the budget on March 19, the budget reflects revenue estimates pre-COVID-19. Management is projecting some fiscal 2021 cuts due to COVID-19, such as reducing the large step increase for salaries of teachers hired in fiscal 2021 because the revenue

might not be there. While the official level is unknown, management is stress testing for various scenarios.

We will continue to monitor state-funding developments or any potential effects of recessionary pressure on SSAS and take any action we deem appropriate. In our opinion, SSAS has sufficient liquidity at the current rating, with more than 115 days' cash on hand, to withstand moderate funding cuts.

### **Credit overview**

We assessed SSAS' enterprise profile as adequate, characterized by its long operating history, supported by solid demand, excellent academics, and stable management. We assessed SSAS' financial profile as adequate, characterized by positive operating margins, satisfactory liquidity for the rating, and moderately high debt. We think that, combined, these credit factors led to a standalone credit profile of 'bbb-' and a final rating of 'BBB-'.

The rating reflects our opinion of SSAS':

- Long operating history of more than 20 years and a good relationship with Sarasota County School Board, the charter authorizer, including about \$1 million of support in the form of levies for capital and equipment that should continue in fiscal 2021, according to preliminary reports;
- Solid enterprise profile, reflecting good demand and high academic performance; and
- Sufficient pro-forma maximum annual debt service (MADS) coverage at more than 1.54x in fiscal 2019, with an expectation of similar results for fiscal 2020.

We believe somewhat offsetting strengths are, what we consider, SSAS':

- Small student enrollment of about 750 in fall 2019, or total revenue of less than \$10 million;
- Moderate liquidity at more than 100 days' cash on hand at fiscal year-end 2019, which we consider sufficient for the rating; and
- Risk, as with all charter schools, that the charter authorizer could close SSAS for nonperformance of its charter or financial distress before the bonds' final maturity.

SSAS, which has been operating for more than 20 years, is a sixth-through-eighth-grade public charter school, 70 miles south of Tampa. Its mission is to educate the whole student and foster a collegial program that challenges each learner with rigorous academics, innovative strategies, and expectations for civic engagement. SSAS, which operates one facility, is one of Florida's leading middle schools.

The stable outlook reflects S&P Global Ratings' opinion that during the next two years, SSAS will likely maintain a solid financial profile by continuing to generate full-accrual positive operations, sustain healthy MADS coverage, and maintain sufficient liquidity for the rating. We expect SSAS' enterprise profile will likely continue to reflect its excellent academics and stable enrollment near facility capacity.

### **Environmental, social, and governance factors**

In our view, SSAS has exposure to elevated health-and-safety social risk due to the recession's effect on state funding and SSAS dependency on state revenue. Despite elevated social risk, we think SSAS' environmental and governance risks are in-line with our view of sector standards.

## Stable Outlook

### Downside scenario

We could lower the rating if enrollment were to deteriorate, which would significantly weaken our view of SSAS' financial operations. Although we think that SSAS has taken steps to address COVID-19 and that it understands the virus is a global risk, we could lower the rating or revise the outlook to negative during the two-year outlook if unforeseen COVID-19-related pressure were to affect SSAS' demand, finances, or trajectory materially.

### Upside scenario

Although it is unlikely, we could raise the rating if SSAS were to maintain liquidity, improve MADS coverage, and lower MADS burden to levels we consider more consistent with higher-rated peers while maintaining enrollment, demand, and excellent academic performance.

## Credit Opinion

## Enterprise Profile

SSAS is in Sarasota County. The county's minor population is healthy at about 85,000. Population should grow materially with projections indicating an increase of 4.3% during the next five years.

### 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, profitability, substitution risk, and growth observed in the industry. We think the charter-school sector represents a moderately high credit risk compared with other industries and sectors.

### Market position

We view SSAS' enrollment and demand as steady, supported by stable enrollment, coupled with a satisfactory waitlist. Total enrollment has remained relatively stable because SSAS reached facility capacity in fiscal 2012. There are two competing sixth-through-eighth-grade campuses within 11 miles of SSAS, both of which have differing approaches to instruction, making direct comparisons inefficient.

For fall 2019, student enrollment totaled 751. The waitlist, which management purges annually, was 328, or a satisfactory 44% of enrollment, in our view. Although SSAS does not have an enrollment cap, it has been operating at near the 750-student facility capacity for more than eight years. SSAS' impressive academic programs allow it to maintain an excellent market share, in our opinion. Management does not currently plan to expand to elementary or high schools, and we expect no significant changes to SSAS' demand profile during the next few years.

We view SSAS' standing with the charter authorizer as very good. SSAS has held its charter with Sarasota County School Board, the authorizer, for more than 20-consecutive years; the authorizer has renewed the charter twice, most recently in July 2013, extending it through June 2028. The authorizer has historically provided financial support for

capital projects and equipment purchases in the form of millage levies. We view the authorizer's consistent and nominal financial support as a credit strength.

State per-pupil funding has been relatively stable, in our view, since significant cuts in fiscal 2012. Per-pupil funding was \$8,544 for school year 2019-2020 compared with \$8,334 for school year 2018-2019. For fiscal 2021, per-pupil funding is uncertain due to potential recessionary pressure effects on funding; we, however, expect that SSAS will likely maintain positive operations and that it will likely continue to monitor potential effects on state funding.

### **Management and governance**

SSAS' senior management and board of directors have been stable, and some members have been in place since its founding. Management employs a full-time, in-house finance officer; it does not use a management company or contract with a third-party service provider. Management has not changed senior leadership, and it does not currently expect to do so during the two-year outlook. The board remains very supportive of management and its ability to handle day-to-day operations. Although Florida charter schools are not required to adopt a school-improvement plan, unlike public school counterparts, SSAS has a plan, for which it has routinely met the targets.

In our view, management actively assesses its long-term goals and applies solutions to meet those goals. SSAS has set high academic standards that continue to strengthen its overall market profile. In our view, management oversees financial operations acceptably. We view management as solid, and we expect no management changes during the next few years.

## **Financial Profile**

### **Financial performance**

Consistently positive operating margins, with improved pro forma lease-adjusted MADS coverage, characterize SSAS' financial performance. Management partially attributes financial performance to savings from the proposed refunding loan provided by EFF and consistent operating performance. It also attributes consistent performance to stable enrollment, state funding, and an ability to keep expense growth modest. In addition, SSAS receives more than \$1 million of additional revenue from two authorizer-approved levies; this equals about 15% of total revenue.

For fiscal year-end June 30, 2019, SSAS produced an EBIDA margin of 16%, or about \$1.15 million, which translated to 1.54x pro forma MADS coverage, down slightly from 2.1x in fiscal 2018 due to higher-than-normal local funding. Furthermore, in fiscal 2019, SSAS produced a \$25,000 full-accrual surplus, or a 0.35% margin.

Based on year-end management projections and discussions, we expect fiscal 2020 to be positive with margins closer to historical levels. We expect some softening of financial performance beyond fiscal 2020 due to potential budgetary effects from recessionary pressure on SSAS. Despite potential for per-pupil cuts, we expect management will likely maintain financial performance consistent with the rating.

We view SSAS' opportunities for revenue growth as limited due to it only serving sixth-through-eighth grades. In our opinion, SSAS does not have any imminent plans to expand operations; therefore, we do not expect the organization's operating base to grow materially during the next few years due to current enrollment and potential funding pressure. We posit SSAS will likely maintain margins commensurate with the rating due to its access to authorizer-approved

levies and the fact it only pays a 2% charter-school-sponsor fee--out of a possible 5%--on its full-time-equivalent enrollment due to high academics and state financial scores.

### Liquidity and financial flexibility

SSAS' liquidity has improved significantly during the past few years. At fiscal year-end 2019, SSAS had 115 days' cash on hand, which we consider satisfactory for the rating, up from 71 days' in fiscal 2015. Management does not intend to draw down cash. We expect continued positive operating performance will likely assist management with maintaining cash commensurate with the rating.

Unrestricted reserves for fiscal 2019 were 21.5% of debt, which we view as acceptable for the rating. SSAS has increased unrestricted net assets recently. Unrestricted net assets nearly doubled between fiscal years 2015 and 2019, and we expect further growth in fiscal 2020. Still, unrestricted reserves lag medians. Continued growth is necessary before SSAS firmly establishes cash we consider comparable with its peers.

### Debt

SSAS' total debt, at June 30, 2019, was \$9.885 million, including 2010 bonds and a small capital lease. SSAS expects to refund this debt with an EFF loan, at which point total debt should be \$9.5 million. Pro forma lease-adjusted MADS is \$669,000, occurring in fiscal 2021. This translates to moderately high debt, in our view, of about 9.3% of revenue. SSAS does not have any additional contingent liabilities or off-balance-sheet debt. While we view debt as in-line with the rating, it precludes a higher rating. SSAS does not currently plan to take on additional debt.

As with many charter schools, the organization's debt-to-capitalization ratio shows significant debt on the balance sheet. For fiscal 2019, the ratio was 87%, slightly improved from above 94.4% in fiscal 2015. We think overall debt reduction will be gradual due to limited flexibility to increase revenue because of the current student model. Nevertheless, officials have demonstrated an ability to manage at or near facility capacity for more than five years, supporting the current rating.

### Financial policies

SSAS has formal investment-allocation; conflict-of-interest; and internal-controls policies, as well as other routine practices. SSAS meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that while there could be some 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 similar providers.

## Sarasota School Of Arts & Sciences, Fla.--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					--Medians for 'BBB'- rated charter schools--
	2020	2019	2018	2017	2016	2018
<b>Enrollment</b>						
Total headcount	751	751	753	749	751	1,098
Total waiting list	328	347	253	390	315	MNR
Waiting list as % of enrollment	43.7	46.2	33.6	52.1	41.9	35.3

## Sarasota School Of Arts &amp; Sciences, Fla.--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					--Medians for 'BBB-' rated charter schools--
	2020	2019	2018	2017	2016	2018
<b>Financial performance</b>						
Accounting standard	GASB	GASB	GASB	GASB	GASB	N.A.
Total revenues (\$000s)	N.A.	7,208	7,545	6,877	6,739	10,832
Total expenses (\$000s)	N.A.	7,183	6,878	6,576	6,417	MNR
EBIDA (\$000s)	N.A.	1,147	1,807	1,418	1,440	MNR
EBIDA margin (%)	N.A.	15.9	23.9	20.6	21.4	15.8
Excess revenues over expenses (\$000s)	N.A.	25	667	301	322	MNR
Excess income margin (%)	N.A.	0.3	8.8	4.4	4.8	5.4
Operating lease expense	N.A.	9	9	N.A.	N.A.	MNR
Pension/OPEB adjustments (\$)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Lease adjusted annual debt service (\$)	N.A.	845	855	835	834	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	1.37	2.12	1.70	1.73	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	11.7	11.3	12.1	12.4	MNR
MADS (\$000s) (change to Lease adjusted MADS)	N.A.	852	844	835	835	1,244
Lease-adjusted MADS coverage (x)	N.A.	1.36	2.15	1.70	1.72	1.60
Lease-adjusted MADS burden (% total revenues)	N.A.	11.8	11.2	12.1	12.4	11.1
Pro forma MADS (\$000s)	N.A.	669	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	1.73	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	9.3	N.A.	N.A.	N.A.	MNR
Total revenue per student (\$)	N.A.	9,597.9	10,019.9	9,181.6	8,973.4	MNR
<b>Balance-sheet metrics</b>						
Unrestricted reserves (\$)	N.A.	2,118	2,053	1,601	1,429	MNR
Days' cash on hand	N.A.	115.18	117.09	95.31	86.90	146.80
Total long-term debt (\$000s)	N.A.	9,885	10,070	10,255	10,414	MNR
Unrestricted reserves to debt (%)	N.A.	21.5	20.4	15.6	13.8	25.9
Unrestricted net assets as % of expenses	N.A.	20.9	23.6	17.9	14.5	31.7
Debt to capitalization (%)	N.A.	87.3	86.7	90.2	92.1	84
Debt per student (\$)	N.A.	12,875	13,098	13,413	13,571	13,975
<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.	9,570	10,070	10,255	10,414	MNR

## Sarasota School Of Arts &amp; Sciences, Fla.--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					--Medians for 'BBB'- rated charter schools--
	2020	2019	2018	2017	2016	2018
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	87	87	90	92	MNR
Pro forma debt per student (\$)	N.A.	12,743	13,373	13,692	13,867	MNR

MADS--Maximum annual debt service. GASB--Governmental Accounting Standards Board. OPEB--Other postemployment benefits. 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 equals EBIDA plus operating lease expense. Lease-adjusted MADS coverage equals (net revenue available for debt service plus operating lease expense) / (Lease-adjusted MADS). Total expenses include pension and OPEB adjustments. Pension and OPEB adjustments equals reconciling adjustments made to financial information to account for differences in GASB Nos. 68 and 75. N.A.--Not available. MNR--Median not reported.

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