

RatingsDirect®

Palm Beach School For Autism, Inc.; Charter Schools

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ICR		
<i>Long Term Rating</i>	BB+/Stable	New

Rating Action

S&P Global Ratings assigned its 'BB+' issuer credit rating (ICR) to the Palm Beach School for Autism Public Charter School (PBSFA). The outlook is stable.

An ICR reflects an obligor's general creditworthiness, focusing on its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation, because it does not take into account the obligation's nature and provision, standing in bankruptcy or liquidation, statutory preferences, or legality and enforceability.

PBSFA was founded in 1996 with the mission of providing innovative education and behavioral support to empower individuals with autism. PBSFA has created a new entity, Palm Beach School for Autism Properties, LLC, that will be the borrower and lessor, for the purpose of entering into a maximum \$15 million loan from the Equitable Facilities Fund (EFF) to acquire the building PBSFA is currently leasing, as well as the neighboring building, currently occupied by a private daycare provider. Upon loan closing, PBSFA and the daycare provider are expected to be tenants of their respective facilities and the borrower is to be the lessor. The EFF loan is a general obligation of PBSFA, secured by the school's revenues and a first-mortgage lien on the financed property. Pro forma debt consists solely of the EFF loan.

Credit overview

We assessed PBSFA's enterprise profile as adequate, characterized by steady enrollment serving a niche population, as well as its lengthy charter history, one of the longest in the state of Florida, and experienced, highly capable management team. We assessed the school's financial profile as adequate, supported by a history of positive operations, significant per-pupil funding, and reserves in line with 'BB+'-rated peers.

While enrollment has grown in recent years and student retention is high, we have made a holistic adjustment down one notch, attributable to the income margin and days' cash on hand being more indicative of a final 'BB+' rating.

The rating reflects our view of PBSFA's:

- High regard in the autism community, as one of the largest enrollments of any autism-focused school in the country, as well as one of the lengthiest operating histories;
- Continuity of PBSFA's management and board, which we consider highly capable;
- Solid pro forma lease-adjusted maximum annual debt service (MADS) coverage at 1.7x, in line with the rating and the expectation of maintaining near-current levels; and

- Significant per-pupil funding levels, attributable to the school's unique population.

Partially offsetting these credit strengths, in our opinion, are PBSFA's:

- Relatively small enrollment and limited waitlist, which makes PBSFA susceptible to demographic or funding changes;
- Significant leverage on a debt-per-student basis, and
- Days' cash on hand, which, while in line for the rating, provides limited financial flexibility.

The stable outlook reflects our expectation that PBSFA will maintain its enrollment, which is expected to grow to facility capacity in fall of 2021, preserve its academic performance relative to peers, maintain MADS coverage near pro forma levels, and continue growing days' cash on hand in line with current medians. We do not expect PBSFA to issue additional debt during the outlook period.

Located in Lake Worth, Florida, PBSFA serves a niche market, only enrolling students who have Autism Spectrum Disorder (ASD) listed on their Individualized Education Program. The school has a lengthy operating history, PBSFA was founded in 1996, before charter school authorization began in the state of Florida, and has been operating as a charter school since 1998. PBSFA enrolls a small number of students, currently with 376 students aged 3-22. The building capacity is 406 students and PBSFA intends to enroll to capacity in the fall of 2021. The authorizer, Palm Beach County School District, reauthorized the school in 2019 for 15 years through 2034, the state maximum.

PBSFA consistently posts positive income margins and has adequate pro forma MADS coverage. The proposed debt per student is elevated for the sector. We believe that, combined, these credit factors lead to an anchor rating of 'bbb-', adjusted to 'BB+' to account for the debt per student.

The outlook is stable, characterized by a steady demand profile with enrollment at the building capacity, levelled debt service schedule from the proposed financing, and revenue from leasing a second building on the property to be purchased. Therefore, we expect coverage to remain in line for the rating level.

Environmental, social, and governance factors

We view the risks posed by COVID-19 to public health and safety as an elevated social risk for the charter sector under our environmental, social, and governance (ESG) factors, due to potential impacts on per-pupil funding beyond the near-term support provided by additional federal relief. The school is in Palm Beach County, Florida, which has elevated risk as a result of rising sea levels, hurricanes, and flooding; however, the PBSFA campus is approximately nine miles inland, and has relatively limited exposure to flooding events. Despite the elevated social and risk, we consider the school's environmental and governance risks in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We could consider a negative rating action should PBSFA fail to meet its enrollment targets, experience weakened MADS coverage, or experience a notable decline in liquidity. Though not currently planned, we would view a material

increase in debt negatively.

Upside scenario

We consider a positive rating action within our outlook period unlikely, due to PBSFA's small enrollment and relatively limited days' cash on hand compared with higher-rated peers. Beyond our outlook period, we could consider a positive rating action with a demonstration of sustained demand and significantly improved financial metrics, especially days' cash on hand.

Credit Opinion

Enterprise Profile

Market position

PBSFA, located in Palm Beach County, Florida, is the state's largest autism-focused school. The county's school-age population is significant, at about 382,000, and is expected to increase by 3.5% over the next five years through 2026. PBSFA's mission limits the number of students the school will be able to serve, and it does not maintain a significant waitlist. However, the school does have a lengthy track record of serving its target population, as evidenced by the consistently high level of student retention, over 90%.

The school is unique in that it offers programming for students in early childhood through traditional grades, and continues on until students are 22 years of age. Its 'Pre-K-12 plus' model is further strengthened by its Project Next programming, which provides life skills training for older students; Project Next has also helped increase and stabilize enrollment by providing a level of certainty for parents in how older students will develop skills and utilize their time well.

At full expansion into the pre-K-12 plus model, the school will have 406 students in fall 2021, at which point it will be at full capacity. Management expects enrollment to sustain itself at capacity for the near term.

We believe the school has an above-average academic profile compared with schools serving students with disabilities. PBSFA outperforms state and county peer groups on standardized testing. While not the only autism-focused school in South Florida, it is the only one in its section of Palm Beach County, further enhancing its market position.

Management and governance

Management has been in place for several years, including back to the founding of the school, which, as stated previously, predates the charter authorization laws of Florida. In our view, in addition to being experienced, the leadership team is highly capable, providing a solid foundation for the organization. To date, the team has managed financial performance well, building out its current leased space without carrying debt and maintaining positive margins annually. Additionally, the team is forward-looking and is anticipating how to grow enrollment when demand increases.

Additional oversight is provided by a seven-member board that is diverse in skillset and dedicated to the school, as evidenced by more than half of it serving for more than a decade. Additionally, a previous authorizer serves on the

board, which we consider as evidence of the quality of the authorizer relationship.

We view PBSFA's standing with the charter authorizer, Palm Beach County School District, as very good. The district provides financial and academic oversight, which is typical for its role as a state charter authorizer. Based on our communication with the authorizer, they report a good working relationship with PBSFA and do not report any concerns with governance, academics, compliance, and finances.

Financial Profile

Financial performance

PBSFA has a history of positive operations, with healthy margins attributable to recent enrollment growth and favorable per-pupil funding increases over the past several years. Because the state of Florida funds ASD students at a level that is \$15,000 above standard allotment, PBSFA is funded at a level comparable with an enrollment of 1,400 students.

For fiscal 2021, management is projecting softer margins from fiscal 2020, which was 4.2%. The slimmer margins, while still positive, are attributable to a decrease in revenue related to in-person and after-school services. With students returning to campus for full-time, in-person instruction in fall 2021, management is projecting a return closer to historical operations, attributable to an increase in funding from enrollment increasing, cost savings associated with owning the facility, and revenue from a lessee. Additionally, the school is projecting a significant increase in MADS coverage starting in fiscal 2022, closer to 2.0x coverage.

PBSFA has an allocation of \$71,155.63 in ESSER funding for the year ending June 2021. There is a second allocation of \$334,990.21 for the next fiscal year. The school has not submitted for any reimbursements to date. ESSER III funding amounts are not yet known, but management expects them to be greater in amount than ESSER II, which should provide for some operational flexibility in the upcoming fiscal year. ESSER III reimbursements are available for eligible spending through fiscal 2024.

Liquidity and financial flexibility

PBSFA maintains a good liquidity position for the rating level, at approximately 109 days' cash on hand, as per fiscal 2020 audited results. While we expect the school's cash position to grow based on year-end projected results for fiscal 2021, we do not expect a significant increase in days' cash on hand. Management reports it will not draw down on reserves to support the financing of the building, and we believe management is committed to maintaining its current cash position. As a result, we do not believe the school's liquidity position will be materially affected over the outlook period.

Debt burden

Pro forma debt consists solely of the \$15 million EFF loan, which we view as elevated relative to the size of the student body. This is tempered by the additional per-pupil funding the school receives from the state for enrolling a specialized population, but a drop in enrollment would present significant challenges. The pro forma MADS burden is a more modest 7.9%, lower than similarly rated peers. Management reports no immediate debt plans or significant capital needs, and we expect these debt measures to improve incrementally in the near term.

Bond provisions

Bondholders are provided operating and liquidity covenants. The liquidity and operating covenants require maintaining 60 days' cash on hand and 1.1x annual debt service coverage, respectively. Violations of these covenants for two consecutive years will result in default. The bond documents also require PBSFA to maintain high academic performance and consistent enrollment level.

Palm Beach School For Autism, Inc., Florida						
Enterprise and Financial Statistics						
	--Fiscal year ended --					Medians for 'BB+' rated charter schools
	2021	2020	2019	2018	2017	2020
Enrollment						
Total headcount	376	381	360	343	328	1,057
Total waiting list	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Waiting list as % of enrollment	N.A.	N.A.	N.A.	N.A.	N.A.	20.9
Financial performance						
Accounting standard	N.A.	GASB	GASB	GASB	GASB	N.A.
Total revenues (\$000s)	N.A.	10,790	10,046	9,105	8,317	14,768
Total expenses (\$000s)	N.A.	10,337	9,483	8,504	7,929	MNR
EBIDA (\$000s)	N.A.	636	692	701	481	MNR
EBIDA margin (%)	N.A.	5.9	6.9	7.7	5.8	15.9
Excess revenues over expenses (\$000s)	N.A.	453	563	601	388	MNR
Excess income margin (%)	N.A.	4.2	5.6	6.6	4.7	3.8
Operating lease expense (\$000)	N.A.	830	812	558	N.A.	MNR
Pension/OPEB adjustments (\$000)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Lease adjusted annual debt service (\$000)	N.A.	830	812	558	N.A.	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	1.77	1.85	2.26	N.A.	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	7.7	8.1	6.1	N.A.	MNR
Lease-adjusted MADS (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	1,823
Lease-adjusted MADS coverage (x)	N.A.	N.A.	N.A.	N.A.	N.A.	1.40
Lease-adjusted MADS burden (% total revenues)	N.A.	N.A.	N.A.	N.A.	N.A.	12.2
Pro forma MADS (\$000s)	N.A.	855	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	1.71	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	7.9	N.A.	N.A.	N.A.	MNR
Total revenue per student (\$)	N.A.	28,320.2	27,905.6	26,545.2	25,356.7	MNR
Balance sheet metrics						
Unrestricted reserves (\$000s)	N.A.	3,042.0	2,625.0	2,369.0	1,664.0	MNR
Days' cash on hand	N.A.	109.3	102.4	102.9	77.5	115.20
Total long-term debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

Palm Beach School For Autism, Inc., Florida (cont.)

Enterprise and Financial Statistics

	--Fiscal year ended --					Medians for 'BB+' rated charter schools
	2021	2020	2019	2018	2017	2020
Unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	23.5
Unrestricted net assets as % of expenses	N.A.	29.7	26.4	27.1	21.3	27.3
Debt to capitalization (%)	N.A.	N.A.	N.A.	N.A.	N.A.	84
Debt per student (\$)	N.A.	N.A.	N.A.	N.A.	N.A.	16,560
Pro forma metrics						
Pro forma unrestricted reserves (\$000s)	N.A.	3,042	N.A.	N.A.	N.A.	MNR
Pro forma days' cash on hand	N.A.	109.3	N.A.	N.A.	N.A.	MNR
Pro forma long-term debt (\$000s)	N.A.	14,920	N.A.	N.A.	N.A.	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	20.4	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	83.2	N.A.	N.A.	N.A.	MNR
Pro forma debt per student (\$)	N.A.	39,160	N.A.	N.A.	N.A.	MNR

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+operating lease expense. Lease-adjusted MADS coverage = (Net revenue available for debt service + operating lease expense) / (Lease-adjusted MADS). Total expenses include pension and OPEB adjustments. Pension and OPEB adjustments= reconciling adjustments made to financial information to account for differences in GASB 68 and GASB75.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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