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Michigan Public Educational Facilities Authority Chandler Park Academy; Charter Schools

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Credit Profile

Series 2005

Long Term Rating

BBB/Stable

Affirmed

Rationale

S&P Global Ratings affirmed its 'BBB' long-term rating on the Michigan Public Educational Facilities Authority's series 2008 public school academy revenue bonds, issued on behalf of Chandler Park Academy (CPA). At the same time, S&P Global Ratings affirmed its 'BBB' long-term rating on CPA's series 2005 parity revenue bonds. The outlook is stable.

We assessed CPA's enterprise profile as adequate, characterized by stable enrollment, good academic results compared to the local school district, good charter standing, and a stable and capable management team. We assessed CPA's financial profile as adequate, with a sizeable operating base, consistently positive operating results, only acceptable liquidity levels, and a moderate debt burden. We believe that, combined, these credit factors lead to an indicative stand-alone credit profile of 'bbb' and a final rating of 'BBB'.

The 'BBB' rating reflects our view of the academy's:

- Healthy market position due to academic performance that differentiates CPA from the local district;
- Historically solid revenue over expenses on a full-accrual basis;
- Good relationship with the authorizer, Saginaw Valley State University (SVSU), as evidenced by five successful charter renewals, and a recent approval to extend the charter beyond the normal two years to five; and
- Acceptable unrestricted cash and investments balance of \$4.7 million, or 82 days' cash on hand at fiscal year-end 2017 (June 30).

We believe somewhat offsetting strengths include:

- The challenging state and local economic environment, marked by a five-year projected decline in the minor school age population in excess of 7%;
- A limited revenue pledge restricting use of per-pupil state aid for debt service to no more than 20% of that appropriated; and
- The inherent uncertainty associated with charter renewals, given that the final maturity of the bonds exceeds the time horizon of the existing charter.

A pledge on the state aid revenues, a first-mortgage lien on the facility, and a fully funded debt service reserve (DSR) secure the bonds. The school does not have any additional expansion or major capital improvement plans that would require additional debt.

Initially chartered in 1997 by SVSU, CPA is a public, college preparatory charter school in Harper Woods, just northeast of Detroit. The school serves more than 2,300 underprivileged youth in grades K-12, most of whom live

within a five-mile radius.

Outlook

The stable outlook reflects our expectation that Chandler Park's enrollment and operating performance will remain stable, thereby supporting consistency in its MADS coverage and cash position.

Downside scenario

We could lower the rating if liquidity levels do not improve overtime, or if the organization issues additional debt without a commensurate increase in financial resources. We could also lower the rating if enrollment declines unexpectedly from its current level pressuring operations and coverage.

Upside scenario

We do not expect to take a positive rating action during the outlook period. However, we could consider a positive rating action if the school sustains positive operating margins, increases its MADS coverage, and significantly grows its cash position.

Enterprise Profile

Economic fundamentals

CPA is located in Wayne County, just northeast of Detroit. Although the county's minor population is healthy at about 552,000, the minor population is expected to decline significantly by about 7.7% over the next five years. We consider this a negative credit factor.

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 when compared with other industries and sectors.

Market position

We believe that CPA has a long operating history and healthy market position. It maintains a competitive advantage through its unique college preparatory curriculum, extensive athletic programs, and collegial campus environment. We understand the local school district continues to have financial and demand pressures that have led to school closings over the last couple of years, further improving CPA's market position. Enrollment has remained close to 2,400 and CPA's wait list has fluctuated to about 300 students each of the past five school years. With facility capacity of 2,450 and a small classroom size model, CPA would like to maintain enrollment of about 2,400, and it does not have additional expansion plans.

CPA's curriculum focuses on core academic subject areas and state standards, in addition to college preparedness. The school reviews students' overall success annually through a data-driven analysis it uses to prepare a comprehensive, academic improvement plan for the following year. Management indicates that the elementary school has made

adequate yearly progress every year since 2003, while the middle school has done so every year since 2007 and the high school every year since 2010. Academics at CPA are stronger than those at other schools in the Detroit area. The academy has recently begun to offer a unique opportunity for all students to earn an associate's degree before graduation, further differentiating its course offerings.

We view the school's standing with the authorizer as good. CPA has held its charter for over 20 consecutive years and has renewed it five times, most recently from 2015 through June 2020. The statutory framework assessment reflects our opinion that, while there may be some areas of risk, the framework is not likely to negatively affect CPA's future ability to pay debt service. State per-pupil funding has shown modest growth in recent years; funding is \$7,631 per student for fiscal 2018 compared with \$7,511 the previous school year. Management reports the funding environment is stable and expects funding trends to remain consistent over the next few years. The Michigan State School Aid Act limits the amount of state funding a charter school may use in any year for debt service to 20% of per-pupil state revenue.

Management and governance

We view the management team as capable and steady. The academy uses an education management organization, Scholastic Solutions LLC, that provides all the staffing and assists with various authorizer requirements and day-to-day operations. The contract with Scholastic was recently renewed out to July 2018, and there were no major changes from the prior contract. The academy's governing body consists of a seven-member board of directors, which provides oversight and monitoring of all financial matters. Board members possess expertise in a variety of areas, including business, professional services, and community involvement, which we believe adds stability to the academy's operations. Management indicates that there have been no changes to the board.

SVSU continues to provide the school with academic and financial oversight, and is CPA's charter authorizer. Most recently, the authorizer's Board of Control met and approved to extend CPA's charter out to June 30, 2020, from the original date of June 30, 2016. CPA has received five charter renewals since its initial charter in 1997. We view the history of charter renewals and the latest five-year extension positively.

Financial Profile

Financial performance

CPA's operations remain healthy. The school ended fiscal 2017 with EBIDA of \$2.49 million, or a 11.1% EBIDA margin. The excess margin was also solid at 3.7%. We attribute CPA's consistent surpluses to favorable funding for the past three years and good expense management. MADS coverage remained above 1.3x in fiscal 2017. The consistent enrollment levels, combined with growth in per-pupil funding, has led to good coverage. CPA budgets conservatively on a general fund basis, which we expect to continue. Management reports no significant variances from the fiscal 2018 budget, and the school anticipates operating results will be consistent with those of recent years.

Liquidity and financial flexibility

CPA continues to operate with an acceptable liquidity profile. As of June 30, 2017, unrestricted cash and investments were approximately \$4.7 million, which is down from \$5.8 million as of fiscal year end 2015. The decline in cash was anticipated, as management completed facility renovations related to its Pre-Kindergarten program. This translates to

82.2 days' cash on hand as of fiscal year-end 2017, which we believe is slim for the rating. The school does not have any additional plans to draw down cash over the next few years. Unreserved net assets remain stable, in our opinion, at 27% of expenses as of fiscal year-end 2017.

Debt

The series 2005 and 2008 bonds, and five-year, approximately \$2.3 million term loan with Comerica bring total debt outstanding as of June 30, 2017, to \$15.5 million. The MADS burden as a percentage of revenues remains relatively low at 8.4%. The school does not have any new debt plans. The bonds are a general obligation of the academy, secured by a pledge of 20% of per-pupil state aid, a first-mortgage lien on the land, and facilities financed with the bonds' issuance. A fully funded DSR further secures bondholders. An additional bonds test requires MADS, incorporating payments on the new debt, to be no greater than 10% of pledged revenues, or net income available for debt service from the most recently adopted budget (adjusted for a current pupil count) to cover MADS 1.2x. The provisions in the 2015 term loan are the same as those in the direct-purchase agreement, which are similar to the bond indenture terms. The event of default provisions includes any material false representations and warranties with no stated cure period. This could trigger acceleration, but given the academy's cash position, we are comfortable that this event-driven risk would not affect CPA's credit quality.

Financial policies

CPA meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may 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 and a comparison of these policies with those of comparable providers.

Chandler Park Academy, MI -- Financial Statistics				
	--Fiscal year ended June 30--			
	2018	2017	2016	2015
Enrollment				
Total headcount	2,385	2,395	2,386	2,371
Total waiting list	318	338	294	341
Waiting list as % of enrollment	13.3	14.1	12.3	14.4
Financial performance				
Total revenues (\$000s)	N.A.	22,455	22,022	21,566
Total expenses (\$000s)	N.A.	21,633	20,865	20,572
EBIDA (\$000s)	N.A.	2,490	2,763	2,678
EBIDA margin (%)	N.A.	11.09	12.55	12.42
Excess revenues over expenses (\$000s)	N.A.	822	1,157	994
Excess income margin (%)	N.A.	3.66	5.25	4.61
Lease adjusted annual debt service coverage (x)	N.A.	1.32	1.32	1.67
Lease adjusted annual debt service burden (% total revenues)	N.A.	8.4	9.5	7.4
Lease adjusted annual debt service burden (% total expenses)	N.A.	8.7	10.1	7.8
MADS (\$000s)	N.A.	1,893	1,857	1,857

Chandler Park Academy, MI -- Financial Statistics (cont.)

	--Fiscal year ended June 30--			
	2018	2017	2016	2015
Lease adjusted MADS coverage (x)	N.A.	1.32	1.49	1.44
Lease adjusted MADS burden (% total revenues)	N.A.	8.4	8.4	8.6
Total revenue per student (\$)	N.A.	9,376	9,230	9,096
Balance sheet metrics				
Days' cash on hand	N.A.	82.2	89.9	105.6
Total long-term debt (\$000s)	N.A.	15,459	16,483	17,686
Unrestricted reserves to debt (%)	N.A.	30.4	30.1	32.5
Unrestricted net assets as % of expenses	N.A.	27.0	27.6	34.3
General fund balance (\$000s)	N.A.	5,662	5,617	7,111
Debt to capitalization (%)	N.A.	71.9	73.6	66.5
Debt per student (\$)	N.A.	6,009	6,479	5,717

N.A. not available. MADS maximum annual debt service.

Ratings Detail (As Of January 25, 2018)**Michigan Pub Educl Facs Auth, Michigan**

Chandler Pk Acad, Michigan

Series 2008

Long Term Rating

BBB/Stable

Affirmed

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