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Ratings

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Summary:

Rhode Island Mayoral Academy Blackstone Valley; Charter Schools

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Rating Action

S&P Global Ratings revised the outlook to negative from stable and affirmed its 'BB+' long-term issuer credit rating (ICR) on Rhode Island Mayoral Academy Blackstone Valley (Blackstone Valley Prep, or BVP).

The negative outlook reflects S&P Global Ratings' opinion that there is a one-in-three chance that the school's financial performance may fail to improve margins and weak pro forma maximum annual debt service (MADS) coverage of less than 1x, which is expected to continue through fiscal 2021 and result in a financial profile more commensurate with a lower rating.

BVP is expected to issue $22.7 million of new debt within the next year, to fund the acquisition of an elementary and middle school campus, expand the recently acquired high school, and refinance leases of an additional elementary and middle school. The loans are a general obligation of Blackstone Valley Prep secured by the school's revenue and a first-mortgage lien on the collateral property. Including the new project, the school will have $46.8 million in total pro forma debt. We have taken into account this new debt and refinancing of existing debt when analyzing BVP's debt profile.

As a result of COVID-19 and broader public safety concerns, BVP moved to virtual learning in mid-March, which continued for the remainder of the 2019-2020 school year. Management reports that the transition to online learning was smooth and that enrollment stayed strong. Savings associated with closure of the campus largely offset expenses incurred as a result of the outbreak. In addition, BVP secured a $4.2 million loan through the Payroll Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The school had also received $660,000 in CARES Act grant funding however the state clawed back in fiscal 2020 as a result of the school also receiving PPP aid. The PPP loan, which management expects will be forgiven in fiscal 2021 for meeting stipulated loan forgiveness conditions, provides the school additional flexibility, in our view.

For the 2020-21 school year, BVP opened on Sept. 14, based on state mandates of a universal school calendar and have offered in-person learning to kindergarten and highest-need students with remote learning for all other students. Administration will monitor local COVID-19 metrics and campus readiness to determine transition to different learning models throughout the year. We expect no differential in state funding regardless of the mode of instruction.

State per pupil funding in Rhode Island is projected to stay flat for fiscal 2020, but modest cuts of 2% to 5% may materialize in fiscal 2021 as a result of slow economic recovery from the COVID-19 pandemic, and we will monitor school budgets accordingly. In our opinion, BVP has sufficient liquidity, in our view, with more than 75 days' cash on hand based on 2020 unaudited figures, which will allow it to withstand moderate state funding cuts if they were to materialize.

Blackstone Valley Prep is a mayoral academy, so the chair of the board must be a mayor of one of the municipalities in Rhode Island at all times. This is a requirement for keeping the school's mayoral academy charter versus the requirements of district and independent charter schools. We believe the mayoral requirement adds a risk factor to the school's charter not typically present in the sector. The composition of the academy's board mitigates this risk. BVP has three local chief executives on its board. The board also includes the state's lieutenant governor, who is a founding member. We expect the board's composition to continue to support the mayoral academy requirements.

The rating further reflects our view of the school's:

- Growing enrollment, historically strong demand, and solid market position, reflected by a robust waiting list at more than 100% of enrollment;
- History of good academic performance;
- Improving unrestricted reserves based on 79 days' cash on hand relative to fiscal 2019 results;
- Tenured management team with sound governance practices and thoughtful strategic planning; and
- Good working relationship with the chartering authority, the Rhode Island Department of Education (RIDE).

Partly offsetting the above strengths, in our view, are the school's:

- Weakened pro forma lease-adjusted MADS coverage in fiscal 2019 at 0.8x given the new proposed debt issuance, with similar results expected for fiscal 2020;
- Lease risk associated with one of BVP's facilities, because the lease has future escalator payments, although BVP expects to finance the lease prior to 2022; and
- Added risk of the mayoral requirement, as well as the inherent uncertainty associated with charter renewals, given that the final maturity on the bonds exceeds the length of the existing charter.

An ICR reflects the 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 nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. We understand the new debt issuance will allow BVP to continue to increase the school's enrollment to levels near the charter capacity of 2,360 students. With the new debt issuance, BVP will purchase Elementary School 2 for approximately $8.3 million in debt outstanding as well as expand the existing high school for approximately $7.0 million. In addition, BVP will refinance Elementary School 1, which previously held a balloon payment of the unpaid principal balance, with $3.97 million debt outstanding with equal payments until 2050, and refinance Middle School 2 at approximately $3.1 million in debt. We also understand BVP may also purchase Middle School 1 for approximately $5.6 million in debt outstanding. BVP's revenue, as defined in governing bond documents, primarily state per pupil funding, secures its debt.

Credit overview

We assessed Blackstone Valley Prep's enterprise profile as adequate, characterized by enrollment growth, a robust wait list, a sizable student base at 2,150 students, and a capable management team that has driven the school to success in sustaining a good charter standing. We assessed Blackstone Valley Prep's financial profile as vulnerable, based on its moderately weak liquidity, risks associated with annual escalators of the leases with Civic Builders Inc., and future financing needs. We believe that these combined credit factors lead to an anchor (indicative stand-alone credit profile) of 'bb'. As our criteria indicate, the final rating can be adjusted above the anchor (indicative credit) level given a variety of overriding factors. In our opinion, the 'BB+' rating better reflects BVP's solid enrollment and demand profile, which is more comparable with those of higher-rated peers.

Blackstone Valley Prep operates a kindergarten through 12th grade, six-school network under one charter in the greater Providence County area. Historically, the six schools included three elementary schools, two middle schools, and one high school. Starting in the 2020-21 school year, the two middle schools have been reconfigured to become a junior high school and an upper elementary school. Blackstone Valley Prep was established as an economically diverse school, attracting students from two high-poverty urban districts and two more affluent suburban districts. The school has enrolled a total of 2,150 students as of fall 2020, and is looking to continue expanding by adding more students to grades with increased facility space.

Environmental, social, and governance factors

In our view, Blackstone Valley Prep is exposed to elevated health and safety social risk given the COVID-19-related economic uncertainty's impact on state funding and the school's dependency on state revenue. Despite the elevated social risk, we believe the school's environmental and governance risk are in line with our view of the sector as a whole.

Negative Outlook

Downside scenario

We could lower the rating if the school were to fail to meet enrollment projections such that it generates significantly weaker operating results, MADS coverage, or liquidity commensurate with that of lower-rated peers. In addition, we could take a negative view of any issues related to refinancing the new market debt obligations, although not expected. Although we believe the school has taken steps to address COVID-19, and we understand the virus to be a global risk, we could consider a negative rating action during the outlook period should unforeseen pressures related to the pandemic materially affect the school's reserves, demand, or trajectory.

Return to stable scenario

We could revise the outlook to stable if the school's operating margins strengthen and debt service coverage improves to levels more commensurate with those of peers, while the school maintains its strong demand profile.

Related Research

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