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Ratings

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KIPP Jacksonville, Florida; Charter Schools

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ICR		
Long Term Rating	BBB-/Stable	New

Rating Action

S&P Global Ratings assigned its 'BBB-' issuer credit rating (ICR) to KIPP Jacksonville, Fla. The outlook is stable.

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 account for the obligation's nature and provision, standing in bankruptcy or liquidation, statutory preferences, or legality and enforceability.

KIPP Jacksonville plans to enter into a maximum $27.5 million loan from the Equitable Facilities Fund (EFF) to finance the land acquisition and construction of a new campus for an existing school, as well as renovating an existing campus. Based on current expectations, the EFF financing will be structured as a loan, with a par amount of approximately $23.1 million and total proceeds of at least $26.3 million. The EFF loan will be secured by the network's revenues and a first-mortgage lien on all the financed properties through a master trust indenture (MTI) (with the exception of the Bessie Coleman campus, which secures an NMTC (new market tax credit) deal, although we note this property will be added to the MTI upon the unwinding of the NMTC deal in January 2022). Pro forma debt of $43.6 million will consist of the EFF loan, as well as the network's $20.6 million series 2020 bonds outstanding. According to information provided, the network's current MTI includes two financial covenants – maintenance of 60 days' cash on hand and 1.1x annual debt service coverage (DSC), respectively. Covenants also include a prospective additional bonds test that requires 1.2x projected DSC. KIPP Jacksonville also maintains a 42-year ground lease for one of the properties with about $40,000 in annual lease payments.

For fall 2021, KIPP Jacksonville opened in-person learning for all five days of the week for all grade levels. As of fiscal 2021, the network received approximately $407,000 in Elementary and Secondary School Emergency Relief (ESSER) I grant funding, $1.7 million in ESSER II funding, and expects to receive $3.8 million in ESSER III funding. Management notes that ESSER I funding was used for personal protective equipment (PPE) and supplemental technology, but ESSER II and III have not yet been spent, although the network will have through fiscal 2024 to spend these funds. The school also received about $1.8 million in Paycheck Protection Program (PPP) loans, which have since been forgiven. Most of the PPP funds have not yet been spent, and there are no immediate plans to spend down these funds.

Florida provides both operating and capital funding for charter schools. Duval County Public Schools, authorizes each charter school and per-pupil funding flows through the district to each school. As in many other states, charter schools in Florida receive a lower per-pupil amount than their public school counterparts. For fiscal 2022, the state increased per-pupil funding by nearly 3% from the previous year, compared to historical 2% annual increases in per-pupil funding.

Credit overview

We assessed KIPP Jacksonville's enterprise profile as strong with strong demand, characterized by its high enrollment growth, significant waitlist, adequate student retention, and relatively solid and improving academic performance. We assessed KIPP Jacksonville's financial profile as adequate, characterized by its improving financial profile metrics, solid pro forma lease-adjusted maximum annual debt service (MADS) for the rating, sufficient days' cash on hand, and a recent history of positive full-accrual operating performance. Combined, these credit factors led to an indicative stand-alone credit profile of 'bbb-' and final rating of 'BBB-'.

The rating reflects our opinion of the school's:

- Solid enterprise profile with growing enrollment, adequate retention, and a significant waitlist;
- Historically positive operations on a full accrual basis, with expectations for surplus performance over the next few fiscal years;
- Healthy pro forma lease-adjusted MADS coverage of 1.68x based on unaudited fiscal 2021 results, with expectations to maintain similar-to-stronger levels going forward; and
- Good cash for the rating, with 199 days' cash on hand based on unaudited fiscal 2021, and expectations to maintain above 140 days cash during the next couple of years.

We believe somewhat offsetting factors are, what we consider, KIPP Jacksonville's:

- Rapid enrollment growth plans, which inherently present some uncertainty;
- Relatively high debt burden, especially with respect to current debt per student, although projected to moderate as the school grows enrollment; and
- Risk, as with all charter schools, that the charter authorizer could revoke or not renew the charter for nonperformance of its terms, or for financial distress prior to the bonds' final maturity, although we note that the current charters is in place until June 2025 for the K-8 schools, and through July 2026 for the high school.

The stable outlook reflects our expectation that during the next two years, management will likely meet budgeted enrollment projections and maintain positive full-accrual operations, allowing KIPP Jacksonville to sustain MADS coverage and liquidity consistent with the current rating.

KIPP Jacksonville was founded in 2010 with one middle school, and later opened two elementary schools in 2012 and 2015. It opened these schools in the northwest portion of the city because this has historically been the most educationally underserved section of the city. KIPP Jacksonville is transitioning each of its existing schools to kindergarten-through-eighth-grade (K-8), with all three schools feeding students to KIPP Bold City High School, which opened with a freshman class in fall 2021.

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. We believe this is a social risk for the school, should local demand preferences shift toward home-school options amid the spread of the Delta variant, potentially affecting enrollment trends and projections, which could impact state appropriations as a major revenue for the school. We believe management has taken prudent actions regarding the health and safety of its students, faculty, and staff but the somewhat lower vaccination rates in the region could challenge these efforts, particularly should students, faculty, or staff become infected with the highly contagious Delta variant. In addition to the elevated social risk, we believe the organization's environmental risk is elevated as a result of the school service area's proximity to the Florida coast, which has experienced increased incidence of hurricane and flooding events and could lead to lower enrollment as a result of displacement and/or property damage. Partly mitigating this risk is the school's insurance, which covers any potential damage incurred from flooding. Despite the elevated social and environmental risks, we consider the school's governance risks in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We could lower the rating or revise the outlook to negative if the school does not meet enrollment projections and it negatively affects financial performance, cash decreases materially, or if lease-adjusted MADS deteriorates. Furthermore, if KIPP Jacksonville issues additional debt that materially affects financial operations and debt ratios, we could also take a negative rating action.

Upside scenario

Although unlikely to occur during the two-year outlook period due to inherent risks associated with the school's longer term expansion plans, we could take a positive rating action over the long term if the school is able to sustain a strengthened financial profile and maintenance of healthier full-accrual operating surpluses such that lease-adjusted MADS coverage improves significantly to levels that we consider commensurate with a higher rating, coupled with meeting its growing enrollment projections.

Credit Opinion

Enterprise Profile

Market position

We view KIPP Jacksonville's enrollment-and-demand profile as strong, supported by significant enrollment increases and a solid nominal waitlist. Total enrollment grew an average of 16.8% over the past five years to 2,029 students in fall 2021. In 2012, KIPP Jacksonville opened KIPP Voice Elementary School. In 2015, the network opened KIPP Bessie Coleman Elementary School. KIPP Jacksonville opened KIPP Bold City High School for fall 2021 with a freshman class. Across the four campuses, full enrollment is planned to be 3,900 students, and management projects to reach full enrollment by fiscal 2026 for all schools, with the exception of Bold City High School (projected to reach 77% of full enrollment by fiscal 2026).

The current waitlist has fluctuated in recent years, as the school absorbed some of its historical waitlist upon the opening of new schools, and the network's current waitlist is 1,325 students, or 65.3% of enrollment, which we view as adequate. KIPP Jacksonville's retention has been sound, in our view, at 85% in fall 2020. We expect management will maintain a healthy demand profile and continue to grow enrollment in line with projections.

Although state academic testing was postponed in spring 2020 due to the pandemic and spring 2021 test results have not been made public, we expect the school's academics will be consistent with previous years. We consider the school's academic performance as solid, with the schools receiving 'B' ratings from the Florida Department of Education in school year 2018-2019. KIPP Jacksonville holistically performs below the local school district and the state in all subjects in most grades. However, we note the network outperforms neighborhood schools in virtually all subjects and grade levels, in what has historically been the most educationally underserved section of the city.

KIPP Jacksonville held its initial charter with Duval County Public Schools, the authorizer, for more than 12 consecutive years. The authorizer recently renewed the K-8 schools' charter for five years in 2020 (through June 2025) and the network received its initial charter for the high school in 2020 for five years as well (through July 2026). We view the network's standing with the charter authorizer as good. Duval County Public Schools provides financial and academic oversight, and based on our discussion with the authorizer, it has a good working relationship with KIPP Jacksonville and it does not report any notable concerns with governance, academics, compliance, and finances. The statutory framework assessment reflects our opinion that despite areas of risk, the framework is not likely to hamper the network's future ability to pay debt service, unless state funding is materially impaired and weakens financial metrics.

Management and governance

In our view, KIPP Jacksonville's leadership team is sophisticated, experienced, and highly capable, providing a solid foundation of oversight for the organization. We believe the school is led by a dynamic executive director, with support provided by an active leadership team including experienced individuals in key roles and principals at each of the campuses. Discussions with management indicate a succession plan is in place, in the event senior leadership changes, however, we recognize no changes are currently planned.

An active 11-member volunteer board of trustees provides additional oversight. We believe the board members possess expertise in a variety of areas, including business and education, coupled with a solid presence in the community that we think adds stability to school operations and supports continued enrollment growth. In addition, through its executive leadership team, board, and development staff, KIPP Jacksonville fundraised close to $12.2 million during the past four fiscal years through various grants and philanthropic fundraising. We view the school's healthy fundraising history and board network as positive credit factors, supporting KIPP Jacksonville's financial flexibility. In our view, management has been prudent in terms of growth and strategic planning while maintaining sound financial and operational oversight.

Financial Profile

Financial performance

KIPP Jacksonville has consistently reported positive operations over the past three fiscal years with healthy margins largely attributable to disciplined expense control, continued enrollment growth, and increasing per-pupil funding. For fiscal 2020, KIPP Jacksonville posted an EBIDA margin of 16.8% of operating revenue and an operating surplus of $964,000, or a 5.6% operating margin, a level that we view as good for the rating. We note fiscal 2020 results are exclusive of a nearly $3 million non-cash land contribution to the network. Based on interim unaudited fiscal 2021 financials, KIPP Jacksonville posted an EBIDA margin of 20% of operating revenue and an operating surplus of nearly $2.4 million, or a 11.5% operating margin.

Pro forma lease-adjusted MADS of about $2.466 million includes all anticipated debt, and pro forma lease-adjusted MADS coverage on KIPP Jacksonville's debt is good for the rating, in our view, at 1.68x based on unaudited fiscal 2021 results. The fiscal 2022 budget calls for a modest surplus, reflecting KIPP Jacksonville's conservative budgeting. We expect the organization will maintain steady near-term financial performance, consistent with the rating, as management projections indicate pro forma lease-adjusted MADS coverage is expected to fluctuate between 1.5-2x over the next several fiscal years.

Liquidity and financial flexibility

KIPP Jacksonville's liquidity position improved materially in recent years, driven by positive operations, aided by the network's receipt of the PPP loan. As of June 30, 2020, KIPP Jacksonville had $6.8 million of unrestricted cash and investments, or 168 days' cash on hand, which we view as good for the rating. Furthermore, based on current fiscal 2021 unaudited results, the network had approximately $9.1 million in unrestricted cash and investments, or approximately 199 days' cash on hand. Based on projections provided by management, we expect KIPP Jacksonville's liquidity will remain fairly steady around 150 days' with continued operating surpluses and healthy cash flow, offset by expenditure growth, but expect unrestricted cash to increase on a nominal basis. We understand management does not currently plan to spend down reserves. We expect continued positive operating performance will likely assist KIPP Jacksonville in maintaining healthy liquidity.

Debt burden

Pro forma debt consists of the maximum of $27.5 million EFF loan and the network's $20.6 million series 2020 bonds outstanding. In our view, KIPP Jacksonville's debt burden is elevated considering its high debt load on both an absolute and per-student basis, partially mitigated by manageable pro forma lease-adjusted MADS still in line with category medians and moderate debt-to-capitalization ratios. Based on fiscal 2021 unaudited revenues, the pro forma MADS burden is adequate at 11.9% and we view pro forma debt per student of about $21,469 (based on fall 2021 enrollment) as relatively high compared with that of peers. Management reports no immediate debt plans or significant capital needs, and we expect these debt measures will improve incrementally in the near-term due to expected increases in enrollment and subsequently revenues.

KIPP Jacksonville, Fla.--Enterprise And Financial Statistics

	--Fiscal year ended June 30--			--Medians reported for 'BBB-' rated charter schools--
	2020	**2019**	**2018**	**2020**
Enrollment				
Total headcount	1,431	1,176	1,071	1,189
Total waiting list	546	747	1,071	MNR
Waiting list as % of enrollment	38.2	63.5	100.0	31.3
Financial performance				
Accounting standard	FASB	FASB	FASB	N.A.

KIPP Jacksonville, Fla.--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--			--Medians reported for 'BBB-' rated charter schools--
	2020	2019	2018	2020
Total revenues ($000s)	17,160	16,775	14,894	13,500
Total expenses ($000s)	16,196	15,293	15,755	MNR
EBIDA ($000s)	2,883	3,430	963	MNR
EBIDA margin (%)	16.8	20.4	6.5	16.1
Excess revenues over expenses ($000s)	964	1,483	(860)	MNR
Excess income margin (%)	5.6	8.8	(5.8)	5.9
Operating lease expense ($000)	N.A.	N.A.	N.A.	MNR
Pension/OPEB adjustments ($000)	N.A.	N.A.	N.A.	MNR
Lease adjusted annual debt service ($000)	1,409	2,381	2,323	MNR
Lease-adjusted annual debt service coverage (x)	2.05	1.44	0.41	MNR
Lease-adjusted annual debt service burden (% total revenues)	8.2	14.2	15.6	MNR
Lease-adjusted MADS ($000s)	N.A.	N.A.	N.A.	1,374
Lease-adjusted MADS coverage (x)	N.A.	N.A.	N.A.	1.60
Lease-adjusted MADS burden (% total revenues)	N.A.	N.A.	N.A.	10.3
Pro forma MADS ($000s)	2,466	2,466	2,466	MNR
Pro forma lease-adjusted MADS coverage (x)	1.17	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	14.4	N.A.	N.A.	MNR
Total revenue per student ($)	11,991.6	14,264.5	13,906.6	MNR
Balance-sheet metrics				
Unrestricted reserves ($000s)	6,758.0	3,118.0	3,240.0	MNR
Days' cash on hand	167.9	82.3	82.5	161.80
Total long-term debt ($000s)*	19,408	20,462	22,152	MNR
Unrestricted reserves to debt (%)	34.8	15.2	14.6	31.8
Unrestricted net assets as % of expenses	217.1	202.1	184.6	40.9
Debt to capitalization (%)	37.8	42.3	45.6	79
Debt per student ($)	13,563	17,400	20,683	13,582
Pro forma metrics				
Pro forma unrestricted reserves ($000s)	6,758	3,118	3,239	MNR
Pro forma days' cash on hand	167.9	82.3	82.4	MNR
Pro forma long-term debt ($000s)	43,562	43,562	43,562	MNR
Pro forma unrestricted reserves to debt (%)	15.5	7.2	7.4	MNR
Pro forma debt to capitalization (%)	57.7	60.9	62.2	MNR

KIPP Jacksonville, Fla.--Enterprise And Financial Statistics (cont.)				
	--Fiscal year ended June 30--			**--Medians reported for 'BBB-' rated charter schools--**
	2020	**2019**	**2018**	**2020**
Pro forma debt per student ($)	30,442	37,043	40,674	MNR

*We note the network's historic long-term debt outstanding is offset by $7.6 million in notes receivable made to itself associated to the new market tax credit (NMTC) note. And pro forma long-term debt is only inclusive of the series 2020 bonds and the Equitable Facilities Fund loan, as the NMTC note is expected to wind-down and no longer be on the network's balance sheet in January 2022. 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 other postemployment benefits (OPEB) adjustments. Pension and OPEB adjustments = reconciling adjustments made to financial information to account for differences in Governmental Accounting Standards Board Statement Nos. 68 and 75. FASB--Financial Accounting Standards Board. N.A.--Not available. MNR--Median not reported.

Related Research

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