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# KIPP Albany, New York; Charter Schools

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# KIPP Albany, New York; Charter Schools

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| *Long Term Rating* | BBB-/Stable | New |

## Rating Action

S&P Global Ratings assigned its 'BBB-' issuer credit rating (ICR) to KIPP Albany. 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.

KIPP Albany is a newly formed New York non-profit education corporation following the merger of two kindergarten through eighth grade schools, KIPP Tech Valley (KTV) and Albany Community Charter School (ACCS), effective July 1, 2020. KIPP Albany intends to enter into a maximum $30 million loan from the Equitable Facilities Fund to refinance a recent loan from M&T Bank. The M&T bank loan was used to refinance several outstanding loans which financed the acquisition, construction, and equipping of KIPP Albany's school facilities which spread across four campuses. Based on current expectations, the EFF financing will be structured as a premium loan, with a par amount of approximately $25.3 million and total proceeds of $30 million. The refinancing is intended to achieve material annual debt service savings and create a level debt payment schedule over the 30-year maturity. The EFF loan is a general obligation of KIPP Albany, secured by the network's revenues and a first-mortgage lien on all of the financed properties. Pro forma debt consists solely of the EFF loan. For our analysis, we have manually consolidated the historical audits of KTV and ACCS; all financial metrics cited in this report reflect those of the entire organization. We understand the fiscal 2021 audit will be prepared on a consolidated basis reflecting the first year of operations as KIPP Albany, the merged entity.

In response to COVID-19 and broader public safety concerns, New York schools were closed for the remainder of the 2019-2020 school year and testing requirements were waived. KTV and ACCS provided virtual learning options to its students with a healthy engagement rate in the spring, supported by a nearly 1 to 1 technology initiative with some students using their own devices. KIPP Albany kicked off the 2020-2021 school year with virtual instruction, with plans for all K-2 students to have the option to return to in-person learning beginning Nov. 16. About 60%-70% of all families have chosen to return to in-person instruction. At this time, all students in grades three to eight will remain in a virtual learning environment through the holiday break, with plans during and beyond that timeframe being evaluated following relevant health and safety guidelines. During this time, KIPP Albany is providing no-cost supervised learning spaces for any student 12 and younger who does not have adult supervision at home.

The school has invested in technology needs, including upgrades to staff computers, purchasing Chromebooks for students, and securing hotspots. This investment was supported by KIPP Albany's $400,000 allocation under the

CARES (Coronavirus Aid, Relief, and Economic Security) Act, as well as about $230,000 in grants from the KIPP Foundation and some expense savings (utilities, travel, etc.) associated with facility closures. In addition, KTV and ACCS each secured a $1.1 million loan through the Paycheck Protection Program (PPP), which management expects will be forgiven for meeting stipulated loan forgiveness conditions, providing additional flexibility. The PPP funds are reflected in the schools' 2020 audits, with the KTV audit recognizing the funds as revenue and the ACCS noting the loan as a liability. Our analysis mirrors the audited presentation, though we understand this skews performance given the one-time nature of these funds.

Despite uncertainty regarding the duration and extent of the impact of the COVID-19 outbreak, funding continued without delay for fiscal 2020 and current funding is essentially flat for fiscal 2021. However, given the extent of the state's anticipated fiscal 2021 budget shortfall of about $13.3 billion and mounting pressures on state finances as a result of the pandemic, we recognize the potential for meaningful cuts to K-12 public funding. We expect to monitor funding updates for any mid-year cuts or notable cuts for fiscal 2022 or beyond. In our view, while funding cuts could pressure near-term operations, KIPP Albany's recent enrollment growth, healthy operating history, growing unrestricted reserves and support from one-time funding provide cushion at the rating level.

## Credit overview

We assessed KIPP Albany's enterprise profile as adequate, reflecting recent enrollment growth, sufficient demand with steady student retention, long charter history for the preexisting schools, and proactive leadership team, which offset a slim waitlist, weak demographic trends, and the potential for transition risks associated with the recent merger. We assessed its financial profile also as adequate, with healthy operating trends, solid pro forma maximum annual debt service (MADS) coverage, modest debt and good liquidity for the rating level. We believe that, combined, these credit factors lead to an anchor of 'bbb-' and a final rating of 'BBB-'.

The rating also reflects our view of KIPP Albany's:

- Recent growth in enrollment to over 1,530 for fall 2020, with expectations of steady headcount for the near-term supported by sufficient demand;
- History of positive operations supporting healthy pro forma MADS coverage for fiscal 2020 and into fiscal 2021, though inflated somewhat by notable one-time funds;
- Growing unrestricted reserves supporting good liquidity, though this could moderate as one-time funds are spent and if funding cuts materialize;
- Manageable pro forma MADS burden and moderate pro forma leverage; and
- Seasoned leadership team supported by an active and dynamic board with diverse skills.

Offsetting credit factors, in our view, include:

- Mixed academic outcomes in terms of growth year over year, with KTV's scores generally improving while ACCS' scores have lagged expectations in certain areas;
- Transition risk associated with the recent merger and continued integration across both schools, though we recognize leadership has been very thoughtful and strategic in its approach thus far; and
- Risk, as with all charter schools, that the charter authorizer could close schools for nonperformance of charter

contracts or financial distress, prior to bond maturity.

The stable outlook reflects our expectation that KIPP Albany will continue to generate operating surpluses supporting good MADS coverage, with steady enrollment, sufficient liquidity, and continued successful execution of the recent merger. While there is the potential for state funding cuts, we expect the network to manage its operations accordingly, with flexibility demonstrated by the ability to attract one-time funding support and carefully monitor expenses.

KTV began operations in 2005 with a fifth grade class and grew initially to serve grades five through eight. KTV eventually expanded to an elementary school starting in 2016, adding one grade each year to serve the full complement of K-8 for the current 2020-2021 school year. ACCS began operations in 2006 initially serving elementary grades K-5 and subsequently added a middle school with grades 6-8 starting 2012. KTV and ACCS are located across the city of Albany, while each school's elementary and middle school campuses are located in close proximity to one another. The KIPP Albany merger followed an extensive due diligence process, centering around the efficiencies provided by a network model, the sharing of best practices, and complementary strengths provided by each school offering a K-8 education. KIPP Albany is affiliated with the national KIPP organization, which lends additional support. KIPP Albany received about $300,000 in grants from KIPP Foundation to support merger costs and curriculum needs, including a partnership with KIPP New York City to access academic resources, professional development and data analysis. We understand KIPP Albany has eventual plans to expand to a high school, which is aligned with the vision of both K-8 schools, though the discussions are very preliminary at this time and management's focus remains on successful execution of the recent merger.

KIPP Albany is authorized by the State University of New York's (SUNY) Charter Schools Institute, the state's biggest charter authorizer and the nation's largest university-based charter school authorizer. SUNY approved the recent merger and we understand KIPP Albany operates as one education corporation with the authority to operate two chartered schools, with separate accountability frameworks which dictate separate renewal expectations and timelines for each school. Based on this structure, KTV's charter was recently renewed through June 30, 2025, while ACCS is currently in the midst of the renewal process with the current term extending through June 30, 2021. Based on discussions with the authorizer, we understand a full five-year renewal is likely, though there is an increased focus on the school's academic results. KIPP Albany draws the majority of its students from Albany City School District, though students are drawn from a total of 21 separate school districts across the region.

### Environmental, social, and governance (ESG) factors

We view the risks posed by COVID-19 to public health and safety as an elevated social risk for all charter schools under our ESG factors. We believe this is a social risk for KIPP Albany because of its heavy dependence on state revenues to support operations and the potential per-pupil funding reductions that may occur as a result of pressures stemming from the pandemic. Despite the elevated social risk, we believe the school's environmental and governance risk are in line with our view of the sector.

## Stable Outlook

### Downside scenario

We could consider a negative rating action should KIPP Albany fail to meet its enrollment targets with sustained operating deficits, weakened MADS coverage, a notable decline in liquidity from current levels, or if ACCS' academic outcomes fail to improve resulting in greater authorizer scrutiny. Though not currently planned, we could view a material increase in debt negatively. In addition, while we believe management has taken proactive steps to address the potential impacts of COVID-19, we could consider a negative rating action should unforeseen pressures related to the pandemic materially affect demand, finances, or the trajectory of the school.

### Upside scenario

We consider a positive rating action within our outlook period unlikely, given the current economic climate. We believe that financial and operational pressures caused by COVID-19, with the potential for steep state funding cuts constrain a positive rating action at this time. Beyond our outlook period, we could consider a positive rating action with successful merger integration, improved academic outcomes at ACCS, and sustained financial metrics consistent with higher rated peers, while maintaining steady enrollment and demand.

## Credit Opinion

## Enterprise Profile

### Economic fundamentals

KIPP Albany draws about three fourths of its students from Albany County. The county's minor population size is sufficient at about 89,000, but is projected to decline by about 5.2% through 2025. In our view, while the projected population trends are weak, KIPP Albany's ability to attract and retain students offsets this factor.

### Industry risk

Industry risk addresses the charter school sector's overall cyclicality 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 view KIPP Albany's enrollment and demand profile as sound, supported by recent enrollment growth, stable retention and generally favorable academics compared to local public schools. Growth over the past five years has ranged between 8% and 13% annually, reflecting the addition of grades across the schools. Enrollment has reached planned capacity and is expected to remain steady at about 1,530 for the near-term. In our view, these expectations are reasonable given the KIPP Albany's ability to historically meet or surpass enrollment targets, supported by good student retention and a sufficient waiting list. The waiting list figures did decline for fall 2020 due to the uncertainty presented by the pandemic and generally reflects some unique aspects pertinent to the Albany market in which families may make enrollment decisions a bit later than typical in other areas. KIPP Albany faces competition from nearby local public, private, and charter schools with varied grade offerings, though none are affiliated with a national charter school network, which provides distinct advantages in terms of resources and support. In our view, while the merger between the two schools is relatively new, there are clear synergies between the schools and expect this could enhance the collective demand profile over time.

Academic performance across the KIPP Albany schools has been somewhat mixed, with KTV consistently outperforming local schools and state averages, whereas ACCS has outperformed local school results but lagged state averages. For the 2020-2021 school year, KIPP Albany has partnered with KIPP NYC, a high-performing network of 15 schools serving over 6,000 students, for curriculum support, professional development and data analysis resources. The support for this partnership was provided in the form of a $300,000 grant from KIPP Foundation. We believe that the network model with shared resources, as well as the support from KIPP NYC and the larger KIPP organization, should result in enhanced academic outcomes across both schools, but in particular for ACCS. As the schools have historically outperformed local peers, we expect generally favorable academics will continue to support demand for KIPP Albany's program.

We view the network's standing with the charter authorizer, SUNY Charter Schools Institute, as very good. SUNY provides financial and academic oversight, which is typical for its role as a state charter authorizer. Based on our discussion with the authorizer, SUNY reports a good working relationship with KIPP Albany and do not report any notable concerns with governance, academics, compliance, and finances. However, the authorizer is monitoring academic outcomes more closely for ACCS and did note potential state funding cuts are a concern for all charter schools. 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.

The network's primary revenue source is per-pupil revenue from New York State, passed through to the school from Albany City School District as well as 21 other sending districts from which students enroll. Basic per-pupil funding from Albany City School District is approximately $16,900, with base per-pupil funding rates that vary depending on the sending district, from a low of about $10,400 per student to a high of $18,600. Funding for fiscal 2021 is essentially flat, though we expect there could be pressure on mid-year cuts or significant funding declines in fiscal 2022 given the state's budgetary pressures. We expect to continue to monitor any potential impact on the state funding environment.

### Management and governance

In our view, KIPP Albany'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. There is a clear organizational structure with opportunities for professional development, which allows KIPP Albany to build a leadership bench in the event of any transitions, though none are expected at this time. In our view, the management team and board have been thoughtful and strategic in its approach to the merger, including identifying grants and other opportunities for financial support for necessary investments. In addition, leadership has been proactive in building synergies and a collaborative culture recognizing each school's respective strengths. As the merger is still quite new, we expect full integration of all aspects across the organization will take time and there could be some associated transition risk. However, given the careful planning described, we expect successful execution over time.

Additional oversight is provided by an active 12-member independent board of trustees, comprised of previous board members from both KTV and ACCS. The board consists of individuals with diverse backgrounds in education, government, advocacy, and human resources, coupled with a solid presence in the community, which we believe provides stability for the network's demand and operations. The founding board chair of KTV serves as the president of the merged KIPP Albany board providing for a consistent vision and steady oversight. We understand that the organization expects to engage in more focused strategic planning efforts to guide near-term goals, which likely will include some discussion around potential plans to expand to a high school. The high school expansion is very preliminary at this time and at least a few years out, based on our understanding. In our view, management has been prudent in terms of prior growth and facilities planning, and we expect any future expansion would be handled similarly.

## Financial Profile

### Financial performance

On a combined basis, KIPP Albany has a history of positive operations, with healthy margins attributable to continued enrollment growth and favorable per-pupil funding increases over the past several years. For fiscal 2020, performance was bolstered by the recognition of $1.1 million in revenue associated with KTV's PPP loan, as well as an $18,000 grant from KIPP Foundation to support technology purchases. Even without the PPP revenues, underlying operations were still quite healthy, reflecting careful expense monitoring and some savings associated with the closure of the campuses in the spring. Pro forma MADS coverage is robust at about 3.7x, which reflects the combined impact of the improved operating performance as well as the reduced MADS given the savings from the EFF loan and extension of debt maturity. Excluding the $1.1 million in revenue associated with the PPP loan, pro forma MADS coverage is still solid at roughly 3x.

Based on projections for fiscal 2021, KIPP Albany is expecting another surplus, though likely moderated from the peak year in fiscal 2020. Revenues are projected to rise, supported by the increase in enrollment for fall 2020. In addition, we expect fiscal 2021 operations will reflect $1.1 million in revenue recognition associated with ACCS' PPP loan, as well as other one-time grants including the network's CARES allocation, support from KIPP Foundation, and a $3 million grant from the U.S. Department of Education's Charter Schools Program Grants for replication and expansion of high quality charter schools awarded to ACCS. The $3 million grant is expected to be funded on a reimbursement basis over three years starting in fiscal 2021. The grant funds will be matched with corresponding expenses and are not expected to materially impact the network's bottom line. However, given the potential for significant per-pupil funding cuts in the future, the additional revenue support combined with the network's healthy operating trends and solid coverage do provide some degree of flexibility. Overall, we expect KIPP Albany will sustain metrics consistent with the rating level over time.

### Liquidity and financial flexibility

KIPP Albany has historically maintained a good liquidity position for the rating level, though days' cash on hand dipped in fiscal 2019 to about 107 days' cash on hand due to KTV's $1.7 million cash outlay of pre-construction costs and equity contributions for its elementary school expansion and ACCS' $3 million equity investment to acquire its leased elementary school in fiscal 2018. Unrestricted reserves rebounded in fiscal 2020, supported by improved cash flow from operations as well as the combined $2.2 million in PPP funds. KIPP Albany's pro forma cash to debt metrics are good for the rating at near 37% in fiscal 2020. The organization's current unrestricted reserves, as well as the additional support from expected grants as described above, provides some cushion to weather uncertainty related to the pandemic and the potential for future funding cuts. Overall, we expect KIPP Albany will maintain sufficient liquidity for the rating level.

### Debt burden

Pro forma debt consists solely of the $25.3 million EFF loan, which we view as manageable relative to the network's size and operating trends. Based on fiscal 2020 revenues, the pro forma MADS burden is modest at 6.8% and we view pro forma debt per student of about $16,500 as comparable with peers. Management reports no immediate debt plans or significant capital needs, and as such, we expect these debt measures to improve incrementally in the near-term. We will continue to monitor the network's eventual high school expansion plans and the potential for any additional debt over time.

### Financial policies

KIPP Albany meets standard annual disclosure requirements, based on our evaluation of KTV and ACCS' prior audits and an understanding of future reporting expected for the merged entity. Audits are timely and sufficiently transparent, with no material or significant deficiencies in auditor findings. The network maintains formal risk management and reserve policies. No investment policy exists, typical for its charter peers, but the network has no aggressive investments. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the network'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 network's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with similar providers.

**KIPP Albany, New York Enterprise And Financial Statistics**

| | --Fiscal year ended -- | | | | | Medians for 'BBB-' rated charter schools |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2019** | **2018** | **2017** | **2018** |
| **Enrollment** | | | | | | |
| Total headcount | 1,536 | 1,388 | 1,287 | 1,179 | 1,092 | 1,098 |
| Total waiting list | 94 | 291 | 339 | 229 | 210 | MNR |
| Waiting list as % of enrollment | 6.1 | 21.0 | 26.3 | 19.4 | 19.2 | 35.3 |
| **Financial performance** | | | | | | |
| Accounting standard | N.A. | FASB | FASB | FASB | FASB | N.A. |
| Total revenues ($000s) | N.A. | 24,110 | 21,145 | 18,911 | 17,698 | 10,832 |
| Total expenses ($000s) | N.A. | 20,385 | 19,840 | 17,686 | 15,968 | MNR |

## KIPP Albany, New York Enterprise And Financial Statistics (cont.)

| | --Fiscal year ended -- | | | | | Medians for 'BBB-' rated charter schools |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2019** | **2018** | **2017** | **2018** |
| EBIDA ($000s) | N.A. | 5,958 | 3,307 | 2,875 | 3,039 | MNR |
| EBIDA margin (%) | N.A. | 24.7 | 15.6 | 15.2 | 17.2 | 15.8 |
| Excess revenues over expenses ($000s) | N.A. | 3,725 | 1,305 | 1,225 | 1,730 | MNR |
| Excess income margin (%) | N.A. | 15.5 | 6.2 | 6.5 | 9.8 | 5.4 |
| Operating lease expense ($000) | N.A. | N.A. | N.A. | 376 | 836 | MNR |
| Lease adjusted annual debt service ($000) | N.A. | 2,240 | 1,989 | 1,552 | 1,724 | MNR |
| Lease-adjusted annual debt service coverage (x) | N.A. | 2.66 | 1.66 | 2.09 | 2.25 | MNR |
| Lease-adjusted annual debt service burden (% total revenues) | N.A. | 9.3 | 9.4 | 8.2 | 9.7 | MNR |
| Lease-adjusted MADS ($000s) | N.A. | 2,240 | 2,240 | 2,240 | 2,240 | 1,244 |
| Lease-adjusted MADS coverage (x) | N.A. | 2.66 | 1.48 | 1.45 | 1.73 | 1.60 |
| Lease-adjusted MADS burden (% total revenues) | N.A. | 9.3 | 10.6 | 11.8 | 12.7 | 11.1 |
| Pro forma MADS ($000s) | N.A. | 1,630 | N.A. | N.A. | N.A. | MNR |
| Pro forma lease-adjusted MADS coverage (x) | N.A. | 3.66 | N.A. | N.A. | N.A. | MNR |
| Pro forma lease-adjusted MADS burden (% total revenues) | N.A. | 6.8 | N.A. | N.A. | N.A. | MNR |
| Total revenue per student ($) | N.A. | 17,370.3 | 16,429.7 | 16,039.9 | 16,207.0 | MNR |
| **Balance sheet metrics** | | | | | | |
| Unrestricted reserves ($000s) | N.A. | 9,281.0 | 5,604.0 | 7,774.0 | 5,976.0 | MNR |
| Days' cash on hand | N.A. | 173.5 | 106.9 | 166.2 | 140.8 | 146.80 |
| Total long-term debt ($000s) | N.A. | 26,676 | 26,671 | 25,266 | 19,703 | MNR |
| Unrestricted reserves to debt (%) | N.A. | 35.5 | 21.5 | 31.5 | 31.0 | 25.9 |
| Unrestricted net assets as % of expenses | N.A. | 54.7 | 42.7 | 45.3 | 40.2 | 31.7 |
| Debt to capitalization (%) | N.A. | 71.4 | 76.5 | 76.5 | 76.0 | 84 |
| Debt per student ($) | N.A. | 19,219 | 20,723 | 21,430 | 18,043 | 13,975 |
| **Pro forma metrics** | | | | | | |
| Pro forma unrestricted reserves ($000s) | N.A. | 9,281 | N.A. | N.A. | N.A. | MNR |
| Pro forma days' cash on hand | N.A. | 173.5 | N.A. | N.A. | N.A. | MNR |
| Pro forma long-term debt ($000s) | N.A. | 25,297 | 26,671 | 25,266 | 19,703 | MNR |
| Pro forma unrestricted reserves to debt (%) | N.A. | 36.7 | N.A. | N.A. | N.A. | MNR |
| Pro forma debt to capitalization (%) | N.A. | 70.3 | 76.5 | 76.5 | 76.0 | MNR |

| KIPP Albany, New York Enterprise And Financial Statistics (cont.) | | | | | | |
|---|---|---|---|---|---|---|
| | --Fiscal year ended -- | | | | | Medians for 'BBB-' rated charter schools |
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2018 |
| Pro forma debt per student ($) | N.A. | 18,226 | 20,723 | 21,430 | 18,043 | 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