S&P Global Ratings

RatingsDirect®

Memphis Rise Academy, Tennessee; Charter Schools

Primary Credit Analyst:
Mel Brown, New York + 3122337204; mel.brown@spglobal.com

Secondary Contact:
Mikayla Mahan, Centennial; mikayla.mahan@spglobal.com

Table Of Contents

Memphis Rise Academy, Tennessee; Charter Schools

Credit Profile		
ICR		
Long Term Rating	BBB-/Stable	New

Rating Action

S&P Global Ratings assigned its 'BBB-' issuer credit rating (ICR) to Memphis Rise Academy (MRA), a Tennessee not-for-profit corporation. 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 legal covenants, standing in bankruptcy or liquidation, statutory preferences, or legality and enforceability.

In fiscal 2021, Memphis Rise Academy expects to enter into a $11.65 million loan from the Equitable Facilities Fund to refinance existing notes payable (approximately $11.4 million) and to pay costs of issuance. The refinanced debt was used to purchase the land and construct the academy's current school facilities, and traffic improvements near the campus. The refinancing is expected to result in significant annual debt service savings and it creates a level, 30-year, fixed rate, debt payment schedule. The loan security includes a first lien on gross revenues of Memphis Rise Academy and a first lien mortgage on MRA facilities.

The academy transitioned to a remote learning curriculum starting March 13, 2020, for the remainder of the 2019-2020 school year. For fall 2020, MRA continued instruction in a synchronous virtual learning model before transitioning 40% of its students to in-person learning in March 2021. Management reports that it is conducting virtual office hours daily, offering mental health services, and bolstering staff development through its ongoing partnership with Uncommon Schools, all supported its remote learning over the past year. Management reports near-perfect student participation and no disruptions in the delivery of its educational curriculum. We understand MRA has so far successfully absorbed costs associated with the online transition and COVID-19-related costs with no meaningful effects on enrollment, student retention, and finances. The school reports that it has received state per-pupil student funding at anticipated levels, and that there have been no delays in payment.

Memphis Rise Academy received federal funding from the Elementary and Secondary School Emergency Relief (ESSER) Fund under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. To date, MRA has received:

- $230,680 ESSER I funding;
- $38,750 technology connectivity grant;
- $5,000 re-opening grant;

- $56,556 remote learning technology grant;
- $149,487 Governor's Emergency Education Relief Grant;
- $1.25m ESSER II funding; and
- $2.5 million ESSER III funding (expected).

Established by the U. S. Small Business Administration under the recently passed Coronavirus Aid, Relief, and Economic Security (CARES) Act, the paycheck protection plan (PPP) provides liquidity to financial institutions which, in turn, provide loans that support small businesses in meeting payroll, debt service, rent, utilities, or health care-related expenses. An additional benefit is that PPP loans are eligible for forgiveness (in full or in part) by the lender. The academy received a PPP loan of $829,450 in fiscal 2020. In our view, this could provide additional operating cash flow support to the school in the near term to cushion against the impact of state funding cuts. We have not included this loan in our debt-based metrics, as it is uncertain if the loan will need to be repaid.

Credit overview

We assessed MRA's enterprise profile as adequate, characterized by its growing enrollment, which is now near its facility capacity, meaningful waitlist, solid academic quality, supportive charter relationship, skilled management team with expertise in educating diverse student populations, offset by a shorter charter history nearing its eighth year of operations. We assessed the school's financial profile as adequate, characterized by generally positive full-accrual operating performance along with the expectation for favorable results in fiscal 2021, good pro forma MADS coverage, and modest debt burden. Partially offsetting these factors is the smaller total revenue base of less than $10 million, and previously weak liquidity due to previous-year spending for capital needs. We believe that, combined, these credit factors lead to an anchor of 'bbb-' and a final rating of 'BBB-'.

The rating reflects our view of MRA's:

- Material enrollment growth annually since its founding, although enrollment is expected to reach facility capacity near 780 students over the next year;
- Sound market position as demonstrated by a meaningful waitlist, solid academics, stable funding environment, and a positive charter relationship;
- Stable and experienced management and sufficient board diversity and independence.
- Solid pro forma maximum annual debt service (MADS) coverage of 1.97x based on fiscal year 2020 operations; and
- Modest pro forma MADS burden of 8.4% of fiscal 2020 revenues.

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

- Eight-year history as a school, operating under its initial charter with its authorizer, Shelby County Schools;
- Weak liquidity over fiscal years 2018 and 2019, albeit improved for fiscal 2020, and expected to continue in 2021;
- Smaller total revenue base with approximately $8 million in total revenues for fiscal 2020;
- The inherent uncertainty associated with charter schools that the charter can be revoked or not renewed for failure to perform under its terms, and since the final maturity of the loan in 2051 exceeds the existing charter's term.

The stable outlook reflects our expectation that MRA will maintain its enrollment at or near facility capacity, preserve its academic performance track record, maintain MADS coverage near pro forma levels, and continue growing days' cash on hand (DCOH) in line with the current medians. We do not expect MRA to issue additional debt during our outlook period.

Located in Memphis, Tenn., MRA opened in 2014 as a single site, college preparatory middle school and high school. The academy is authorized by Shelby County Schools, which serves 56 charter schools within its boundaries as of the 2020-2021 school year. Memphis Rise Academy is operating under its initial 10-year charter contract that expires in 2024. Annually, MRA has observed material growth in enrollment with about a 22% average increase in headcount over the past three years. As of fall 2020, MRA serves 766 students in grades six through 12, which is near its facility capacity of 784 students. MRA uses an extended school-day and college-preparatory model to foster its mission of building character and solid foundational academic knowledge across its student base. The academy aims to create a culture of success and its students have been accepted to hundreds of colleges across the country or entered technical programs post-graduation.

Environmental, social, and governance (ESG) factors

Under our ESG factors, we view the risks posed by COVID-19 to public health and safety to be an elevated social risk for all charter schools as a result of the duration of the COVID-19 pandemic and the unknown impact on enrollment and state revenues, which could pressure funding levels. 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 lower the rating if liquidity declines from current assessment levels, if enrollment is not maintained, or if operations produce deficits resulting in weak MADS coverage for the rating.

Upside scenario

While not expected given MRA's current cash position in comparison with peers of its size, and moderately high debt per student that will take time to decline meaningfully given its operation near facility capacity, we could raise the rating beyond the outlook period if MRA can maintain steady enrollment at facility capacity, increase DCOH, and demonstrate a trend of lease-adjusted MADS coverage at levels that we consider consistent with those of higher-rated peers.

Credit Opinion

Enterprise Profile

Economic fundamentals

The academy is in Memphis, in Shelby County. The county's school-age population is healthy at about 307,000 and is expected to decline by 2.2% over the next five years through 2026.

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 believe enrollment and demand has been steady coupled with continued growth in enrollment since the school's inception. For fall 2020, enrollment was 766, reflecting a 16.9% increase from fall 2019 where enrollment totaled 655 students. Management anticipates increasing enrollment to 777 students for fall 2021 and maintain enrollment at these levels in the near term. The waitlist supports are anticipation for enrollment stability over time. For fall 2020, MRA had 612 students on its waitlist, which is 80% of total enrollment. In addition, student retention was solid at 97.6% for fall 2020 and it is expected to at least maintain at this level over the next year. While there are a number of competing charter schools within the county, MRA notes, that because of its location in Memphis with more educational barriers to student success in the classroom, there has been less competition from academically competitive schools and no indication that new schools will open during the outlook to shift the current landscape. Currently 82% of its students qualify for free and reduced lunch, and 12% of enrolled students are classified as having special needs. In addition, 76% of MRA's first graduating class in 2021 are first generation college students, which we believe is aligned with its mission of preparing all students, regardless of background, for success in all post-secondary settings.

We believe MRA has an above-average academic profile. On its most recent state assessments in 2019, MRA performed meaningfully above the average for Shelby County Schools and was on par or above the state average in English language arts and math. Memphis Rise Academy was named a Tennessee Reward school in 2017, and again in 2019. Management attributes much of its success to its extended day format, the continued professional development of its staff through ongoing partnerships with Uncommon Schools and Teach for America, and its support of students outside the classroom, as well as its emphasis on preparing students for post-secondary success. As a result of its college-preparatory program, it graduates its first high school class in 2021, with many of its students attending prominent four-year colleges and universities across the country.

We view MRA's standing with the charter authorizer, Shelby County Schools (SCS), as very good. The academy is operating under its initial charter that expires in 2024. Shelby County provides financial and academic oversight, which is typical for its role as an authorizer. Our conversations with management and the authorizer reflect a supportive, positive relationship. SCS views MRA's academics favorably. The authorizer noted that there were no concerns with MRA's academic, financial, or operational compliance with its benchmarks at this time.

The statutory framework assessment reflects our opinion that despite areas of risk, the framework is not likely to hamper MRA's future ability to pay debt service, unless state funding is materially impaired and weakens financial metrics. Tennessee charter schools rely on the state for per-pupil funding, which increased about 3.5% during the past three years, which we view favorably. Our view of statutory framework incorporates the history of limited charter expansion in the state in comparison with others, and a political landscape that could place future limitations on enrollment growth if MRA expands. If there are any changes in state environment that materially affect financial performance, we could revisit our view of the rating.

Management and governance

MRA is mostly self-managed, with a seasoned and stable leadership team, including its founder who currently serves as executive director. Discussions with management indicate a succession plan is in place, which we view favorably since the school is maturing in age and is likely to see the transition of key leadership in the future, although we recognize no changes are currently planned. The academy contracts with GT3 Group for its financial operations and planning.

An active seven-member volunteer, independent board of trustees provides additional oversight. Board members possess expertise in many areas, including health, finance, marketing, business and education. MRA's ability to execute on its enrollment growth plans while consistently improving academics, navigating its transition to its permanent facilities, and generating mostly positive full-accrual operating margins, reflects our favorable view of the leadership's risk and financial management initiatives. We anticipate MRA will maintain its high bar for performance as it manages its debt service covenants and returns to state testing over the next school year. In our view, management has been prudent in terms of growth and strategic planning while maintaining sound financial and operational oversight. We expect stable leadership over the outlook period.

Financial Profile

We consider the materiality, strategy, and funding of pension plans separately from our analysis of a school's long-term debt ratios or operating margin. Consequently, we could make certain adjustments to the calculation of debt ratios or operating margin for schools with substantial multiemployer, cost-sharing, defined-benefit pension plans to separate out net pension liabilities or noncash expense accruals. In our view, these adjustments enhance analytical clarity from a credit perspective and result in more-comparable debt and operating metrics across accounting methods.

Financial performance

In all but one of the past five years, MRA reported positive operations with good EBIDA and excess margins, largely attributable to disciplined expense control outside of one time spending for capital in fiscal years 2018 and 2019, continued enrollment growth, and increasing per-pupil funding. For fiscal 2020, MRA posted an EBIDA margin of 13.62% and an adjusted operating surplus (after our pension adjustment) of $622,000, or an 8% operating margin, which we view as good for the rating.

Pro forma lease-adjusted MADS of about $645,000 includes all debt service outstanding and associated with the existing campus. Pro forma lease-adjusted MADS coverage on MRA's debt is good for the rating, in our view, at 1.97x based on fiscal 2020 results. The pro forma lease-adjusted MADS burden is modest, in our view, at about 8.4% of operating revenue for fiscal 2020. Management expects a larger surplus in fiscal 2021 in comparison with fiscal 2020, which could reflect some improvement in lease-adjusted MADS coverage from pro forma figures. Overall, we expect the organization will maintain steady near-term financial performance, consistent with the rating.

Liquidity and financial flexibility

At June 30, 2020, MRA had $2.125 million of unrestricted cash and investments, or 113 DCOH, which we view as sufficient for the rating. In our opinion, MRA had what we would consider weak liquidity for the rating in fiscal years 2018 and 2019 due to short-term spending for its more recent facilities construction. We believe the $829,450 PPP loan somewhat boosted operations in fiscal 2020 resulting in the DCOH increase and would expect to see a longer trend of reserves above these levels. However, prior to fiscal 2018, MRA observed DCOH of 110 days' which reflects the ability to grow its reserves meaningfully independent of one-time support, in our view. Days cash on hand is expected to continue growing for fiscal year 2021, which we believe will give it additional cushion at the current rating level. We expect management to achieve its anticipated reserve targets over the outlook period, with continued operating surpluses and healthy cash flow, offset by expenditure growth. We understand management does not plan to spend down reserves over the outlook horizon.

Debt burden

MRA's pro forma lease-adjusted MADS burden is what we consider manageable, at 8.4% of fiscal 2020 total revenues. The academy has minimal long-term debt and its pro forma debt per student is moderate, in our view, at approximately $15,208 per student based on fall 2020 enrollment. The organization's pro forma debt-to-capitalization ratio is high, in our view, at 91%. Lease-adjusted MADS for existing debt is $645,000 occurring in 2023. Management has no plans for additional new debt during the outlook. According to information provided, bondholders receive operating and liquidity covenants. Liquidity and operating covenants require maintaining 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. The loan agreement also specifies certain additional academic and enrollment covenants for the charter school to maintain annually.

Financial policies

MRA meets standard annual disclosure requirements. Its audits are timely and sufficiently transparent, with no material or significant deficiencies in auditor findings. No investment policy exists, typical for its charter peers, but the organization has no aggressive investments. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the school'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 MRA'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.

Memphis Rise Academy, Inc., Tenn.--Enterprise And Financial Statistics

	--Fiscal year ended --					--Medians reported for 'BBB-' rated charter schools--
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Enrollment						
Total headcount	766	655	559	431	329	1,090
Total waiting list	612	714	513	292	141	MNR
Waitlist as % of enrollment	79.9	109.0	91.8	67.7	42.9	35.4
Financial performance						
Accounting standard	N.A.	GASB	GASB	GASB	GASB	N.A.
Total revenues ($000s)	N.A.	7,710	7,157	5,002	4,688	11,322
Total expenses ($000s)	N.A.	7,088	6,420	5,710	3,224	MNR
EBIDA ($000s)	N.A.	1,050	1,342	162	1,616	MNR
EBIDA margin (%)	N.A.	13.6	18.8	3.2	34.5	16.2

Memphis Rise Academy, Inc., Tenn.--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended --					--Medians reported for 'BBB-' rated charter schools--
	2021	2020	2019	2018	2017	2019
Excess revenues over expenses ($000s)	N.A.	622	737	(708)	1,464	MNR
Excess income margin (%)	N.A.	8.1	10.3	(14.2)	31.2	5.5
Operating lease expense ($000)	N.A.	220	216	213	203	MNR
Pension/OPEB adjustments ($000)	N.A.	110	83	63	112	MNR
Lease adjusted annual debt service ($000)	N.A.	632	729	861	620	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	2.01	2.14	0.44	2.93	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	8.2	10.2	17.2	13.2	MNR
Lease-adjusted MADS ($000s)	N.A.	982	744	717	886	1,223
Lease-adjusted MADS coverage (x)	N.A.	1.29	2.09	0.52	2.05	1.60
Lease-adjusted MADS burden (% total revenues)	N.A.	12.7	10.4	14.3	18.9	11.2
Pro forma MADS ($000s)	N.A.	645	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	1.97	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	8.4	N.A.	N.A.	N.A.	MNR
Total revenue per student ($)	N.A.	11,771.0	12,803.2	11,605.6	14,249.2	MNR
Balance sheet metrics						
Unrestricted reserves ($000s)	N.A.	2,125.0	667.0	347.0	958.0	MNR
Days' cash on hand	N.A.	113.3	40.2	24.8	110.0	148.70
Total long-term debt ($000s)	N.A.	10,604	5,189	5,533	4,727	MNR
Unrestricted reserves to debt (%)	N.A.	18.6	12.7	6.3	19.2	26.1
Unrestricted net assets as % of expenses	N.A.	16.6	17.0	95.5	109.8	38.0
Debt to capitalization (%)	N.A.	90.3	83.4	53.1	57.5	81
Debt per student ($)	N.A.	16,189	9,283	12,838	14,368	13,509
Pro forma metrics						
Pro forma unrestricted reserves ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma days' cash on hand	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma long-term debt ($000s)	N.A.	11,650	N.A.	N.A.	N.A.	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	91.1	83.4	53.1	57.5	MNR

Memphis Rise Academy, Inc., Tenn.--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended --					--Medians reported for 'BBB-' rated charter schools--
	2021	2020	2019	2018	2017	2019
Pro forma debt per student ($)	N.A.	17,786	N.A.	N.A.	N.A.	MNR

MADS--Maximum annual debt service. GASB--Governmental Accounting Standards Board. 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 GASB 68 and GASB75. 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