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Ratings

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Mission Achievement and Success Charter School; Charter Schools

Primary Credit Analyst:
Peter V Murphy, New York + 1 (212) 438 2065; peter.murphy@spglobal.com

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

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ICR		
Long Term Rating	BB/Stable	New

Rating Action

S&P Global Ratings has assigned its 'BB' issuer credit rating (ICR) to Mission Achievement and Success Education Foundation, Inc., a New Mexico not-for-profit education corporation, (the foundation) on behalf of Mission Achievement and Success Charter School (MAS). 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 reflect the obligation's nature and provision, standing in bankruptcy or liquidation, statutory preferences, or legality and enforceability.

References to pro forma debt in this rationale are tied to debt issuance after the June 30, 2020, fiscal year-end incorporated into our analysis.

MAS was founded in 2012 with the goal of preparing students for success with a rigorous college prep program with an objective of instilling a commitment to high academic achievement in its students. It operates two schools under a single charter, with campuses located about five miles apart, in Albuquerque, N.M. The foundation was established to provide financial and other support to MAS, and will be the borrower and lessor, for the purpose of entering into loans from the Equitable Facilities Fund (EFF) to acquire a building MAS is currently leasing that houses a gym and cafeteria, as well as to fund construction of a 56,000-square-foot classroom building on the same site. The EFF loan is a general obligation of MAS, secured by the school's revenues and a first-mortgage lien on the financed property. Pro forma debt consists solely of the EFF loan.

The organization's pro forma debt is $32 million, consisting of the proposed 2021 loan. Our analysis is based on $3.37 million as pro forma lease-adjusted maximum annual debt service (MADS). The 2021 loan is expected to be structured with a 30-year maturity. Plans for Phase 2 of the expansion of the Old Coors campus contemplate an additional $17.2 million of borrowing, in fiscal 2023, and would add about $1.05 million to annual fixed costs, but is not factored into pro forma calculations, as the timing and scale of issuance are not certain.

Despite the COVID-19 pandemic, MAS has a growing demand profile, offering an option for virtual instruction, at first for the lower grades in the last school year, while following state-mandated social distancing and prevention guidelines. It plans to operate in fully in-person mode for fall 2021. MAS' stable enrollment and funding environment, along with federal stimulus money, support satisfactory results in fiscal 2021 based on unaudited financials shared by management. Under the federal Coronavirus Aid, Relief and Economic Security (CARES) Act, the school received about $866,000 in Elementary and Secondary School Emergency Relief (ESSER) funds during fiscal 2021, and anticipates $1.74 million in ESSER II funding in fiscal 2022. MAS expects to receive an additional $4.38 million of ESSER III money under the American Rescue Plan, which would be expended through fiscal 2025. MAS used ESSER 1 funding on materials, equipment, and other items needed to respond to and manage operations during the pandemic. It also plans to use federal money to hire staff to help with learning-loss remediation. We expect fiscal 2022 will be another favorable year operationally, supported by the federal funds, increased state per pupil funding, and expanding enrollment.

Credit overview

We assessed MAS' enterprise profile as adequate, characterized by a healthy enrollment base with expectations of ongoing growth, good academics, a moderate charter history, and a capable management team. We assessed the organization's financial profile as vulnerable, reflecting weak coverage of pro forma lease-adjusted MADS, very high leverage, and modest unrestricted reserves. We believe that, combined, these credit factors lead to an anchor of 'bb' and a final rating of 'BB'.

MAS opened its first school, the Yale Campus, in 2012, and the Old Coors campus in 2018. It is entering into a $32 million loan agreement with the EFF to finance construction of a new building to house the K-12 operations of the Old Coors school. A second loan of about $17 million is anticipated in 2022 but is not factored into our current analysis. Management indicates no other debt plans following the Phase I and Phase II loans. Although the loan proceeds will finance construction at only the Old Coors campus, both campuses will be obligated to repay the loan.

The rating also reflects our view of the following factors:

- High pro forma debt metrics, both on a balance-sheet and a per-student basis, and weak lease-adjusted MADS coverage;
- Modest days' cash on hand for the rating level, with improvement expected as operations and state funding continue to increase; and
- The inherent uncertainty associated with charter renewals, given that the final maturity on the loan exceeds the length of the existing charter.

Credit strengths include:

- Historically strong demand, as evidenced by steady growth and good retention;
- Above-average academic results, placing MAS ahead of other schools in the area;
- Experienced management team, with the founder remaining as the school's chief executive, sound governance practices, proactive oversight, and thoughtful strategic and succession planning; and
- Good working relationship with its charter authorizer, the New Mexico Public Education Department's Public Education Committee, which is reviewing MAS' charter (for what would be the school's second renewal) on an expedited basis ahead of its June 2022 expiration date.

The stable outlook reflects our expectation that MAS will continue to generate good operating performance and sufficient liquidity while expanding its enrollment.

MAS commenced operations in 2012 with a single school in Albuquerque, and today has a second campus that opened in 2018. Following the completion of the Old Coors campus, and the incremental addition of grade levels over the next four years, both campuses will serve grades K-12 by 2026.

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 the charter sector under our environmental, social, and governance (ESG) factors. We believe this is a social risk for MAS due to possible impacts on enrollment and mode of instruction going into fall 2021 prompted by the pandemic. Despite the elevated social risks, we consider the school's environmental and governance risks in line with our view of the sector.

Stable Outlook

Downside scenario

We could consider a negative rating action if management's planned enrollment growth does not materialize as expected, such that there is a weakening of lease-adjusted MADS coverage, or a decline in liquidity, to a level inconsistent with that of rated peers.

Upside scenario

A positive rating action is unlikely during the one-year outlook period, given MAS' very high debt leverage, and the uncertainty related to construction and growth projections. However, we could consider a higher rating if management executes on its growth strategy, and produces positive margins and increases coverage and liquidity.

Credit Opinion

Enterprise Profile

Market position

We view MAS' enrollment and demand profile as sound, supported by ongoing enrollment growth and good academics that continue to draw students. Enrollment has increased every year since inception in 2012 by way of grade expansion and the 2018 opening of the Old Coors campus. This campus is at about half of its current capacity prior to the anticipated approval of an increase to the enrollment cap at both schools. For fall 2020, enrollment jumped by 31% to 1,716, and overall, had doubled in the past three years, as both campuses have layered in additional grades. We expect enrollment will rise steadily through 2027, as the school adds high school grades to its second campus. Should fall 2021 enrollment be affected by COVID-19, we note that New Mexico holds school funding harmless, so MAS would still be funded at 905 students for fiscal 2022, which we view positively. We view the school's current expansion plans as somewhat aggressive given its limited waitlist, the 50% increase in charter enrollment cap being sought, and the sizable debt issuance planned. However, we recognize that the school's second campus has increased headcount and the number of grades annually, even amid the pandemic. Although the school's strategic plan calls for a charter amendment increasing the enrollment cap to 3,200, we note there is some flexibility in the timing and scale of the project's second phase, and the school's forecast indicates debt could be covered even if enrollment were to remain capped at 2,280.

MAS' academic performance has historically been solid, consistently outperforming the area's school district at most grades, and compares favorably with state averages. We expect this trend will continue. MAS has a 90% four-year high school graduation rate, which we consider excellent. Its academic program is supported by motivated teachers and staff, although teacher retention remains a challenge that management is addressing through various strategies. In our view, the school's academic outcomes support MAS' healthy demand profile and continued draw for students.

The New Mexico Public Education Commission is the school's charter authorizer. MAS' initial charter was granted in 2012. The school has since received one charter extension for the maximum charter term of five years and expects an additional five-year term will be given in the fourth quarter of 2021, ahead of the June 30, 2022, expiration. Overall, we view the school's relationship with its authorizer as strong, supporting a good market position, in our opinion.

Management and governance

MAS' CEO is also its founder, who has decades of experience in education, including at other charter schools, and has overseen the school's growth and the establishment of a favorable academic reputation. In our view, the leadership team, including academic departments and the governing seven-member board of directors, is dedicated to the overall mission of the organization. MAS has established comprehensive risk controls and policies covering most key areas, including budgeting, cash management, investments, and purchasing, and has established an active safety committee and staff training. MAS contracts out its financial services to The Vigil Group, whose team is seasoned and knowledgeable about public school financing across the state. In our opinion, MAS' leadership is undertaking a significant expansion plan, which could affect the school's operational effectiveness and will necessitate strong management of its execution. However, given the school's recent history of attracting and retaining students, and its recent efforts to expand the leadership team and create a viable succession plan, we believe the management and governance teams are equipped for the growth.

Financial Profile

Financial performance

MAS has reported positive operations the past three fiscal years, reflecting ongoing enrollment growth and stable-to-increasing per-pupil funding. Fiscal 2020 performance was better as a result of higher enrollment, savings from the transition to distance learning, and conservative budgeting in key expense items. Although operations have been consistently positive, pro forma lease adjusted MADS coverage is weak for the rating at below 1x relative to fiscal 2020 results, reflecting the considerable impact of the debt obligations on the current operating profile, though we do expect the organization to grow into these obligations.

Based on unaudited figures supplied by management, MAS expects to sustain positive operations for fiscal 2021, with revenues increasing to over $19 million, mainly due to rising enrollment. We believe that the school's fiscal 2022 operations could be even stronger than fiscal 2021's, with additional operating flexibility offered by ESSER II money, some ESSER III funds, increased per pupil funding, the state's hold-harmless provisions, and higher enrollment from the addition of a grade at the Old Coors campus.

Liquidity and financial flexibility

In our view, MAS' liquidity position is satisfactory for the rating level. MAS increased unrestricted reserves to $3.5 million at fiscal year-end 2020 (June 30), which represents about three months' expenditures. Management projects incremental growth in reserves, reflecting ongoing cash increases from operating surpluses in fiscal years 2021 and 2022. We would view favorably growth in the organization's balance sheet relative to the sharp increase in debt with the 2021 borrowing.

Debt burden

Pro forma debt consists of a $32 million EFF loan originating in 2021. Pro forma MADS occurs in 2048 and includes loan repayments and lease payments on the Yale campus facilities. MAS anticipates an additional $17.2 million loan related to Phase II of the Old Coors campus project, in 2022. We view MAS' debt burden as elevated relative to the size of the student body. The pro forma MADS burden is elevated, topping 20% of revenues, where we expect it to remain following the Phase II borrowing. We expect MAS' debt metrics to improve incrementally over the next five years, as the school expands its revenue and enrollment.

Pension and other postemployment benefits (OPEB) liabilities

MAS participates in the New Mexico Educational Employees Retirement Plan administered by the New Mexico Educational Retirement Board. We view pension and OPEB liabilities as a long-term credit pressure due to historical low funding, and statutory contributions falling below our calculation of minimum funding progress necessary to fully fund the pension liability within a reasonable timeframe. However, it recently made pension reforms that are designed to bring the main state pension system to a fully funded level within 23 years, using actuarial assumptions put in place before the current recession, which include an assumed 7.25% investment return. A key component of the reform was a three-year delay in pension cost of living adjustments (COLAs), as well as making future COLAs dependent on investment return thresholds.

Based on the June 30, 2020, measurement date, the employees retirement plan was funded at a weak 39.1%, which is a decline from 64.1% in fiscal 2019 and 52.1% in fiscal 2018. We understand the decrease was primarily due to assumption changes, investment experience losses, and demographic experience losses. New Mexico's contributions to its retirement funds, which are set by statute, were previously below actuarial requirements, which caused the state's unfunded retirement liability to rise to what we considered high levels.

The school's proportionate share of the plan's net pension liability equals $13.1 million. The school also participates in the cost-sharing, multiple-employer postemployment health care plan (OPEB), which was 16.5% funded with a net OPEB liability of $3.7 million. For fiscal 2020, MAS' required pension and actual OPEB contributions were 6.5% of total expenditures, which is a level that we believe could signal budgetary stress. We will monitor the funding effect on the school's budget should contribution requirements increase significantly.

Mission Achievement And Success Charter School, New Mexico -- Selected Statistics

	--Fiscal year ended June 30--				
	2021	**2020**	**2019**	**2018**	**2020 Medians: Charter Schools Rated 'BB'**
Statement Basis	Demand data	Audited	Audited	Audited	

Mission Achievement And Success Charter School, New Mexico -- Selected Statistics (cont.)

	--Fiscal year ended June 30--				
	2021	2020	2019	2018	2020 Medians: Charter Schools Rated 'BB'
Economic Fundamentals					
Primary service area	Bernalillo County	Bernalillo County	Bernalillo County	Bernalillo County	MNR
Geographic measure	County	County	County	County	MNR
Minor population in service area (000s)	214	216	N.A.	N.A.	MNR
Projected five-year minor population growth rate (%)	(2.1)	(2.5)	N.A.	N.A.	MNR
Enrollment					
Total headcount	1,716	1,310	1,168	877	874
Change in headcount (%)	31.0	12.2	33.2	N.A.	MNR
Total waiting list	309	747	315	9	MNR
Waiting list as % of enrollment	18.0	57.0	27.0	1.0	15.2
Student retention rate (%)	81.1	76.8	77.5	80.8	87.5
Average student SAT score	N.A.	914	N.A.	N.A.	MNR
Student graduation rate (%)	N.A.	90.0	84.0	86.0	MNR
Academic performance relative to local school district(s)	N.A.	N.A.	N.A.	N.A.	MNR
Charter & Facility Limitations					
Charter authorizer	N.M. Public Education Commission	N.M. Public Education Commission	N.M. Public Education Commission	N.M. Public Education Commission	MNR
Charter expiration date	2022	2022	2022	2022	MNR
Charter capacity utilized	75.3	57.5	51.2	38.5	MNR
Charter capacity	2,280	2,280	2,280	2,280	MNR
Facility capacity utilized	75.3	57.5	51.2	38.5	MNR
Capacity of facility	2,280	2,280	2,280	2,280	MNR
Financial performance					
Total revenues ($000s)	N.A.	15,624	12,812	9,258	9,796
Total expenses ($000s)	N.A.	14,797	12,582	8,080	MNR
EBIDA ($000s)	N.A.	887	307	1,232	MNR
EBIDA margin (%)	N.A.	5.68	2.40	13.31	16.00
Excess revenues over expenses ($000s)	N.A.	827	230	1,178	MNR
Excess income margin (%)	N.A.	5.29	1.80	12.72	3.8
Lease-adjusted annual debt service coverage (x)	N.A.	1.62	1.23	2.42	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	9.2	10.5	9.4	MNR

Mission Achievement And Success Charter School, New Mexico -- Selected Statistics (cont.)

	--Fiscal year ended June 30--				
	2021	**2020**	**2019**	**2018**	**2020 Medians: Charter Schools Rated 'BB'**
Lease-adjusted annual debt service burden (% total expenses)	N.A.	9.7	10.7	10.7	MNR
MADS ($000s)	N.A.	N.A.	N.A.	N.A.	1,354
Lease adjusted MADS coverage (x)	N.A.	1.62	1.23	2.42	1.3
Lease adjusted MADS burden (% total revenues)	N.A.	N.A.	N.A.	N.A.	12.7
Lease adjusted MADS burden (% total expenses)	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma MADS ($000s)	N.A.	3,373	N.A.	N.A.	MNR
Pro forma lease adjusted MADS coverage (x)	N.A.	0.69	N.A.	N.A.	MNR
Pro forma lease adjusted MADS burden (% total revenues)	N.A.	21.6	N.A.	N.A.	MNR
Pro forma lease adjusted MADS burden (% total expenses)	N.A.	29.9	N.A.	N.A.	MNR
Total revenue per student ($)	N.A.	11,927	10,969	10,556	MNR
Balance Sheet Metrics					
Unrestricted reserves ($000s)	N.A.	3,538	1,782	2,087	MNR
Contingent liabilities ($000s)	N.A.	N.A.	N.A.	N.A.	MNR
Adjusted unrestricted net assets ($000s)	N.A.	219	380	1,037	MNR
Days' cash on hand	N.A.	87.6	52.0	94.9	95.20
Total long-term debt ($000s)	N.A.	N.A.	N.A.	N.A.	MNR
Unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	14.4
Unrestricted net assets as % of expenses	N.A.	1.5	3.0	12.9	25.0
General fund balance ($000s)	N.A.	249	380	444	MNR
Debt to capitalization (%)	N.A.	N.A.	N.A.	N.A.	88
Debt per student ($)	N.A.	N.A.	N.A.	N.A.	18,540
Pro Forma Metrics					
Pro forma unrestricted reserves ($000s)	N.A.	3,538	1,782	2,087	MNR
Pro forma days' cash on hand	N.A.	87.63	52.01	94.91	MNR
Pro forma long-term debt ($000s)	N.A.	32,000	N.A.	N.A.	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	11.1	N.A.	N.A.	MNR

Mission Achievement And Success Charter School, New Mexico -- Selected Statistics (cont.)					
	--Fiscal year ended June 30--				
	2021	**2020**	**2019**	**2018**	**2020 Medians: Charter Schools Rated 'BB'**
Pro forma debt to capitalization (%)	N.A.	99.32	N.A.	N.A.	MNR
Pro forma debt per student ($)	N.A.	24,427	N.A.	N.A.	MNR

N.A.--Not available. 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 GASB 75.

Related Research

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