

RatingsDirect®

Paramount School Of Excellence Inc., Indiana; Charter Schools

Primary Credit Analyst:

Mikayla Mahan, Centennial; mikayla.mahan@spglobal.com

Secondary Contact:

Beatriz Peguero, New York + 1 (212) 438 2164; beatriz.peguero@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

Enterprise Profile

Financial Profile

Related Research

Paramount School Of Excellence Inc., Indiana; Charter Schools

Credit Profile

ICR

Long Term Rating

BB+/Stable

New

Rating Action

S&P Global Ratings assigned its 'BB+' issuer credit rating (ICR) to Paramount School of Excellence, Ind. (Paramount). 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 consider an obligation's nature and provisions, bankruptcy or liquidation standing, statutory preferences, or legality and enforceability.

As of June 30, 2020, Paramount had \$8.2 million in total debt outstanding, consisting of \$4.7 million in private placement bonds, a \$3 million construction loan, a \$325,000 Indiana Common School Fund loan, and a small capital lease. Its total debt in fiscal 2020 also included about \$1 million in a Paycheck Protection Program (PPP) loan.

After fiscal year-end 2020, Paramount drew down an additional \$5.9 million on its construction loan, which will be refinanced with a loan from the Equitable Facilities Fund (EFF). Pro forma debt will be \$14.4 million, which will consist of the EFF loan of around \$14 million, the Indiana Common School Fund loan, and the capital lease. The school's PPP loan was forgiven in full after the fiscal year-end. Based on current expectations, the EFF loan is a general obligation of Paramount, secured by a master note issued pursuant to a master trust indenture, including a first lien pledge of the borrower's gross revenues and a first mortgage lien on the two financed campuses.

Due to COVID-19 and broader safety concerns, Paramount has maintained both virtual and on-campus modes of instruction for families through spring 2021. About 30% of Paramount families have opted for virtual learning through the 2020-2021 school year. Since the school's virtual programming was well-received by the community, Paramount's leadership responded by creating Paramount Online Academy (POA), a 100% virtual K-8 school opening fall 2021. Despite the pandemic, management continues to outperform its projected enrollment and is conservatively planning for enrollment to reach 1,450 students in fall 2021. We view management's navigation of the crisis and its strategic response favorably.

Credit overview

We assessed Paramount's enterprise profile as strong, characterized by its excellent academics, growing enrollment, seasoned management, and favorable charter standing. These strengths are offset in part by the school's overall modest level of enrollment and lack of waitlist, although we understand the latter is required by the school's primary authorizer, the Indianapolis Mayor's Office of Education Innovation. We assessed Paramount's financial profile as

vulnerable due to the school's modest pro forma lease-adjusted maximum debt service (MADS) coverage for the rating, even when adjusting for one-time revenues and expenses related to the pandemic in fiscal 2020. We view the school's declining cash position as a weakness. While we expect reserves may strengthen in the near term, they may moderate again over time as the school continues to expand.

The school's sufficient level of revenue, low debt burden compared with those of peers, and historically robust operating margins balance these risks. Our view of these factors, combined, leads to an anchor of 'bb'. Paramount's long operating history and strong enterprise profile, coupled with its low debt burden, provide a holistic uplift to the rating, resulting in an issuer credit rating of 'BB+'.

The rating reflects our opinion of Paramount's:

- Historically weak pro forma lease-adjusted MADS coverage, with expectations for similar results in fiscal 2021, according to S&P Global Ratings' calculations;
- Moderating cash position to around 73 days' due to the school's recent renovations, although we understand these were completed on time and on budget;
- Growth plans, which we view as ambitious and as posing potential risks to the school's financial flexibility over time if enrollment projections are not met; and
- The inherent risk, as with all charter schools, of nonrenewal of the charter contract before the bond's final maturity.

We believe somewhat offsetting factors are what we consider Paramount's:

- Rapid enrollment growth in recent years, though we note that the school's overall level of enrollment is still moderate compared with that of other charter networks;
- Outstanding academics and healthy student retention, which helps to offset the risks associated with a nonexistent waitlist;
- Long operating history of 11 years, earning a solid reputation with its primary charter authorizer, the Indianapolis Mayor's Office of Education Innovation; and
- Sophisticated management team for a small network, with a history of adapting to shifting demands, while maintaining positive operations and steady coverage through prior expansion periods.

The stable outlook reflects S&P Global Ratings' expectation that during the outlook period, Paramount will likely continue to expand enrollment, produce full-accrual positive operations, and maintain lease-adjusted MADS coverage at or above historic levels.

Paramount Schools of Excellence, Inc. is a K-8 charter network operating in Indianapolis, Ind. To date, it consists of three brick-and-mortar schools located in the east side of Indianapolis. Its flagship school, Paramount Brookside, opened in fall 2010 with 382 students. It opened Paramount Cottage Home in fall 2018 and Paramount Englewood in fall 2019. In 2021, Paramount will open its Paramount Online Academy with the hopes of attracting students across the state over time. As of fall 2020, the school serves 1,250 students.

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 school sector under our environmental, social, and governance (ESG) factors. However, in our view, Paramount's social risk is not as elevated, as the school's enrollment has grown throughout the pandemic and its virtual education has been received well, prompting a permanent online academy opening in fall 2021. Indiana's per-pupil funding has also remained steady through fiscal years 2020 and 2021, although we will continue to monitor the impact of the pandemic on state budgets over the longer term. We consider the school's governance and environmental risks as in line with the sector.

Stable Outlook

Upside scenario

We could consider a positive rating action in the outlook period if Paramount is able to meet enrollment projections while improving its cash position and MADS coverage to levels commensurate with a higher rating.

Downside scenario

We could lower the rating or revise the outlook to negative if the school's margins, coverage, or cash were to deteriorate as the school expands its operations. We would also view a softening of the school's demand profile negatively. Although we think that Paramount has taken proactive steps to address COVID-19, we could consider a negative rating action during the outlook period should unforeseen pressures related to the pandemic materially affect the school's demand, finances, or trajectory.

Enterprise Profile

Economic fundamentals

Paramount's three physical campuses currently operate in Marion County, incorporating Indianapolis, Indiana. The county's minor population is significant, at about 335,000, and is expected to remain stable, with projections indicating a steady increase of 1.7% over the next five years.

Industry risk

Industry risk addresses the charter school sector's overall cyclical 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 the school's enrollment and demand profile as sound, driven by an overall modest, yet growing, level of enrollment. With Paramount Cottage Home opening in fall 2018 and Paramount Englewood opening in fall 2019, the network's total enrollment across its three campuses grew to 1,250 students in fall 2020, translating to a three-year average enrollment growth of 21.7%. Management is projecting its total enrollment to reach 1,450 students across its three physical campuses and its nascent online academy in fall 2021, with a long-term growth strategy of growing approximately 10 students per grade per year. The school's 10-year strategic plan is to expand to at least 10

high-performing K-8 schools, serving over 5,000 students across Indiana. We note that management has historically maintained a low debt burden throughout previous periods of growth, growing enrollment in incubation spaces before assuming new debt or long-term leases. However, we view management's growth plans as somewhat aggressive, and its expectation to grow cash and coverage while expanding to different markets, where a solid enrollment base is not established, as optimistic. Overall, we expect the school's level of enrollment to remain sufficient in the near term.

We view management's ability to grow enrollment, despite its lack of waitlist, as a credit strength. In accordance with its authorizer, the school has not maintained a waitlist for the last three years, instead participating in the state's universal enrollment system. Before the change in the authorizer's rules, management reported a waitlist of about 43% of total enrollment, which we view as slim. However, according to management, filling seats has not been an issue since the school's opening in 2010. This is evidenced by robust enrollment growth and steady student retention, averaging 81.1% over the last four years.

Paramount's superb academics serve to attract and retain families. Paramount consistently outpaces the local district on state assessments, in some grades by three or four times. Amid local peers, Paramount shines as one of the only 'A' state-rated schools. Although the school only has one academic data set for Cottage Home and none for Englewood due to COVID-19, Cottage Home's initial scores either outstrip or are on par with Brookside's scores. Indiana has announced that, due to the pandemic, schools will not be held accountable for test scores in spring 2021. However, Paramount's leadership states it will be transparent about its upcoming test scores, as they serve as a powerful marketing tool. Management expects test results to be on par with previous results, despite the pandemic. We will continue to monitor Paramount's academics to see if the school is able to replicate its strong results as it expands online and across different markets in Indiana.

We view the school's charter standing and relationship with its authorizers as solid. The Mayor's Office of Education Innovation in Indianapolis charters Paramount's three brick-and-mortar campuses. Paramount Brookside's campus has maintained its charter since 2010 and has received one charter extension for the maximum term of seven years. Its current charter extends through June 2024. Englewood and Cottage Home have not yet received charter renewals. Their contracts renew in June 2026 and June 2025, respectively. Paramount Online Academy (POA) is authorized by Trine University, a statewide authorizer. POA was recently approved for a five-year term, ending June 2026. Both authorizers report outstanding relationships with Paramount, which we view positively, given the short operating track records of three of the campuses.

Overall, the statutory framework assessment reflects our opinion that, while there might be some areas of risk, the framework is not likely to impair the school's future ability to pay debt service. We view the state funding environment in Indiana as satisfactory. State per-pupil funding has been increasing 1%-2% in recent years. Management expects per-pupil revenue to increase to \$7,377 per student in fiscal 2021, up from \$7,256 in fiscal 2020. Virtual schools, like POA, are funded at 85% of normal per-pupil funding, which management has factored into its budgets. Based on conversations with management, we believe the education funding environment in Indiana is stable and we expect per-pupil funding will increase modestly in the next few years.

Management and governance

In our view, Paramount's leadership team is experienced and capable, lending credit strength, despite some level of risk as its founder still operates as the school's CEO. However, this risk is mitigated by the school's well-codified processes, succession planning, and strengthening central office functions, which include a chief academic officer, three principals, a chief operations officer, and the founder CEO. The school's chief operations officer and chief academic officer both have extensive experience and have been with the school since 2013. There are plans to hire a chief financial officer in the next year to support the school's operations, which we view favorably. While these centralized functions are organized under a charter management organization (CMO) structure, this is not a contracted relationship, as all new and existing Paramount schools operate as one organization. Management describes the relationship between its central office and site leadership as collaborative.

The school's board consists of nine independent board members who serve staggered three-year terms. It holds monthly board meetings. New board members are elected internally without external influence. In our view, the board remains active in assessing the school's long-term goals and applying solutions to meet them.

Paramount has set a high academic standard that continues to strengthen its overall profile in the market. Management oversees financial operations acceptably and has a track record of maintaining steady coverage throughout periods of growth. We anticipate no significant changes in the next few years.

Financial Profile

Financial performance

The school's historical financial performance is characterized by good excess income margins, but modest coverage, which we expect to continue in the near term. We believe Paramount's fiscal 2020 audited financials are understated, due to one-time expenses related to the pandemic and construction. Approximately \$1 million in COVID-19-related expenses were incurred in fiscal 2020, while the offsetting \$1 million in PPP revenue will not be recognized until fiscal 2021. The school also attained about \$400,000 in construction expenses related to the renovation of its two newer campuses, Englewood and Cottage Home. Adjusting for these one-time expenses, Paramount ended fiscal 2020 with an excess income margin of 4.47% and MADS coverage of 1.26x. The school was also allocated about \$2.58 million between the first two rounds of federal stimulus, which will also be realized in fiscal 2021 and beyond, offset by corresponding expenses. A greater amount of funding is expected with the third round of federal stimulus.

Management expects to end fiscal 2021 with a surplus upward of \$2.1 million. The school's year-to-date financials show a surplus of \$1.8 million. We view these projections as fairly reasonable, since the school budgets for depreciation, amortization, and interest expenses. Since PPP revenue and federal stimulus are not included in these budgets, we do not think these projections are artificially inflated. We expect the school's margins and coverage to return to historic levels in fiscal 2021, supported by sufficient per-pupil revenue increases in Indiana and healthy enrollment growth, although we believe these metrics could soften over time as management pursues significant expansion plans. Paramount aims to add four additional schools, including POA, over the next five years, reaching 10 schools total by 2030. Renovations at its two new campuses contributed to the softening of the school's financial performance and liquidity metrics over the last year, perhaps foreshadowing the potential expansion-related risks to

come.

Liquidity and financial flexibility

We consider the school's balance sheet limited for the 'BB+' rating. The school's liquidity position has declined in recent years due to the school's opening and renovation of its two new campuses, with days' cash falling from 109 days' in fiscal 2018 to 73 days' in fiscal 2020. Management reports that it currently has no significant plans to draw down its cash position and plans to build reserves such that days' cash should rebound to 109 days' in fiscal 2021. We view management's plans to build cash favorably, although we note that drawdowns could occur over time as the network expands in recent years, constraining the rating.

Paramount's pro forma unrestricted reserves as a percentage of debt for fiscal 2020 were 17.2%, which we view as weak. We expect the unrestricted net position should improve over the next few years as the debt liability is reduced and the school continues to produce modest surpluses.

Debt burden

At year-end fiscal 2020, the school had about \$8.2 million of debt outstanding. The school subsequently drew down on its construction loan and is now refinancing it, along with its private placement bonds. Thus, we estimate the school's current total debt outstanding to be around \$14.4 million, consisting of its refunding EFF loan, its Indiana Common School Fund loan, and a small capital lease. Even with the additional debt, we view the school's debt burden as manageable, at about 11.5% compared with revenue. Paramount has no additional contingent liabilities or off-balance-sheet debt. We view the school's debt burden as low for the rating, and we understand management has no plans to take on additional debt in the near term, improving these metrics further over time.

The organization's debt-to-capitalization ratio is also sufficient, in our opinion. For fiscal 2020, its debt-to-capitalization ratio was moderate at 69.6%. We expect marginal improvement to this ratio as well over the next few years.

Financial policies

The school has formal policies for liquidity and debt that are in line with bond covenants. Paramount meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there might be some areas of risk, the organization's overall financial policies are not likely to impair Paramount's future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with those of similar providers.

Paramount School Of Excellence Inc.--Enterprise and Financial Statistics

	--Fiscal year ended --				Medians for 'BB+' rated charter schools
	2021	2020	2019	2018	2019
Enrollment					
Total headcount	1,250	935	808	698	1,112
Total waiting list	N.A.	N.A.	N.A.	N.A.	MNR
Waiting list as % of enrollment	N.A.	N.A.	N.A.	N.A.	20.5

Paramount School Of Excellence Inc.--Enterprise and Financial Statistics (cont.)

	--Fiscal year ended --				Medians for 'BB+' rated charter schools
	2021	2020	2019	2018	2019
Financial performance					
Accounting standard	N.A.	FASB	FASB	FASB	N.A.
Total revenues (\$000s)	N.A.	12,116	10,359	8,292	13,631
Total expenses (\$000s)	N.A.	12,931	9,422	7,114	MNR
EBIDA (\$000s)	N.A.	(94)	1,540	1,727	MNR
EBIDA margin (%)	N.A.	(0.8)	14.9	20.8	16.5
Excess revenues over expenses (\$000s)	N.A.	(815)	937	1,178	MNR
Excess income margin (%)	N.A.	(6.7)	9.0	14.2	4.3
Operating lease expense (\$000)	N.A.	455	253	70	MNR
Pension/OPEB adjustments (\$000)	N.A.	N.A.	N.A.	N.A.	MNR
Lease-adjusted annual debt service (\$000)	N.A.	890	688	479	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	0.41	2.61	3.75	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	7.3	6.6	5.8	MNR
Lease-adjusted MADS (\$000s)	N.A.	N.A.	N.A.	N.A.	1,594
Lease-adjusted MADS coverage (x)	N.A.	N.A.	N.A.	N.A.	1.50
Lease-adjusted MADS burden (% total revenues)	N.A.	N.A.	N.A.	N.A.	11.9
Pro forma MADS (\$000s)	N.A.	1,393	1,393	1,393	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	0.26	1.29	1.29	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	11.5	13.4	16.8	MNR
Total revenue per student (\$)	N.A.	12,958.3	12,820.5	11,879.7	MNR
Balance sheet metrics					
Unrestricted reserves (\$000s)	N.A.	2,479.0	2,384.0	2,027.0	MNR
Days' cash on hand	N.A.	72.8	96.2	109.3	105.20
Total long-term debt (\$000s)	N.A.	7,340	5,317	5,543	MNR
Unrestricted reserves to debt (%)	N.A.	30.7	45.5	37.1	18.9
Unrestricted net assets as % of expenses	N.A.	50.6	78.5	91.0	25.7
Debt to capitalization (%)	N.A.	53.9	42.8	47.4	86
Debt per student (\$)	N.A.	7,850	6,580	7,941	15,818
Pro forma metrics					
Pro forma unrestricted reserves (\$000s)	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma days' cash on hand	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma long-term debt (\$000s)	N.A.	14,401	14,401	14,401	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	69.6	67.0	70.0	MNR

Paramount School Of Excellence Inc.--Enterprise and Financial Statistics (cont.)

	--Fiscal year ended --				Medians for 'BB+' rated charter schools
	2021	2020	2019	2018	2019
Pro forma debt per student (\$)	N.A.	15,402	17,823	20,632	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 GASB 75.

Related Research

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

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.