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NYOS Charter School, Inc.; Charter Schools

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Credit Profile		
NYOS Charter Sch, Inc. ICR		
Long Term Rating	BB/Stable	Rating Assigned

Rating Action

S&P Global Ratings assigned its 'BB' rating to Not Your Ordinary School (NYOS), Texas' issuer credit profile. The outlook is stable.

COVID-19 response

We understand that, given the COVID-19 outbreak and broader public safety concerns, the Texas governor recently declared a state of disaster for the state and waived state testing requirements for the 2019-20 school year.

Management has completed and adopted a plan for staff to work remotely starting March 30, 2020, and distance teaching and learning to commence April 6. Officials believe the extra week of spring break allowed them to benefit from what other schools are doing in Texas and across the U.S. as they prepared their transitions to online learning. Management also believes their participation in the Charter Schools Growth Fund portfolio is helpful, because it allows many school leaders from high-performing schools across the country to share plans, communications, and resources. Officials report that they are receiving regular, detailed guidance from the Texas Education Agency and Region XIII. We believe that the school's management team has tools and experience to work through the myriad tasks related to transitioning to distance teaching and learning. Additionally, we believe the previous experience NYOS students have with lessons in online forums such as Class Dojo and Google Classroom will be helpful in supporting a smooth transition.

Despite high uncertainty regarding the duration and extent of the impact from the COVID-19 outbreak and the related effects on our rated entities' performance, including the ability to resume classes and absorb unreimbursed additional costs, we expect state per-pupil funding in Texas to continue for the fiscal year. This is because the state authorizer has declared that schools will continue to receive funding if they close because of COVID-19 related concerns, as long as the school system commits to supporting students instructionally while at home. In fiscal 2021, we believe state funding could be cut given current economic conditions; we will monitor developments for any potential credit effects and take action as we deem appropriate. In our opinion, NYOS has sufficient liquidity, in addition to costs associated with expansion, to withstand moderate funding cuts in the near term. We will continue to monitor expansion plans, as factors such as COVID-19 developments could directly affect expansion timelines.

Credit overview

We assess NYOS's enterprise profile as strong, reflecting solid demand in a rapidly growing, albeit competitive market within the Austin metropolitan statistical area (MSA), with high academics and an experienced, tenured management team. We assess the school's financial profile as highly vulnerable, with a high debt burden and thin pro forma maximum annual debt service (MADS) coverage below 1x that requires enrollment growth, coupled with liquidity levels and MADS coverage that are satisfactory. Tempering these risks is the school's solid liquidity for the rating level, which is projected to continuing improving in fiscal 2020. We believe these combined credit factors lead to an indicative stand-alone credit profile of 'bb-'.

As our criteria indicate, the final rating can be adjusted above the indicative credit level based on a variety of overriding factors. We believe that the school's long operating history, robust waitlist, and application history will allow NYOS to systematically grow and moderate high debt ratios to levels more in line with 'BB' rated peers.

The stable outlook reflects our expectation that, in the next year, NYOS will maintain a solid demand profile and financial profile by continuing to generate positive revenue over expenses, and increase revenue to position its operations to cover increasing debt service costs while working to build its liquidity position. We expect the school's demand profile will continue to reflect high academic performance, an extensive waitlist, and solid student retention.

The 'BB' rating reflects our view of the school's:

- Solid enterprise profile within a fast-growing market, coupled with a robust waitlist and good student retention supported by high academic performance;
- Experienced management team intent on implementing policies and setting targets routinely tracked in conjunction with adopted objectives and evaluated by the board;
- Satisfactory liquidity compared with that of similarly rated peers, with management projecting moderate improvement over the next two years; and
- Good relationship with charter authorizer Texas Education Agency (TEA), with two successful 10-year charter renewals, coupled with enrollment capacity increases.

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

- High pro forma debt burden;
- The need for additional students to cover pro forma MADS; and
- Risk, as with all charter schools, that NYOS can be closed for nonperformance of its charter or for financial distress before the final maturity of the bonds.

Including the series 2020 loan, NYOS will have about $32 million of pro forma debt outstanding. The school's revenues, consisting primarily of per-pupil funding from Texas, along with a deed for Trust/Real Estate, secure the bonds. Officials will use the series 2020 loan to construct two educational facilities serving pre-kindergarten to grade 8 (pre-K-8) on land owned by NYOS and adjacent to the current Lamar Campus. This project will also eliminate the need for the Kramer Campus. A supplemental master trust indenture will supersede all previous loan agreements and will make all existing and the proposed series 2020 loan parity debt.

NYOS is a pre-K-12 public charter school in its 19th year of operations. Its mission is to educate the whole student and foster a collegial program that challenges each learner with rigorous academics through innovative strategies within a culture that fosters expectations for civic engagement. The school currently operates two campuses and plans to leverage facilities to support organic growth and matriculation across all of its facilities in the Austin MSA.

Environmental, social, and governance factors

We analyzed NYOS Charter School's' environmental, social, and governance risks relative to its market position, management and governance, and financial performance, and determined that all are in line with our view of the sector standard.

Stable One-Year Outlook

Downside scenario

We could lower the rating if operations produce a trend of material deficits as a result of unexpected operating costs tied to unexpected costs related to expansion or unrealized enrollment projections related to the opening of the new campus, if MADS coverage weakens, or cash on hand decreases significantly below current levels. Although we think that NYOS has taken proactive steps to address COVID-19 and that it understands the virus to be a global risk, 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.

Upside scenario

A positive rating action is unlikely over the one-year outlook horizon, given the school's high pro forma debt burden. However, we could raise the rating outside the outlook horizon if the school demonstrates a trend of MADS coverage that is more consistent with that of a higher rating category while maintaining its enrollment and demand profile, and at the same time building and sustaining liquidity levels that are more consistent with those of higher-rated credits.

Credit Opinion

Enterprise Profile

NYOS is in Travis County and serves the Austin MSA. The county's minor population is significant, at about 462,000, and is expected to grow rapidly, with projections to increase by a healthy 6.9% through 2025.

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 the school's enrollment and demand profile as sound, reflecting stable enrollment in conjunction with a solid waitlist. Total enrollment has increased to more than 1,000 students for fall 2019, from more than 960 students in fall 2015. With regard to fall 2020 enrollment, NYOS held a lottery in early March, with registrations coming throughout the month. To date, officials report that they are not experiencing any challenges with either keeping current enrollment or with filling seats for the fall 2020 school year.

A rapidly growing market within the Austin MSA should allow the school to maintain enrollment near historical levels. While the market in the greater Austin area is not without competition, officials believe that the school's unique learning system, which focuses on a smaller class size; two-year loops in which students have the same teacher in kindergarten and grade 1, second and third grades, and grades four and five; year-round instruction schedule; civic engagement; and teacher support and development will allow NYOS to continue to serve families in 18 area school districts across the greater Austin area. We view the current waitlist as robust, averaging over 300% of enrollment for the past five years. Management continues to purge the waitlist every two years and we expect it to remain a positive demand factor in the near term as the school implements its expansion plans. NYOS's future capacity will be about 2,000 following the completion of the new campus to start fall 2021.

For fiscal 2019, the school received an overall district rating of 'A', which we view as a key positive demand characteristic in a very competitive Austin market. Additionally, NYOS has earned no less than four academic distinctions annually over the past five years. We expect officials will continue to work to maintain its high academic reputation.

We view the school's standing with the authorizer as very good. NYOS has held its charter with the TEA for more than 20 consecutive years, with the charter renewed two times, most recently in July 31, 2013, and extending through July 31, 2023. In conjunction with the charter renewal, the TEA approved an increase in the school's enrollment cap to 2,500.

The statutory framework assessment reflects our opinion that, while there might be some areas of risk, the framework is not likely to negatively affect NYOS's future ability to pay debt service.

The project

Currently, NYOS serves students on two campuses (Lamar and Kramer) approximately 2.8 miles apart. Officials will use loan proceeds to consolidate all grades at the Lamar Campus on an adjacent property already owned by the school. Upon completion of the new construction, officials will begin fall 2021 with kindergarten and grades 2, 4, and 6, using a staggered growth approach. We believe that this will allow students to matriculate organically in a manner that supports the school's impressive academic record. Project Management Services, Inc., an experienced project manager, is the project manager for the new facility and has worked with numerous charter schools throughout the state to construct and open new facilities on time and on budget. While construction delays are not expected by management, given the tenure and expertise of the project manager, NYOS owns portable facilities that could be used to instruct additional students in the unlikely event of a material construction delay. Officials have no plans for additional expansion in the near term following the construction of the new facility funded by the aforementioned EFF loan.

Management and governance

NYOS is governed by a board of 11 members, not including a non-voting student representative. Members have a diverse set of backgrounds, including finance, law, and education. The school is self-managed, with what we consider a dynamic and dedicated senior management team consisting of several long-tenured members. The executive director holds a Harvard MBA degree, has been in the role for more than a decade, and has 15 years' professional experience in finance and operations management. She was also named Charter School Leader of the Year by the Texas Charter School Association in 2018. The directors of academics, operations, and finance have each held leadership roles for at least 10 years. As part of the school's strategic plan to expand to 2,000 students by 2028, officials recruited and hired a new principal (also a Harvard alumnus) for the new facility that will consolidate all students from the Kramer Campus at a property adjacent to the original Lamar Campus. We view the management team as a credit strength, reflecting a tenured and professional staff, with a track record of being systematic and strategic in its organizational plans along both academic and operating lines. In our view, management remains active in assessing the school's long-term goals and applying solutions to meet these goals while maintaining high academic standards.

Financial Profile

Financial performance

The school's financial performance reflects consistently positive operating margins, with thin pro forma lease-adjusted MADS coverage that will require enrollment growth by 2023 as the debt service schedule ramps up to incorporate debt service associated with the series 2020 loan and facility purchase, which will end the school's current leasing of the Kramer facility. We believe the consistent performance is the result of stable enrollment and state funding, as well as management's ability to keep expense growth modest. Based on our calculations, pro forma lease-adjusted MADS is $1.8 million and occurs in 2026. In fiscal 2019, the school produced a full-accrual surplus of $400,000, or a 4.16% margin, resulting in pro forma MADS coverage of 0.65x. Management budgeted to end fiscal 2020 with break-even results and expects to end the year with a moderate operating surplus. NYOS was awarded a grant of about $2 million for meeting certain fundraising benchmarks. Officials expect to receive the grant in approximately equal installments over the next four years, and have budgeted for about break-even operations in fiscal 2020, before accounting for the $2 million grant. For fiscal 2020, officials expect cost increases for technology and instructional materials, as well as payroll for support staff, such as IT and maintenance. Management has set up an accounting method to keep track of additional expenses and have reported that the TEA indicates reimbursement may be possible, similar to Hurricane Harvey relief. The TEA has pledged to continue average daily attendance funding, which, like all charters in the state, remains the school's primary source of revenue. In addition, the Charter School Growth Fund did pledge a $20,000 unrestricted grant to support NYOS, and officials expect those funds by early April. While we expect the school will have positive operations for fiscal year-end 2020, we believe NYOS, like many schools across the state, may face the potential of state funding decreases in fiscal 2021, given current economic conditions.

Liquidity and financial flexibility

The school's liquidity position has demonstrated material overall growth since fiscal 2016. As of fiscal year-end 2019, NYOS had what we consider a satisfactory 77 days' cash on hand, up from 47 days' in fiscal 2016. Management has no plans to draw down its cash position in fiscal 2020; rather, officials are focusing on improving cash levels. We expect continued positive operating performance should assist the school in maintaining an acceptable liquidity position throughout the outlook horizon and during the opening of the new facility.

NYOS's unrestricted reserves as a percent of pro forma debt for fiscal 2019 were modest, in our view, at 5.9%. The school hopes to increase its unrestricted net-assets position in the next few years.

Debt burden

Following the closing of the EFF loan, the school will have about $32 million in pro forma debt, with annual debt service ramping up from more than $800,000 for fiscal years 2020 and 2021 before increasing to more than $1.0 million in fiscal 2022, then levelling off at about $1.8 million for approximately 20 years. Debt service drops to about $1.4 million for the final seven years of maturity. This translates into a high pro forma debt burden of about 19% for fiscal 2019. Officials have no additional debt plans over the outlook horizon and the school has no additional contingent liabilities or off-balance-sheet debt outside of the series 2016 Frost Bank loan, which terms will be superseded by the master trust indenture governing the series 2020 EFF loan and all existing debt. The series 2016 loan contains a swap that is currently "in the money" and officials have no plans to terminate it. We believe NYOS's debt burden will remain high, given the school's pro forma debt profile.

As with many charter schools, the organization's debt-to-capitalization ratio shows significant leverage on the school's balance sheet. For fiscal 2019, the pro forma ratio is elevated at 90%. We believe NYOS's debt-to-capitalization ratio will likely remain high, but not out of line with the sector over our outlook horizon.

Financial policies

The school has formal policies for investment allocation, liquidity, and debt. NYOS meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there might be some areas of risk, the school's overall financial policies are not likely to negatively affect NYOS'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, as well as a comparison of these policies with those of similar providers.

NYOS Charter School, Inc.--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					--Medians for 'BB' rated charter schools--
	2020	**2019**	**2018**	**2017**	**2016**	**2018**
Enrollment						
Total headcount	1,063	996	984	958	966	956
Total waiting list	2,838	3,391	3,234	2,739	3,354	MNR
Waiting list as % of enrollment	267.0	340.5	328.7	285.9	347.2	22.6
Financial performance						
Accounting standard	N.A.	FASB	FASB	FASB	FASB	N.A.
Total revenues ($000s)	N.A.	9,608	8,974	8,753	8,964	9,039
Total expenses ($000s)	N.A.	9,208	8,769	8,524	8,651	MNR
EBIDA ($000s)	N.A.	804	624	643	753	MNR
EBIDA margin (%)	N.A.	8.4	7.0	7.3	8.4	14.3
Excess revenues over expenses ($000s)	N.A.	400	205	229	313	MNR
Excess income margin (%)	N.A.	4.2	2.3	2.6	3.5	2.3
Operating lease expense	N.A.	369	358	337	331	MNR
Pension/OPEB adjustments ($)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Lease-adjusted annual debt service ($)	N.A.	786	773	4,585	783	MNR

NYOS Charter School, Inc.--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					--Medians for 'BB' rated charter schools--
	2020	**2019**	**2018**	**2017**	**2016**	**2018**
Lease-adjusted annual debt service coverage (x)	N.A.	1.49	1.27	0.21	1.38	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	8.2	8.6	52.4	8.7	MNR
MADS ($000s) (change to lease-adjusted MADS)	N.A.	833	833	833	833	1,324
Lease-adjusted MADS coverage (x)	N.A.	1.41	1.18	1.18	1.30	1.20
Lease-adjusted MADS burden (% total revenues)	N.A.	8.7	9.3	9.5	9.3	13.6
Pro forma MADS ($000s)	N.A.	1,816	833	833	833	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	0.65	1.18	1.18	1.30	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	18.9	9.3	9.5	9.3	MNR
Total revenue per student ($)	N.A.	9,646.6	9,119.9	9,136.7	9,279.5	MNR
Balance-sheet metrics						
Unrestricted reserves ($)	N.A.	1,885	1,547	1,315	1,097	MNR
Days' cash on hand	N.A.	76.50	66.06	57.68	47.40	72.00
Total long-term debt ($000s)	N.A.	6,562	6,770	6,983	3,835	MNR
Unrestricted reserves to debt (%)	N.A.	29.3	23.3	18.8	25.6	11.9
Unrestricted net assets as % of expenses	N.A.	38.3	40.4	39.0	40.5	17.2
Debt to capitalization (%)	N.A.	64.4	65.1	67.6	54.6	91
Debt per student ($)	N.A.	6,248	6,542	7,071	4,257	16,811
Pro forma metrics						
Pro forma unrestricted reserves ($000s)	N.A.	1,885	1,547	1,315	1,097	MNR
Pro forma days' cash on hand	N.A.	76	66	58	47	MNR
Pro forma long-term debt ($000s)	N.A.	32,177	6,770	6,983	3,835	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	5.9	22.9	18.8	28.6	MNR
Pro forma debt to capitalization (%)	N.A.	90	66	68	53	MNR
Pro forma debt per student ($)	N.A.	32,306	6,880	7,289	3,970	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.