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California School Finance Authority Aspire Public Schools; Charter Schools

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Credit Profile		
US$87.425 mil Charter School Revenue Refunding Bonds (Aspire Public Schools) ser 2016 dtd 02/10/2016 due 08/01/2046		
Long Term Rating	BBB/Stable	New
California Sch Fin Auth, California		
Aspire Public Schools, California		
California Sch Fin Auth (Aspire Public Schools) rev bnds (Aspire Public Schools) ser 2015A dtd 12/17/2015 due 08/01/2045		
Long Term Rating	BBB/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'BBB' long-term rating to the California School Finance Authority's series 2016 charter school revenue bonds, issued for the Aspire Public Schools–Obligated Group. At the same time, we affirmed the 'BBB' long-term rating on the schools' series 2015 bonds based on the updated obligated group. The outlook is stable.

Operations from 12 of Aspire's 38 schools secure the bonds. Since the 2015 bonds were issued, 10 schools were added to the obligated group. The revenues of a 13th school, not yet opened, will also be pledged as security. We believe credit quality of the larger obligated group as well as the application of group rating methodology remains the same as that of the former smaller group. These schools operate under the parent organization, Aspire Public Schools. Based on our "Group Rating Methodology", published Nov. 19, 2013, the rating analysis encompasses the entire Aspire organization as well as the organization's 13 schools and CFC II LLC, which is the landlord for the schools.

The 'BBB' rating is based on our view of Aspire's group credit profile of 'bbb' and the highly strategic status of the schools that are obligated to support the bonds. The rating only applies to the series 2015 and 2016 bonds and does not apply to Aspire Public Schools as an organization.

Our rating reflects the obligated group's strong enterprise profile with good demand and strong academic performance. Its financial profile also supports the rating with strong and consistent margins, managing well through the significant delays in California state funding in the past. Its pro forma debt service coverage (DSC) is strong and does not require growth to meet coverage, even though additional growth is expected. Cash levels are also robust and expected to remain so. Strong connectivity with its charter management organization, Aspire Public Schools, and highly strategic link further supports the rating.

Factors supporting the rating include our view of Aspire's:

- Established and experienced management team that operates the schools;
- Good demand demonstrated by enrollment increases during the past several years and significant waitlists;
- Solid academic performance at each obligated school, with scores above those of local public school districts;

- Good debt service coverage (DSC) for the obligated group with 2.8x pro forma maximum annual debt service (MADS) coverage in fiscal 2015, which is in line with previous years;
- Solid cash level with 111 days' cash on hand in fiscal 2015, which is expected to drop slightly in fiscal 2016 to about just under 100 days due to investment in its new building;
- A manageable pro forma MADS burden of 13% of operating expenses in fiscal 2015;
- Strong connectivity with the parent and charter management organization, Aspire Schools; and
- Additional security provided by a state aid intercept program for debt service payments.

Partially offsetting the rating are:

- Construction and expansion risk as the obligated group plans to open a new school building using proceeds of the 2015 bonds and cash reserves in fiscal 2016;
- Demonstrated appetite for expansion, which inherently presents some uncertainties and risks;
- The potential that Aspire's various charters could be revoked or not renewed due to Aspire's potential noncompliance with the terms of the charter (as with all charter schools) prior to the bonds' final maturity.

The series 2016 bonds will refinance existing 2010 bonds, which were secured by the revenues of the 10 new schools in the obligated group. The pledge of the expanded 12-school obligated group will also secure the series 2015 bonds. The series 2015 and 2016 bonds make up the majority of Aspire's debt, although there are other short-term and state-funded facilities debt outstanding. Management does not plan to issue additional debt secured by the revenues of the schools in the obligated group in the near term.

The series 2016 bonds will refinance existing 2010 bonds issued on behalf of Aspire. The series 2016 bonds are secured by a gross revenue pledge of the thirteen obligated schools, of which only twelve are operating currently. These bonds will be the only series of bonds outstanding for Aspire's schools, although they do have other debt in their capital structure. Management states that it does not plan to issue additional debt secured by the revenues of the schools in the obligated group.

The borrower, College for Certain Inc., is a limited liability company and a component unit of Aspire Public Schools. The sole member is a California nonprofit public benefit corporation that was recently formed as a support organization for Aspire charter schools. The borrower is a single-purpose entity with no assets other than the facilities. The borrower will enter into lease agreements with each of the schools in the obligated group. The DSC and days' cash covenants are in line with other charter school transactions and are listed below. The base rent coverage calculation is more unique to the series 2015 and 2016 bonds. Management is in compliance with these covenants currently and expects to remain well above these thresholds:

- Base rent coverage ratio for each school of at least 1.1x, allowing for some support from the parent if necessary;
- Days' cash on hand of at least 30 days; and
- DSC of the obligated group of at least 1x.

Outlook

The stable outlook reflects our anticipation that Aspire will manage operations and attract sufficient students such that operations generate strong adjusted MADS coverage in the next two years. We also anticipate the school will maintain similar levels of days' cash on hand and its strong enterprise profile and good academic standing. We also expect construction and expansion of the 13th school will occur on time and on budget and will not weaken the credit quality.

Downside scenario

We could consider a negative rating action in response to declines in enrollment, financial performance, DSC, or days' cash on hand.

Upside scenario

A positive rating or outlook change, although not likely during the two-year outlook period, would be based on significant cash increases and sustained stronger MADS coverage at the obligated group, as well as continued strength at the parent.

Enterprise Profile

Organizational overview

Aspire Public Schools operate 38 schools and serves over 15,000 children in California and Tennessee. The system was founded in 1998 and was the nation's first charter management organization. Until 2013, all of its schools were in California, spread fairly evenly among the Central Valley, the Bay Area, and Los Angeles. In 2013, it opened its first three schools in Memphis to address the lack-of-school choice in Tennessee. The schools in California have a long history of strong academic performance, lean management, and serving low-income students.

The schools in the original obligated group, River Oaks Charter School (ROCS) and Benjamin Holt College Preparatory Academy (Ben Holt) opened in 2001 and 2003, respectively, in the Central Valley. Aspire also plans to open a third school near to those campuses--currently called Ben Holt II--to enable the schools to expand their middle and high school grades. The school expansion was recently approved by the authorizer and is moving forward. The additional schools include Aspire Golden State College Prep Academy, Aspire Junior Collegiate, Aspire Titan Academy, Aspire Pacific Academy, Aspire Langston Hughes, Aspire Port City Academy, Aspire Alexander Twilight College Preparatory and Secondary Academy, Aspire East Palo Alto Phoenix Academy, and Aspire Lionel Wilson College Preparatory Academy. There are several schools in three regions--Central Valley, Los Angeles, and the Bay Area--which opened between 2006 and 2015.

The combined enrollment at the obligated schools is about 5,550 currently and could grow to about 6,200 by 2022. The schools in the obligated group are authorized by various local school districts. Management reports positive relationships with each authorizer and expects the renewal of each school's charter upon expiration. Given the schools' strong academic performance, we also believe this is likely.

Demand

Demand at the Aspire schools and at the obligated schools, in particular, is solid. Enrollment is at or close to capacity at each school and waitlists are typically quite strong. Aspire's mission is to serve low-income populations and nearly all of its schools give priority to students who qualify for free and reduced-price lunch. While this has not been the case at ROCS and Ben Holt in the past, a change in policy beginning with the fall 2015 class is likely to increase that population from about 50% at ROCS and 35% at Ben Holt to levels similar to the local public districts' rates of about

95% and 66%, respectively. Most of the schools outperform their local districts in state tests, and those that don't have scores close to the state average. The Aspire schools have a good reputation for academic quality. Although there are other local charter schools, the strong waitlist and ability to increase enrollment consistently demonstrate a strong market position, which we do not expect to change despite the competitive environment in California.

Management

Management of the Aspire Schools is quite centralized, with an executive team made up of the chief executive officer (CEO), chief academic officer, chief people officer, and CFO. The CEO joined Aspire in September 2015 after a career working at other charter school networks. Other members of the management team have a long tenure with Aspire and we expect that the good financial policies and practices will continue.

A seven-member board governs all schools centrally, with parent councils supporting each school. The board is organized through committees and members have a mix of board tenure and career experience. The bylaws allow the board to expand to 11 members, and we expect that board membership will expand slowly over time.

Financial Profile

State funding

Prior to the enactment of the state's 2013-2014 budget, charter schools were funded through general-purpose entitlement and categorical block grants. The Local Control Funding Formula (LCFF) was approved in 2013, giving local educational agencies funding based on the demographic profile of the students they serve. The LCFF creates three funding mechanisms:

- A base grant for all students;
- Supplemental grants equal to 25% of the base grants for each English-learning student; and
- Supplemental grants for economically disadvantaged and foster youth enrollment in excess of 55% of total enrollment equal to 50% of the base grant provided for each student above the 55% threshold.

Funding under the new formula began in 2013-2014. Although it is estimated that full implementation will not be complete until 2020, the funding outlook is positive given its high portion of English-language learning and economically disadvantaged students. State deferrals were significant in fiscal years 2012 and 2013 and have since diminished. Aspire has experienced growth in per-pupil funding since and has been able to increase its balance sheet with the additional funding. We expect this will continue in the near term.

Operating performance

The obligated schools' financial performance has also been solid, with consistent margins and strong coverage of historical leases and pro forma debt service. The schools have achieved improved excess margins each year, with a 17% margin in fiscal 2015. Coverage has similarly improved with pro forma MADS coverage of 2.8x in fiscal 2015, 2.2x in 2014, and 1.6x in fiscal 2013. We expect that coverage will be in line with previous levels, and if the expansion to Ben Holt II is successful, coverage will likely increase moderately in the medium term. The pro forma MADS burden is average and in line with previous lease expense at about 13% of operating expenses in 2015. We expect this will decline over time given the flat amortization of the debt and the expectation of a growing expense base.

The consolidated entity has similarly strong metrics, with coverage of over 2x rent historically and a more modest debt burden. We understand that Aspire doesn't currently have additional debt plans, although rent expense could increase incrementally with the addition of new schools.

Liquidity and financial flexibility

Cash levels at the obligated schools have been strong in the past two years but were much weaker prior to fiscal 2014, given the delays in state payments in California. In fiscal years 2015 and 2014, the schools had a combined $15.8 million or 111 days' cash on hand and $13.8 million or 104 days' cash on hand, respectively. Prior cash levels were very low, below 30 days, but including receivables, they were more robust. Aspire, the parent, centrally manages the cash. Officials note that through all of the delayed payments and holdbacks in fiscal 2012 and 2013, the group did not require cash flow borrowing. We view this strong management of cash positively and believe that it demonstrates that the group has outperformed many of its peers in its financial management. We expect cash levels to decline slightly after investing about $2 million into the new building in fiscal 2016.

Cash at the consolidated entity is adequate at approximately $40 million, or 107 days' cash on hand. We believe the cash position at the parent, combined with a stronger cash position at the obligated group, supports the rating.

Aspire Public Schools (12 Obligated Schools), CA					
	--Fiscal year ended June 30--				Medians
	2016	2015	2014	2013	Charter Schools 'BBB' 2014
Enrollment					
Total headcount	5,550	5,480	5,178	5,133	1,962
Total waiting list	4,812	2,726	2,173	1,635	MNR
Waiting list as % of enrollment	86.7	49.7	42.0	31.9	MNR
Financial performance					
Total revenues ($000s)	N.A.	63,339	55,371	49,908	MNR
Total expenses ($000s)	N.A.	52,844	49,037	46,432	MNR
EBIDA ($000s)	N.A.	11,349	7,130	4,253	MNR
EBIDA margin (%)	N.A.	17.92	12.88	8.52	15.90
Excess revenues over expenses ($000s)	N.A.	10,495	6,334	3,476	MNR
Excess income margin (%)	N.A.	16.57	11.44	6.96	4.5
Pro forma MADS ($000s)	N.A.	6,880	6,880	6,880	MNR
Pro forma lease adjusted MADS coverage (x)	N.A.	2.81	2.19	1.63	MNR
Pro forma lease adjusted MADS burden (% total revenues)	N.A.	10.9	12.4	13.8	MNR
Pro forma lease adjusted MADS burden (% total expenses)	N.A.	13.0	14.0	14.8	MNR
Total revenue per student ($)	N.A.	11,558	10,694	9,723	MNR
Balance Sheet Metrics					
Days' cash on hand	N.A.	110.7	104.3	23.3	134.00
Total long-term debt ($000s)	N.A.	105,908	107,636	108,854	MNR
Unrestricted reserves to debt (%)	N.A.	14.9	12.8	2.7	35.9
Unrestricted net assets as % of expenses	N.A.	49.6	35.2	35.5	36.2
General fund balance ($000s)	N.A.	N.A.	N.A.	N.A.	MNR
Debt to capitalization (%)	N.A.	80.2	86.2	87.0	MNR

Aspire Public Schools (12 Obligated Schools), CA (cont.)					
Debt per student ($)	N.A.	19,326	20,787	21,207	MNR
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 ($000s)	N.A.	111,015	107,636	108,854	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	85.40	87.61	87.55	MNR
Pro forma debt per student ($)	N.A.	20,258	20,787	21,207	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Related Criteria And Research

Related Criteria

- USPF Criteria: Charter Schools, June 14, 2007
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009