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Aspen Ridge Preparatory School Colorado Educational & Cultural Facilities Authority; Charter Schools

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Long Term Rating	BB+/Positive	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'BB+' from 'BB' on the Colorado Educational and Cultural Facilities Authority's series 2015A and 2015B fixed-rate charter school revenue bonds, issued for Aspen Ridge Preparatory School (ARPS).
- The outlook is positive.
- The upgrade reflects our view of the school's healthy lease-adjusted maximum annual debt service (MADS) coverage and significant increases in liquidity that has occurred in recent fiscal years.

Security

The series 2015 bonds account for all the school's long-term debt outstanding. Revenue of Aspen Ridge, consisting primarily of per-pupil funding from Colorado as defined in the governing bond documents, secures the bonds. Total long-term debt is about $9.8 million as of fiscal year-end 2024. Lease-adjusted MADS of $741,000 occurs in fiscal 2034.

Credit overview

We assessed the school's enterprise profile as adequate, characterized by very healthy local economic fundamentals, good academic quality, and a solid charter standing, offset by a relatively small-but-growing operating base, with about 631 students for fall 2024. We assessed Aspen Ridge's financial profile as adequate characterized by solid financial performance and healthy liquidity for the rating, offset by expectations for more modest margins over the outlook period and a relatively elevated debt profile. We believe that, combined, these credit factors lead to an anchor of 'bbb-'. As our criteria indicate, the final rating can be adjusted based on a variety of overriding factors. In our opinion, the 'BB+' final rating on the bonds better reflects the school's small enrollment base compared with that of similarly rated peers and our expectation that operating performance will moderate over the outlook period.

The rating reflects our view of ARPS':

- Improved financial operations, with more than 2x MADS coverage the past three audited fiscal years;
- Healthy liquidity for the rating, aided by substantial year-over-year growth in reserves in recent fiscal years; and
- Recent improvements in demand metrics, including growth in enrollment and improved student retention,

supported by substantial growth in the school-aged population, broadly, in Weld County, Colo.

Partially offsetting these strengths, in our view, are ARPS':

- Relatively small operating base with enrollment of 631 students and a modest waitlist, reflecting substantial competition in an area experiencing significant population growth;
- Expected moderation in operating margins and coverage as pandemic-related extraordinary funding diminishes and annual per-pupil funding moderates; and
- Inherent risk, as with all charter schools, that the school might be closed for nonperformance of its charter or for financial distress before the final maturity of the bonds (2046).

Environmental, social, and governance

We analyzed Aspen Ridge Preparatory School's environmental, social, and governance factors, and consider them neutral in our credit rating analysis overall.

Outlook

The positive outlook reflects the potential that the school will continue to generate positive operating margins and improving liquidity while maintaining steady-to-growing enrollment. It also reflects our expectation that the school will not issue additional debt within the next three-to-five years.

Downside scenario

We could consider revising the outlook to stable if the school's operating performance or liquidity ratios soften materially and are more in line with the current rating. We could also view an unexpected debt issuance or deterioration in demand metrics negatively.

Upside scenario

We could consider a positive rating action if the school sustains operating margins and lease-adjusted MADS coverage over a longer term at levels in line with those of higher-rated peers, while maintaining stable-to-growing liquidity and enrollment. Additional clarity on the school's medium-term expansion plans could also support a positive rating action.

Credit Opinion

Enterprise Profile

Aspen Ridge has experienced strong population growth in its service area that is projected to continue over the next five years. Despite recent increases in competition from new schools that have opened in the district, the school has seen year-over-year increases in enrollment resulting in record high enrollment of 631 students for fall 2024. As it completes its enrollment buildout, ARPS management expects enrollment will be just shy of 700 students in pre-kindergarten through eighth grade (preK-8) during the next school year.

Despite recent improvements, we view the demand profile as modest given the school's relatively small enrollment base and a thin waitlist, which is about 4.1% of enrollment for fall 2024, with nearly all of its waitlist concentrated in the two preschool grades. In addition to recent growth in enrollment, the retention rate has rebounded to 94% for fall 2023. Bolstering demand for the school is a core-knowledge-focused curriculum and academic performance that is comparable with that of the state and local school district. The school received a performance designation--the highest state achievement indicator--for the most recent testing year.

We view the school's standing with the authorizer as solid. Aspen Ridge has held its charter with St. Vrain Valley School District since 2011 and received its most recent renewal in 2024 for a five-year term through June 2029. The authorizer noted in our conversations that it has no challenges from an operational or compliance perspective and highlighted a good working relationship with the school.

Prior to the past five years, the school went through a variety of organizational and management changes. The school is led by a head of schools and the business office is led by a business manager. In addition, the school is in the third year of its contract with a financial back-office support company, Tatonka Education Services, which supports a variety of education organizations throughout the U.S. We note that during the current school administration's leadership, ARPS has generated healthy demand and sound financial metrics.

A six-member board governs Aspen Ridge. The members serve one- to three-year terms, depending on board position, that can be renewed. They have a diverse set of backgrounds, including construction, health care, and business, engineering, technology, and finance. The school disclosed that the board remains interested in expanding to an additional middle school facility at some point but that this is unlikely to occur over the next three to five years. Overall, we believe the board and management have a collegial relationship.

Financial Profile

Prior to recent fiscal years, Aspen Ridge's operations were variable. In recent years, however, the school has generated healthy operations, including lease-adjusted MADS coverage of more than 2x and margins of approximately 10% on average over the past three fiscal years. The school attributes the improvement in financial operations over the past three years to a mix of improved budgeting practices as well as the support provided by a variety of funding buckets. Aspen Ridge receives support from a district mill levy, and has benefitted from one-time federal pandemic relief as well as generous state per-pupil funding increases in Colorado in recent years. For fiscal 2025, the school is budgeting for breakeven results.

We consider Aspen Ridge's unrestricted cash position a strength. As of fiscal year-end 2024, the school had approximately 264 days' cash on hand. This represents growth in unrestricted reserves of approximately 48% over the past three audited fiscal years.

In our opinion, Aspen Ridge had a relatively moderate debt burden with lease-adjusted MADS burden of about 9.3% of estimated fiscal 2024 revenue; this metric has moderated in recent years as the operating base has expanded. Furthermore, we believe the school has moderate leverage on its balance sheet. As of our last review, we understood that the school was considering plans for expansion. However, based on our conversations with management during this review, we understand that those discussions have been tabled indefinitely and that the school has no intentions to issue additional debt or pursue expansion over the outlook period.

We view pension and other postemployment benefits (OPEB) liabilities as a potential long-term credit pressure due to:

- Historical low funding;
- Statutory contributions consistently below, what we consider, the minimum-funding progress necessary to fund the pension liability in full within a reasonable period; and
- Our expectation that employer contributions will likely increase due to State Bill 18-200.

For fiscal 2024, Aspen Ridge's required pension and actual OPEB contributions total 9.9% of overall expenditures, which is a level that we view as somewhat elevated.

As of Dec. 31, 2023, ARPS participates in the following defined-benefit plans:

- Colorado Public Employees' Retirement Assn.--Schools Division (PERA), with an $8.58 million net pension liability; and
- PERA Health Care Trust Fund, with a share of the net OPEB liability at $207,202.

The funded ratio for PERA's school division trust fund in fiscal 2023 equaled 64.74%. (For more information, see "Pension Brief: U.S. Public Pension Funded Ratios Continue Improvement In 2024," published July 25, 2024, on RatingsDirect.)

Aspen Ridge Preparatory School, Colo.--Enterprise and financial statistics

	--Fiscal year ended June 30--				--Medians reported for 'BB+' rated charter schools--
	2025	2024	2023	2022	2023
Enrollment					
Total headcount	631	581	584	548	1,284
Total waitlist	26	33	59	28	MNR
Waitlist as % of enrollment	4.1	5.7	10.1	5.1	12.7
Financial performance					
Accounting standard	N.A.	GASB	GASB	GASB	MNR
Total revenues ($000s)	N.A.	7,989	7,552	6,431	19,148
Total expenses ($000s)	N.A.	7,147	6,839	5,789	MNR
EBIDA ($000s)	N.A.	1,873	1,654	1,622	MNR
EBIDA margin (%)	N.A.	23.4	21.9	25.2	15.5
Excess revenues over expenses ($000s)	N.A.	842	713	642	MNR
Excess income margin (%)	N.A.	10.5	9.4	10.0	5.6
Operating lease expense ($000)	N.A.	N.A.	N.A.	N.A.	MNR
Pension/OPEB adjustments ($000)	N.A.	-571	-1,451	1,781	MNR
Lease adjusted annual debt service ($000)	N.A.	732	736	738	MNR

Aspen Ridge Preparatory School, Colo.--Enterprise and financial statistics (cont.)					
	--Fiscal year ended June 30--				--Medians reported for 'BB+' rated charter schools--
	2025	2024	2023	2022	2023
Lease-adjusted annual debt service coverage (x)	N.A.	2.56	2.25	2.20	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	9.2	9.7	11.5	MNR
Lease-adjusted MADS ($000s)	N.A.	741	741	741	2,025
Lease-adjusted MADS coverage (x)	N.A.	2.53	2.23	2.19	1.90
Lease-adjusted MADS burden (% total revenues)	N.A.	9.3	9.8	11.5	9.4
Total revenue per student ($)	N.A.	13,750	12,932	11,735	MNR
Balance sheet metrics					
Unrestricted reserves ($000s)	N.A.	4,797	3,998	3,235	MNR
Days' cash on hand	N.A.	264.7	229.1	221.7	127.3
Total long-term debt ($000s)	N.A.	9,795	10,025	10,250	MNR
Unrestricted reserves to debt (%)	N.A.	49.0	39.9	31.6	24.6
Unrestricted net assets as % of expenses	N.A.	64.5	55.4	58.2	34.1
Debt to capitalization (%)	N.A.	69.7	74.0	76.8	78.2
Debt per student ($)	N.A.	16,859	17,166	18,704	18,881
Pro forma metrics					
Pro forma MADS ($000s)	N.A.	N.A.	N.A.	741	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	N.A.	N.A.	2.19	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	N.A.	N.A.	11.5	MNR
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 ($000s)	N.A.	9,795	10,025	10,250	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	69.67	73.96	76.77	MNR
Pro forma debt per student ($)	N.A.	16,858.9	17,166.1	18,704.4	MNR

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 Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 75. MADS--Maximum annual debt service. N.A.--Not available.

Credit Snapshot

- Organization: Aspen Ridge began operations in fall 2011 and now serves 631 students preK-8 students for fall 2024. The school focuses on educating students through a core knowledge curriculum.
- Bond covenants: Bondholders are provided operating and liquidity covenants. The liquidity covenant requires the maintenance of 45 days' cash on hand, and the operating covenant requires annual DSC of 1.1x. If cash falls to less than 45 days or debt service to less than 1.1x but more than 1.0x, management could be required to engage a consultant acceptable to the issuer. If annual DSC falls to less than 1x, an event of default could be declared. In addition, Aspen Ridge is required to maintain an operating fund balance equal to at least 5% of the previous year's operating expenses.
- Charter authorizer and term: The school is authorized by St. Vrain Valley School District RE-1J. It has operated for more than 10 years with no gaps and has received two charter renewals. The latest renewal was for five years, which is average for most credits we see in Colorado. The charter will expire in June 2029.
- Management type: Freestanding with support from financial and human resources service provider Tatonka Educational Services.
- State funding: Base per-pupil funding for Aspen Ridge Preparatory School increased about 5% for fiscal 2025.