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Newark Cultural Education Facilities Finance Corp., Texas Texas Public Finance Authority Charter School Finance Corp., Newark Higher Education Finance Corp. Orenda Education; Charter Schools; School State Program

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Credit Profile

Newark Cultural Ed Facs Fin Corp, Texas		
Orenda Education, Texas		
Newark Cultural Ed Facs Fin Corp (Orenda Education) taxable ed rev bnds (Orenda Ed) ser 2011B dtd 12/15/2011 due 08/15/2020		
<i>Long Term Rating</i>	BBB-/Stable	Affirmed
Newark Higher Ed Fin Corp, Texas		
Orenda Education, Texas		
Newark Higher Ed Fin Corp (Orenda Education)		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	BBB-/Stable	Affirmed
Newark Higher Ed Fin Corp (Orenda Education)		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	BBB-/Stable	Affirmed
Texas Pub Fin Auth Charter Sch Fin Corp, Texas		
Orenda Education, Texas		
ser 2011A, B, Q		
<i>Long Term Rating</i>	BBB-/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'BBB-' ratings on Orenda Education, Texas' education revenue bonds issued by the Newark Higher Education Finance Corp., Newark Cultural Education Facilities Finance Corp., and Texas Public Finance Authority Charter School Finance Corp. The outlook is stable.

We assessed Orenda's enterprise profile at strong, characterized by growing overall enrollment at its five campuses spread across four counties and our expectation for continued growth given current facility capacity and the potential for replication within the next year. The strong enterprise profile is also supported by good academic performance at its flagship school, and leadership by a stable and experienced management team. We assessed Orenda's financial

profile as vulnerable, characterized by the school's extremely high debt load relative to enrollment that is more than double most of that of its peers; however, those factors are tempered by an abundance of unrestricted reserves, a history of positive operating performance that we expect to continue, and improving lease-adjusted maximum annual debt service (MADS) coverage, which could weaken depending on future debt plans. We believe that combined, these credit factors lead to an indicative stand-alone credit profile of 'bbb-' and a final rating of 'BBB-.'

The rating further reflects our view of Orenda's:

- Stable operations, with nearly 20 years of operating history and maintenance of a 10-year charter that runs through 2025;
- Exceptional level of unrestricted reserves, as measured by 241 days' cash on hand at the end of fiscal 2018, which we do not believe will materially weaken in the future;
- Consistent enrollment growth, with an increase to more than 1,800 students in fall 2019 from only 1,206 in fall 2013 coupled with our expectation of further growth; and
- Sound management team that is focused on building headcount and without materially deteriorating its financial profile.

Partially offsetting the above strengths, in our opinion, are:

- Extremely high leverage, with a lease-adjusted MADS burden of 20.4% of revenue in fiscal 2018, coupled with the potential for future debt plans;
- Expansion risks associated with potential future growth plans and an already high debt-to-student ratio; and
- The inherent uncertainty associated with charter renewals because the final maturity of the bonds exceeds the time horizon of the existing charter.

As of Sept 30, 2019, total debt outstanding amounts to \$43.2 million. The series 2017 and 2015 bonds were issued by Newark Higher Education Finance Corp, the school's series 2011B bonds were issued by the Newark Cultural Education Facilities Finance Corp, and the 2011Q bonds were issued by the Texas Public Finance Authority Charter School Finance Corp. The debt outstanding on all bonds consists entirely of fixed-rate debt, and is secured by pledged revenues, which are defined as all revenue or income derived from Orenda pursuant to the loan agreement. Under the loan agreements, the school makes payments from a pledge of gross revenues. Payments received from Orenda by the corporations under the loan agreements are the sole source of pledged revenues.

All bonds are on parity and are general obligations of the school secured by available revenue. Bond covenants include the maintenance of 45 days' cash on hand, and annual debt service coverage (DSC) of 1.1x. If debt service falls below 1.1x but remains above 1.0x, management may be required to engage a consultant. If annual DSC falls below 1x, an event of default could be declared. Before the issuance of other long-term debt, an additional bonds test requires 1.1x pro forma MADS coverage on a historical basis and 1.2x forward MADS coverage on existing and proposed debt.

Orenda, about 30 miles north of Austin, is an open-enrollment charter school founded in Georgetown in 2001. The school operates out of five campuses: two in Georgetown, Gateway College Preparatory School (GCPS; offering kindergarten to grade 12 [K-12]) and Gateway Tech High School (9-12); one in Kingsland (Kingsland School, K-9); one

in Belton (Nolan Creek School; K-7), and one residential facility in Goldthwaite (New Horizons School; K-12).

Outlook

The stable outlook reflects our view that the school will maintain its good demand profile, which is supported by continued enrollment growth, over the two-year outlook period. Furthermore, we expect the school will sustain its financial profile, and that should management move forward with any expansion plans, it will do so in a measured fashion such that it will not weaken its financial and enterprise profiles.

Downside scenario

We could lower the rating if demand weakens or if plans to expand into a new campus result in a substantial weakening of financial metrics that are no longer commensurate with the rating.

Upside scenario

A material reduction to the school's debt profile coupled with enrollment growth and maintenance of exceptional liquidity levels could lead to a higher rating.

Enterprise Profile

Economic fundamentals

Two Orenda charter schools are in Williamson County, which is one of the fastest-growing counties in the nation. The county's minor population is 195,000, and is expected to increase at an impressive 13% over the next five years. Orenda also operates schools in Llano, Bell, and Mills counties. Two of those three counties are also expected to see an increase in their minor population of more than 5% 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 to other industries and sectors.

Market position

We view the school's enrollment and demand profile as sound, supported by steady enrollment growth in conjunction with healthy academics. Enrollment continues to increase year-over-year and totaled 1,724 students at the start of the 2018-2019 school year. This equates to a 9.4% three-year enrollment growth rate, and our expectation enrollment will be more than 1,800 in the 2019-2020 school year. Of the network's 1,724 students in fiscal 2019, 1,302 students attended Orenda's flagship campus, GCPS. The campus, which has continuously added students year-over-year for the past three years, can accommodate almost 1,400 students and is completely built out. We understand that GCPS's modular buildings were replaced with permanent classrooms in fiscal 2019, and we expect this campus to continue to experience steady growth given the area's growing minor-aged population, coupled with available seats within the school. GCPS's curriculum focuses on core academic subject areas and state standards, while offering an abundance of extracurricular activities for a charter school. According to the most recent 2019 State of Texas Assessments of

Academic Readiness (STAAR) ratings, GCPS received an 'A' rating, the highest rating a Texas public school can receive, and earned distinctions in three of seven categories. Furthermore, Orenda originally purchased 40 acres of land that currently houses GCPS. Given the availability of unused acreage and the growing number of residential start-ups in the area, we understand that management is currently in the planning process to open a sixth campus in the Georgetown area. While planning phases are still under way, based on conversations with management, we believe the goal is to open the site by the fall of 2022 and the campus would eventually serve as another K-12 school, with total enrollment surpassing 2,000 students when built out.

We believe Orenda's demand profile is further supported by the stability provided by the other four campuses. The school's other Georgetown campus, Gateway Tech, offers a daily four-hour blended learning academic program for grades nine to 12 only. For fall 2019, we believe the school serves 77 students, and has capacity to accommodate 120. The school also received an 'A' STAAR rating in 2019. The Kingsland and Belton (Nolan Creek School) campuses are about 60 and 30 miles west and north, respectively, of Austin. Both began their first year in fall 2016, a transition after Orenda decided to close two of its residential facility schools in 2016. In fall 2019, Kingsland School had 165 students in K-9, and Nolan Creek School had 125 K-7 students with facility capacities of 200 and 150, respectively. We understand management is expanding into middle and high school grades for both schools, with the high school levels taking a hybrid instructional model in the same vein as Gateway Tech. Both campuses received 'D' STAAR ratings in 2019, but, based on conversations with management, we believe these schools are more niche and perform well against competing local schools. The fifth school, New Horizons, is in Goldthwaite (about 100 miles northwest of Austin) and is a privately owned residential treatment/care facility for young individuals who have been referred to the residential facility by Child Protective Services; it has about 67 students with potential to serve up to 72, but its enrollment is not expected to grow. As per legislative action, Orenda's residential facility is exempt from such assessments hereafter.

Competition for Orenda's Gateway Tech and GCPS comes primarily from Georgetown and Roundrock independent school districts (ISDs). Georgetown has recently renovated several of its facilities and there are plans for a new elementary school near GCPS. School officials do not envision that local competition will have a profound effect on operations, and believe the local school districts remain well-positioned in their respective markets given area growth within Williamson County. Furthermore, Orenda waitlist is growing and amounts to about 650 in the fall of 2019, up from 117 students the previous year. School officials also report that retention rates are difficult to estimate given the fluctuations in the number of students attending the hybrid campuses, but we believe the rate to be about 89% based on management estimates. Overall, we believe the historical enrollment growth, support by a sound academics, good retention rates, and a growing waitlist, should allow Orenda to sustain its sound demand profile despite growing competition.

The statutory framework assessment reflects our opinion that, while there could be some areas of risk, the framework is not likely to negatively affect the school's future ability to pay debt service. Texas charter schools depend almost entirely on the state for operating revenue, which is subject to annual appropriation by the legislature. As a result, Texas' economic and financial situation has a direct impact on a school's operations, and funding could fluctuate along with the state economy. Recently, state legislators passed an education finance reform bill that will increase the basic allotment per pupil to \$6,160 from \$5,180 beginning in fiscal 2020, which we view as encouraging, but might also lead

to higher operating costs as teacher salary and benefits expenses are expected to increase as a result of the new legislation.

Management and governance

The senior leadership is well-seasoned and long-serving. Orenda's founder and CEO, Richard Rickey, was a former hospital executive and incorporated Orenda in 1995 as a private not-for-profit shelter for abused or neglected children; he has been with the district since its inception in 1999. Orenda's chief financial officer has been with the district since 2009, having previously worked for an ISD. The school has a stable board of directors that consists of four members from the community out of total five board members. The board is actively involved in the school's governance and works closely with Orenda's management team and authorizer.

The board's governance practices are thorough and well communicated, which we believe helps management to achieve its long-term goals. The board, along with management, developed a five-year strategic plan that is very comprehensive, covering academics and instruction, marketing, enrollment and market position, financial, governance and management, and regulatory compliance. The governing team has demonstrated its ability to execute its strategic plan by expanding its campuses, retaining students, and delivering on academics as evidenced by its programs. In our opinion, management is solid and we anticipate no changes over the next few years.

Financial Profile

Financial performance

Orenda's financial performance is characterized by consistently positive operating margins with improving lease-adjusted MADS coverage. Operations have been positive for at least the past five years, in part due to increases in enrollment as GCPS filled in grades. Orenda ended fiscal 2018 with an operational surplus of \$1.1 million or an excess margin of 6.8%, slightly lower than the 10.1% and 8.5% surpluses in fiscal years 2017 and 2016, respectively. Based on year-end results and our conversations with management, we expect a similar surplus in fiscal 2019 despite the school experiencing some one-time expenses upward of \$1 million associated with moving costs, furniture, and technology upgrades. The board adopted a structurally balanced budget for fiscal 2020, and given past historical results, we expect Orenda to experience similar operating results on a full-accrual basis in the current fiscal year. Lease-adjusted MADS coverage improved to 1.4x in fiscal 2018 from 1.2x in fiscal 2017, and is expected to increase even further in fiscal years 2019 and 2020 based on our understanding that modular lease payments at GCPS ended in April 2019 and surplus operations projected for fiscal 2019.

Liquidity and financial flexibility

Orenda's unrestricted reserve position remains exceptionally healthy. As of Aug. 31, 2018, the school held about \$8.3 million in unrestricted cash and investments, equal to 241 days' cash on hand. While we expect the school's cash position to grow based on year-end result for fiscal 2019, we do not expect a significant boost to Orenda's already robust days' cash on hand metric given increasing expenses and the possibility of expansion. While management is currently in the preliminary phases of planning for a sixth school, we believe some of Orenda's unrestricted reserves could be used to support the financing of the building; however, we believe that management is committed to maintaining a healthy cash position. As a result, we do not believe the school's liquidity will be materially affected over

the next two years.

The school's unrestricted net assets (UNA) continue to grow year-over-year, with UNA nearly doubling from fiscal years 2015-2018. Despite the growth, Orenda's unrestricted reserves as a percent of debt were 20.2% at year-end fiscal 2018, which we view as acceptable for the rating, but below that of peers. We expect further growth in fiscal 2019 based on year-end results, but could see this assessment weaken depending on the timing and magnitude of any future debt associated with the school opening another campus.

Debt burden

At Orenda's year-end fiscal 2018, the school's debt outstanding amounted to about \$48 million, which was composed of the series 2011B, 2011Q, 2015A, 2015B, and 2017 bonds. Aggregate lease-adjusted MADS, including leases for three of the campuses and a district office, in fiscal 2018 was about \$3.3 million and occurred in fiscal 2019. This amount decreases to about \$3.1 million in fiscal 2020 due to the modular lease termination that occurred about halfway through fiscal 2019. Lease-adjusted MADS in fiscal 2018 represented an onerous 20.2% of total revenue. We anticipate revenue to increase over the next few years given historical enrollment trends and the new state education financing legislation, but we do not expect a material improvement in the debt-to-revenue ratio given the possibility of replication. Debt per student also compares poorly at \$27,449 per student, an outlier among peers in the state, most of which have less than half that amount per student.

As with many charter schools, the organization's debt-to-capitalization ratio shows significant leverage on the balance sheet. Based on fiscal 2018 results, debt-to-capitalization is estimated at 89.1%. We view the school's debt burden as a constraining factor to the rating, and do not expect any material improvement in the near future given the possibility of additional debt financing within the next two years.

Financial policies

Orenda meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, despite areas of risk, the organization's overall financial policies are not likely to hamper its 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.

Orenda Education, Texas -- Enterprise And Financial Statistics

	--Fiscal year ended Aug. 31--					Medians for 'BBB-' rated charter schools
	2019	2018	2017	2016	2015	2018
Enrollment						
Total headcount (no.)	1,724	1,647	1,471	1,319	1,326	1,098
Total waitlist (no.)	177	62	128	146	152	MNR
Waitlist as % of enrollment	10.3	3.8	8.7	11.1	11.5	35.3
Financial performance						
Total revenues (\$000s)	N.A.	15,990	14,448	12,682	12,932	10,832
Total expenses (\$000s)	N.A.	14,897	12,996	11,599	11,871	MNR
EBIDA (\$000s)	N.A.	3,910	3,336	2,810	2,807	MNR

Orenda Education, Texas -- Enterprise And Financial Statistics (cont.)

	--Fiscal year ended Aug. 31--					Medians for 'BBB-' rated charter schools
	2019	2018	2017	2016	2015	2018
EBIDA margin (%)	N.A.	24.5	23.1	22.2	21.7	15.8
Excess revenues over expenses (\$000s)	N.A.	1,093	1,452	1,083	1,061	MNR
Excess income margin (%)	N.A.	6.8	10.0	8.5	8.2	5.4
Operating lease expense	N.A.	790	717	593	576	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	1.53	1.80	1.72	1.85	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	19.3	15.6	15.6	14.1	MNR
MADS (\$000s)	N.A.	3,259	3,310	2,150	1,819	1,244
Lease-adjusted MADS coverage (x)	N.A.	1.44	1.22	1.58	1.86	1.60
Lease-adjusted MADS burden (% total revenues)	N.A.	20.4	22.9	17.0	14.1	11.1
Total revenue per student (\$)	N.A.	9,708.6	9,821.9	9,614.9	9,752.6	MNR
Balance-sheet metrics						
Days' cash on hand	N.A.	241.29	258.83	287.78	228.37	146.80
Total long-term debt (\$000s)	N.A.	48,029	48,344	25,399	25,692	MNR
Unrestricted reserves to debt (%)	N.A.	20.2	19.0	34.0	26.7	25.9
Debt to capitalization (%)	N.A.	89.1	90.7	86.6	87.7	84
Debt per student (\$)	N.A.	27,449	31,092	19,029	19,109	13,975

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. Lease-adjusted MADS coverage = (Net revenue available for debt service + operating lease expense) / (MADS + operating lease expense).

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