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Newark Higher Education Finance Corp Orenda Education; Charter Schools

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Credit Profile

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<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	BBB-/Stable	Affirmed
Newark Higher Ed Fin Corp (Orenda Ed) Ed Rev Bnds		
<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		
Texas Pub Fin Auth Charter Sch Fin Corp (Orenda Education)		
<i>Long Term Rating</i>	BBB-/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'BBB-' underlying ratings on Orenda Education, Texas' series 2017 education revenue bonds and series 2015A and 2015B education revenue refunding bonds issued by Newark Higher Education Finance Corp. and its 'BBB-' long-term rating on Orenda's series 2011B and 2011Q bonds, issued by the Texas Public Finance Authority Charter School Finance Corp. The outlook on all ratings is stable.

The 'AAA' enhanced program rating reflects our view of Orenda's participation in the Texas PSF bond guarantee program. This program provides the security of a permanent fund asset that Orenda can access, if needed, to meet its debt service obligations on the series 2017 and 2015 bonds. For more information on the program rating, please see the report "Texas Permanent School Fund; State Revolving Funds/Pools," published July 7, 2015, on RatingsDirect. The series 2011B and 2011Q bonds are not part of the Texas Public School Fund (PSF) Guarantee program.

We assessed Orenda Education's enterprise profile at strong, characterized by growing overall enrollment at its five campuses spread across four counties, good academic performance at its flagship school, and leadership by a stable and experienced management team. We assessed Orenda Education's financial profile as vulnerable, based on sufficient lease-adjusted maximum annual debt service (MADS) coverage level for the rating and extremely high debt load relative to enrollment that is more than double most of its peers, though it is somewhat offset by an abundance of unrestricted reserves and a history of steady, positive operating performance that we expect will continue to generate coverage that is sufficient to support the rating at the current level. 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:

- Exceptional level of unrestricted reserves, as measured by 256 days' cash on hand at the end of fiscal 2017;
- Long operating history, with a recent successful charter renewal for a 10-year term through 2025;
- Consistent enrollment growth, with an increase to 1,647 students in fall 2017 from only 1,206 in fall 2013; and
- Sound management team that is focused on building headcount and the financial profile.

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

- Extremely high leverage, with a lease-adjusted MADS burden of 22.9% of revenue in fiscal 2017;
- A shift in strategy with the opening of two new open-enrollment campuses in 2016 in Belton (Nolan Creek School) and Kingsland, after closing two residential facility schools, resulting in startup expenses and risks of operating in new regions; and
- The inherent uncertainty associated with charter renewals because the final maturity of the bonds exceeds the time horizon of the existing charter.

All bonds are on parity and are general obligations of the school secured by available revenue. The \$23.09 million series 2017 bonds were used to finance the phase III construction of the Gateway College Preparatory School (GCPC), expected to be complete by December 2018, and to purchase land for and renovate the Kingsland School building.

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 acceptable to the issuer. If annual DSC falls below 1.0x, an event of default may 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 Education, about 30 miles north of Austin, is an open-enrollment charter school founded in 2001 in Georgetown. The school currently operates out of five campuses: two in Georgetown (GCPS offering grades K-12, and Gateway Tech High School, offering grades 9-12), one in Kingsland (Kingsland School K-8), one in Belton (Nolan Creek School K-5), and one residential facility in Goldthwaite (New Horizons School K-12).

Outlook

The stable outlook on the underlying rating reflects our expectation that over the two-year outlook period, Orenda will maintain sufficient coverage, supported by solid operating margins and abundant liquidity, while continuing to see enrollment growth based on its expansion plans after completing its construction by December 2018.

Downside scenario

We could consider a negative rating action should there be any weakening in enrollment levels, if coverage falls below 1.0x MADS, or if liquidity falls significantly below current levels without an offsetting reduction in debt ratios.

Upside scenario

We do not expect a positive rating action over our outlook horizon given our view of the school's high leverage and future expansion plans.

Enterprise Profile

Economic fundamentals

Two Orenda charter schools are in Williamson County. The county's minor population is 191,000 and is expected to increase at an impressive 14.1% annually through 2023. Orenda also operates schools in Llano, Bell, and Mills counties.

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

As of fall 2017, total enrollment from all five campuses reached 1,647 compared with 1,319 in fall 2015. Enrollment levels were relatively flat from fiscal years 2015 to 2016 as the school consolidated facilities; positive enrollment trends follow the completion of new updated facilities.

Of the 1,647 students, 1,256 attended Orenda's newest campus, GCPS, in fall 2017. Phase I of Orenda's expansion plan for GCPS, which was funded from the 2011 bond proceeds, is complete, and the current facility is already near capacity. Phase II of Orenda's capital plan is also complete, and GCPS is now able to accommodate the designed maximum enrollment of 1,300. Phase III will replace a modular building with permanent classroom space keeping enrollment capacity at existing levels. Orenda's other Georgetown campus, Gateway Tech, operates at near capacity.

The new 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 2017, Kingsland School had 144 students in kindergarten through eighth grade (K-8), and Nolan Creek School had 82 K-6 students with facility capacities of 200 and 150 respectively. We understand management expects to expand into middle and high school grades eventually for both schools, with the high school levels taking a hybrid instructional model in the same vein as Gateway Tech.

A facility in Goldthwaite for the New Horizons School is a privately owned residential treatment/care facility for young individuals who have been referred to the residential facility by Child Protective Services and has about 60 students; its enrollment is not expected to grow. We understand Orenda has plans to open another residential facility school in the 2019-2020 school year.

The wait list for fall 2017 was 62 students, down from 128 students in fall 2016 as Orenda absorbs students. School officials also report that retention rates are difficult to estimate given the fluctuations in the number of students attending the hybrid campuses, but management estimates the rate to be about 86% for fall 2017.

Competition for Orenda's Gateway Tech and GCPS comes primarily from Georgetown and Roundrock ISDs. Georgetown has recently renovated several of its facilities and there are plans for a new high school in Roundrock. School officials do not envision that local competition will have a profound effect on operations, and they believe the

local school districts remain well-positioned in their respective markets given area growth projections following highway improvements.

The school'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 2017 State of Texas Assessments of Academic Readiness (STAAR) ratings, GCPS placed in the top 11% of all Texas public schools, "met standards," and earned distinctions in four of seven categories. We believe this achievement will allow Orenda to sustain its positive demand profile.

The Gateway Tech campus, which is not eligible to receive distinctions, met standards as well. Kingsland School also met standards. As per a previous legislative action, Orenda's residential facility or hybrid campuses are exempt from such assessments hereafter. The rating for Nolan Creek School is not yet available.

The statutory framework assessment reflects our opinion that despite areas of risk, the framework is not likely to hamper Orenda's ability to pay debt service. All campuses operate under a single charter authorized by the Texas Education Agency (TEA), which currently expires in 2025, lowering the chance of non-renewal. In Texas, the state rather than local sources provides the majority of public school operating dollars. Therefore, charter schools depend almost entirely on the state for operating revenue that is subject to annual appropriation by the legislature. As a result, Texas' economic and financial situation has a direct effect on a school's operations, and funding will fluctuate along with the state economy. We understand that for the next biennium, based on proposed bills by the state legislature, the state funding outlook is encouraging.

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 independent school district. 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 governance of the school and works closely with the school's management team and authorizer.

Financial Profile

Financial performance

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 2017 with an operational surplus of \$1.45 million or an excess margin of 10%, higher than the 8.5% and 8.2% surpluses in fiscal 2016 and 2015. Lease-adjusted MADS coverage is somewhat low but sufficient for the rating at 1.22x, though we anticipate it will improve once modular leases at GCPS end in January 2019.

Liquidity and financial flexibility

Orenda's unrestricted reserve position remains exceptionally healthy. As of Aug. 31, 2017, it held about \$8.75 million in unrestricted cash and investments, equal to 259 days' cash on hand.

Debt burden

Orenda's total debt is an estimated \$48.34 million in bonds, which comprise the series 2011B, 2011Q, 2015A, 2015B, and 2017. Aggregate lease-adjusted MADS, including leases for three of the campuses and a district office, is \$3.31 million, occurring in 2019. It represents an onerous 22.9% of total revenue. Debt per student also compares poorly at \$32,661 per student, an outlier among peers in the state, most of which have less than half that amount per student.

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 comparable providers.

Orenda Education, Texas: Enterprise And Financial Statistics						
	--Fiscal year ended Aug. 31--					--Medians for 'BBB-' rated charter schools--
	2018	2017	2016	2015	2014	2017
Enrollment						
Total headcount	1,647	1,471	1,319	1,326	1,206	1,020
Total waiting list	62.00	128.00	146.00	152.00	381.00	MNR
Waiting list as % of enrollment	3.80	8.70	11.10	11.50	31.60	39.70
Financial performance						
Total revenues (\$000s)	N.A.	14,448	12,682	12,932	11,539	9,796
Total expenses (\$000s)	N.A.	12,996	11,599	11,871	10,583	MNR
EBIDA (\$000s)	N.A.	3,336	2,810	2,807	2,097	MNR
EBIDA margin (%)	N.A.	23.10	22.20	21.70	18.20	16.40
Excess revenues over expenses (\$000s)	N.A.	1,452	1,083	1,061	956	MNR
Excess income margin (%)	N.A.	10.00	8.50	8.20	8.30	4.40
Operating lease expense	N.A.	717	593	576	731	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	1.80	1.72	1.85	1.77	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	15.60	15.60	14.10	13.90	MNR
Lease-adjusted annual debt service burden (% total expenses)	N.A.	17.30	17.10	15.40	15.10	MNR
MADS (\$000s)	N.A.	3,310	2,150	1,819	2,150	1,107
Lease-adjusted MADS coverage (x)	N.A.	1.22	1.58	1.86	1.32	1.50
Lease-adjusted MADS burden (% total revenues)	N.A.	22.90	17.00	14.10	18.60	11.80
Lease-adjusted MADS burden (% total expenses)	N.A.	25.50	18.50	15.30	20.30	MNR
Pro forma MADS (\$000s)	N.A.	N.A.	3,173	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	N.A.	1.07	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	N.A.	25.00	N.A.	N.A.	MNR

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

Pro forma lease-adjusted MADS burden (% total expenses)	N.A.	N.A.	27.40	N.A.	N.A.	MNR
Total revenue per student (\$)	N.A.	9,821.90	9,614.90	9,752.60	9,568.00	MNR
Balance sheet metrics						
Days' cash on hand	N.A.	258.83	287.78	228.37	275.47	143.20
Total long-term debt (\$000s)	N.A.	48,344	25,399	25,692	21,103	MNR
Unrestricted reserves to debt (%)	N.A.	18.10	34.00	26.70	36.30	24.40
Unrestricted net assets as % of expenses	N.A.	37.90	35.30	32.60	31.90	33.90
General fund balance (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Debt to capitalization (%)	N.A.	91.10	86.60	87.70	86.40	83.00
Debt per student (\$)	N.A.	32,661	19,029	19,109	17,137	13,891
Pro forma metrics						
Pro forma unrestricted reserves (\$000s)	N.A.	N.A.	8,643	N.A.	N.A.	MNR
Pro forma days' cash on hand	N.A.	N.A.	288	N.A.	N.A.	MNR
Pro forma long-term debt (\$000s)	N.A.	48,344	48,489	25,692	21,103	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	17.80	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	91.00	93.00	88.00	87.00	MNR
Pro forma debt per student (\$)	N.A.	32,865	36,762	19,376	17,498	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. Lease-adjusted MADS coverage = (Net revenue available for debt service + operating lease expense) / (MADS + operating lease expense)

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