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Ratings

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

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Credit Profile		
US$12.865 mil ed rev bnds (Orenda Education) ser 2023A dtd 06/01/2023 due 08/15/2039		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	BBB-/Stable	New
US$0.23 mil taxable ed rev bnds (Orenda Education) ser 2023B dtd 06/01/2023 due 08/15/2025		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	BBB-/Stable	New
Newark Higher Education Finance Corp., Texas		
Orenda Education, Texas		
Newark Higher Ed Fin Corp (Orenda Education)		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	BBB-/Stable	Affirmed
Texas Public Finance Authority Charter School Finance Corp., Texas		
Orenda Education, Texas		
Texas Public Finance Authority Charter School Finance Corporation (Orenda Education)		
Long Term Rating	BBB-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term enhanced rating and 'BBB-' underlying rating to Newark Higher Education Finance Corp., Texas' $12.9 million series 2023A (tax-exempt) and $230,000 series 2023B (taxable) revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'BBB-' underlying rating on Newark Higher Education Finance Corp.'s series 2017 and 2015A bonds and its 'BBB-' long-term rating on Texas Public Finance Authority Charter School Finance Corp.'s series 2011Q bonds.
- All bonds were issued for Orenda Education (Orenda).
- The outlook is stable.

Security

The 'AAA' long-term rating on Orenda's series 2023, 2017, and 2015 bonds reflects our view of the school's qualification for the Texas Permanent School Fund Bond Guarantee Program, which provides the security of a permanent fund of assets that could be used to meet debt service on the bonds. Orenda has received conditional Texas

Permanent School Fund approval for its 2023 issuance. For more information on the program rating, see our report "Texas Permanent School Fund; State Revolving Funds/Pools," published Nov. 23, 2022, on RatingsDirect.

As of fiscal year-end 2022, total debt outstanding was $41.1 million, consisting of the school's series 2017, 2015 and 2011Q bonds. Pro forma debt including the series 2023 bonds, expected to be structured with fairly level debt service over a 35-year maturity, is approximately $54.7 million. All bonds are on parity and are secured by all revenue or income derived from Orenda, pursuant to the loan agreement.

Orenda's $13.1 million bond proceeds will be used to finance building improvements and a facility expansion at its Gateway College Preparatory School, which is accordingly expected to increase capacity by about 350 students. Orenda expects to complete the project by fall 2024 and does not anticipate any interruption to operations through the duration.

Beyond this financing, management plans to issue additional debt over the next year to finance the construction of classroom facilities for the planned Gateway School of Arts & Sciences (GSAS), a kindergarten through eighth-grade school expected to open in fall 2025. In fiscal 2022, Orenda completed an approximately $6 million purchase of land adjacent to its current Gateway College Preparatory campus in Georgetown, Texas, which is where the GSAS facility is expected to be built. The GSAS facility is expected to house 650 students and open in 2025. We understand management intends to finalize project plans, including financing considerations, over the next few months. Although project costs have not been articulated and we view Orenda's high debt burden with elevated debt per student as a constraining factor, we see some debt capacity at the rating given the school's growing enrollment and demand, steady operations, and healthy liquidity. We expect to incorporate these plans into our view of the credit profile as details are formalized.

Credit overview

The rating reflects our view of the school's large enrollment base, experienced management team, and healthy liquidity, offset by the school's significantly high pro forma debt relative to enrollment, with plans for continued expansion and additional debt plans. We assessed the enterprise profile as strong and the financial profile as adequate. Combined, these factors support an anchor of 'bbb'. As our criteria indicate, the final rating can be adjusted from the anchor rating. In our opinion, the 'BBB-' final rating on the school's bonds better reflects our view of Orenda's high leverage compared with that of peers and medians.

The rating reflects our view of Orenda's:

- Stable operations with a long operating history, which we expect will be sustained with the support of growing enrollment;
- Healthy unrestricted reserves despite moderation in fiscal 2022 related to capital projects;
- Solid enrollment with expectations for significant growth after completion of facility expansion projects;
- 10-year charter term through 2025 and recent approval for an increase in charter capacity; and
- Experienced management team that is focused on building headcount without significantly deteriorating the financial profile.

Partly offsetting the above strengths, in our opinion, are Orenda's:

- High pro forma leverage, reflected by a high pro forma lease-adjusted maximum annual debt service (MADS) burden of 17.9%, high debt per student, and plans for additional debt that would weaken these ratios further;
- General expansion risks associated with growth plans, though management has navigated similar expansion in the past; and
- Risk, as with all charter schools, that the school can be closed for nonperformance of its charter or for financial distress before final maturity of the bonds in 2058.

Environmental, social, and governance

We analyzed the school's environmental, social, and governance risks, and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that Orenda Education will maintain its good demand profile, supported by continued enrollment growth over the outlook period. We expect the school to sustain its financial profile metrics, including cash and coverage, over the next year despite its high leverage and ongoing financing discussions.

Downside scenario

We could lower the rating if Orenda issues significant additional debt without corresponding growth in resources and operations to support such debt, resulting in coverage and cash expectations that are no longer consistent with the rating.

Upside scenario

While a positive rating action is unlikely over the outlook period given the school's elevated debt profile and possible plans for additional debt, we could consider one if Orenda maintains its enrollment profile, sustains healthy liquidity, and strengthens operations significantly, resulting in a materially reduced debt burden commensurate with that of higher-rated peers.

Enterprise Profile

Market position

We view the school's enrollment and demand profile as sound, supported by steady enrollment growth in conjunction with healthy academics. Enrollment is close to capacity, but in anticipation of the ongoing expansion plans the school applied for and received approval from its authorizer, the Texas Education Agency (TEA), to raise charter capacity to 4,000 students from 2,500.

We expect Orenda's facility expansion at Gateway College Prep and opening of the GSAS campus to support continued enrollment growth. In our view, demand for the additional open seats will likely be robust, considering Orenda's waitlist (1,546 students as of fall 2022) consists almost entirely of students waiting to enroll at the school's campus in Georgetown, where the expansion and future new school will be located. Furthermore, Orenda's

surrounding geographic area is experiencing high growth and we expect this, with the aid of the school's reputation as a high-quality educational provider, to continue to stimulate demand for the program.

Orenda has a stable relationship with its authorizer, TEA, and the authorizer's recent decision to increase the school's charter capacity to 4,000 students from 2,500 supports our view. Orenda's recent accountability score of 'A' for the network as a whole provides further support for our view, and we anticipate no changes over the outlook period.

Management and governance

Orenda has a stable board of directors that consists of five members from the community. The board is involved in the school's governance, working closely with Orenda's management team and authorizer.

The senior leadership is well seasoned and long-serving. Orenda's founder and CEO, Richard Rickey, has been with the district since its inception in 1999 and Orenda's chief financial officer has been with the district since 2009. Orenda's five-year strategic plan is comprehensive, covering substantially all areas of operations. The governing team demonstrates its ability to execute its vision by expanding campuses, retaining students, and maintaining academic quality while sustaining healthy financial ratios guided by specific internal targets. We anticipate no significant management changes over the outlook period.

Financial Profile

Orenda's financial performance is characterized by consistently positive operating margins with healthy lease-adjusted pro forma MADS coverage. While performance has been healthy, management has projected still-positive but more modest margins in future fiscal years, incorporating increased debt service and operating costs. The possibility of additional debt is likely to temper expectations for the next year, though we believe the school's healthy operating track record provides some cushion. In our view, Orenda has successfully navigated prior expansions with enrollment growth and operating performance in line with expectations. In this regard, we anticipate that management will remain thoughtful in its planning over the outlook period and we expect overall financial performance to remain in line with the rating.

Orenda's unrestricted reserve position has been healthy and generally growing for more than a decade. However, in fiscal 2022 unrestricted reserves declined by about 30% because the school used cash to purchase the $6 million dollar property for the GSAS campus and completed smaller capital projects at the network's existing campuses. Capital-project-related cash spending totaled roughly $9 million for fiscal 2022, but even with this spend-down days' cash remains solid for the rating. In our view, management has been strategic and deliberate in considering future capital needs, while consistently increasing its reserves to facilitate the school's capital plan while maintaining solid liquidity. We understand that there are no additional plans to draw on reserves materially to support upcoming facility projects, and we expect liquidity to remain consistent.

Orenda Education enterprise and financial Statistics

	--Fiscal year ended August 31--					'BBB-' rated charter school medians
	2023	**2022**	**2021**	**2020**	**2019**	**2021**
Enrollment						
Total headcount	1,878	1,907	1,872	1,827	1,724	1,264
Total waitlist	1,546	1,249	1,208	716	177	MNR
Waitlist as % of enrollment	82.3	65.5	64.5	39.2	10.3	31.2
Financial performance						
Accounting standard	N.A.	FASB	FASB	FASB	FASB	N.A.
Total revenue ($000s)	N.A.	22,209	20,882	20,497	17,333	15,656
Total expenses ($000s)	N.A.	18,375	17,574	16,929	15,540	MNR
EBIDA ($000s)	N.A.	6,889	6,757	7,130	4,873	MNR
EBIDA margin (%)	N.A.	31.0	32.4	34.8	28.1	19.0
Excess revenues over expenses ($000s)	N.A.	3,834	3,308	3,568	1,793	MNR
Excess income margin (%)	N.A.	17.3	15.8	17.4	10.3	9.1
Operating lease expense ($000s)	N.A.	454	495	490	769	MNR
Pension/OPEB adjustments ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Lease-adjusted annual debt service ($000s)	N.A.	2,668	3,018	3,354	3,503	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	2.75	2.40	2.27	1.61	MNR
Lease-adjusted annual debt service burden (as % of total revenue)	N.A.	12.0	14.5	16.4	20.2	MNR
Lease-adjusted MADS ($000s)	N.A.	3,171	3,171	3,171	3,171	1,398
Lease-adjusted MADS coverage (x)	N.A.	2.32	2.29	2.40	1.78	2.10
Lease-adjusted MADS burden (as % of total revenue)	N.A.	14.3	15.2	15.5	18.3	9.7
Pro forma MADS ($000s)	N.A.	3,970	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	1.85	N.A.	N.A.	N.A.	MNR
Pro forma lease-adjusted MADS burden (as % of total revenue)	N.A.	17.9	N.A.	N.A.	N.A.	MNR
Total revenue per student ($)	N.A.	11,646.0	11,154.9	11,218.9	10,053.9	MNR
Balance sheet metrics						
Unrestricted reserves ($000s)	N.A.	11,965	17,201	14,834	11,236	MNR
Days' cash on hand	N.A.	258.4	391.7	351.0	284.3	164.90
Total long-term debt ($000s)	N.A.	41,656	41,780	46,450	47,259	MNR
Unrestricted reserves to debt (%)	N.A.	30.0	42.6	33.0	24.7	34.0
Unrestricted net assets as % of expenses	N.A.	127.9	70.6	52.9	51.7	42.0
Debt to capitalization (%)	N.A.	65.8	78.7	85.0	86.4	76
Debt per student ($)	N.A.	21,844	22,318	25,424	27,412	14,227
Pro forma metrics						
Pro forma unrestricted reserves ($000s)	N.A.	11,965	N.A.	N.A.	N.A.	MNR
Pro forma days' cash on hand	N.A.	258.4	N.A.	N.A.	N.A.	MNR
Pro forma long-term debt ($000s)	N.A.	54,751	41,780	46,450	47,259	MNR

Orenda Education enterprise and financial Statistics (cont.)

	--Fiscal year ended August 31--					'BBB-' rated charter school medians
	2023	2022	2021	2020	2019	2021
Pro forma unrestricted reserves to debt (%)	N.A.	21.9	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	71.7	78.7	85.0	86.4	MNR
Pro forma debt per student ($)	N.A.	28,711	22,318	25,424	27,412	MNR

FASB--Financial Accounting Standards Board. MADS--Maximum annual debt service. MNR--Median not reported. N.A.--Not available. OPEB--Other postemployment benefits. 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 Governmental Accounting Standards Board Statement Nos. 68 and 75.

Credit Snapshot

- Organization: Orenda, located about 30 miles north of Austin, is an open-enrollment charter school founded in 2001 in Georgetown, Texas. The school operates out of five campuses throughout the state: two in Georgetown (GCPS, offering kindergarten through grade 12, and Gateway Tech High School, offering grades nine through 12), one in Kingsland (offering kindergarten through grade 12), one in Belton (Nolan Creek, offering kindergarten through sixth grade), and one residential facility in Goldthwaite (New Horizons School, offering kindergarten through 12th grade).
- Bond covenants: 1.1x debt service coverage and 45 days' cash on hand. Coverage of less than 1.1x but more than 1.0x, or first violation of days' cash-on-hand covenant, requires an independent management consultant call-in. Less than 1x coverage constitutes an event of default. An additional bonds test requires 1.1x pro forma MADS coverage on a historical basis and 1.2x forward pro forma MADS coverage. Orenda is in compliance with all bond covenants.
- Charter authorizer and term: TEA. All campuses operate under a single charter, first received in 2000. Renewed twice, most recently in 2015 for a 10-year term through 2025.
- Freestanding management: Orenda manages all operations, curriculum needs, and financial oversight in house.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of April 28, 2023)

Newark Higher Education Finance Corp., Texas

Orenda Education, Texas

Newark Higher Education Finance Corp. (Orenda Education) ed rev bnds (Orenda Education) ser 2023A dtd 06/01/2023 due 08/15/2039

Long Term Rating	AAA/Stable	Rating Assigned
Underlying Rating for Credit Program	BBB-/Stable	Rating Assigned

Ratings Detail (As Of April 28, 2023) (cont.)		
Newark Higher Education Finance Corp. (Orenda Education) taxable ed rev bnds (Orenda Education) ser 2023B dtd 06/01/2023 due 08/15/2025		
Long Term Rating	AAA/Stable	Rating Assigned
Underlying Rating for Credit Program	BBB-/Stable	Rating Assigned

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