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Ratings

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Orenda Education, Texas; Charter Schools; School State Program

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Newark Higher Ed Fin Corp, Texas		
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Newark Higher Ed Fin Corp (Orenda Education)		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	BBB-/Stable	Affirmed
Texas Pub Fin Auth Charter Sch Fin 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 affirmed its 'BBB-' long term rating and underlying rating on debt issued for Orenda Education, Texas.
- The outlook is stable.
- The 'AAA' long-term rating on Orenda's 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. For more information on the long-term rating, see our report "Texas Permanent School Fund State Revolving Funds/Pools," published June 25, 2021, on RatingsDirect.

Security

The rated series 2011Q, 2015, and 2017 bonds are Orenda's only debt outstanding. The bonds are on parity and are secured by all revenue or income derived from Orenda pursuant to the loan agreement. As of fiscal year-end 2021, total debt outstanding was $41.8 million.

Orenda Education anticipates issuing $18 million to $25 million in additional debt over the next year. Proceeds are intended to finance the construction of classroom and administrative facilities for Gateway School of Arts & Sciences (GSAS), a kindergarten through eighth-grade school expected to open in fall 2024. Orenda purchased the land and buildings next to the existing Gateway college prep campus for the GSAS site for approximately $6 million in cash during fiscal 2022. In addition, Orenda plans to increase enrollment by nearly 1,200 students as a result of the expansion. We believe that although the school's elevated debt leverage is likely to worsen as a result of the issuance, Orenda has some capacity for additional debt at the rating. Supporting this view are its healthy liquidity position and prudent management of its expense base, leading to historically solid financial performance margins and lease-adjusted maximum annual debt service (MADS) coverage. We did not incorporate the pro forma debt fully into our analysis for this review. We anticipate assessing the impact of the school's expansion plans on the enterprise and financial profile as the school's plans are formalized over the next year.

Credit overview

The rating reflects our view of the school's large and stable enrollment base, experienced management team, and healthy liquidity, moderated by the school's extremely high debt load relative to enrollment with plans for additional debt. 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 Education's high debt leverage compared with those of peers and medians.

The rating reflects our view of Orenda's:

- Stable operations with a 20-year operating history,
- Exceptional unrestricted reserves despite some moderation expected for fiscal 2022,
- Consistent enrollment growth that is nearing capacity,
- A 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 materially deteriorating its financial profile.

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

- High debt leverage, reflected by a moderate lease-adjusted MADS burden of 14.8%, high debt per student, and plans for additional debt that would weaken these ratios further;
- General expansion risks associated with potential 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 2047.

Environmental, social, and governance

We analyzed the school's environmental, social, and governance risks, and view them as 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 ongoing financing discussions.

Downside scenario

We could lower the rating if Orenda issues additional debt without proportionate growth in operations, 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, we could consider one outside of the outlook period if Orenda maintains its exceptional liquidity position and enrollment and if operations grow, resulting in a materially reduced debt load and coverage 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 expansion the school has received approval from the Texas Education Agency (TEA) to raise charter capacity to 4,000 students from 2,500.

GSAS is expected to hold about 800 students. In addition, Orenda is expecting to enroll at least 350 additional students at Gateway College Prep over the next couple of years in anticipation of higher eighth-grade matriculation through its network stemming from the new school site. We expect demand for the new school to be robust, considering that Orenda's waitlist (1,548 students as of fall 2022) consists almost entirely of students waiting to enroll at the school's current campus in Georgetown, where the new school will be located. Furthermore, this area of the city, north of Austin, is experiencing high growth, which should stimulate continued demand for Orenda's programs given the school's reputation in the local area as a high-quality educational provider.

The school has noted a good relationship with its authorizer, TEA, and we view the authorizer's recent decision to increase the school's charter capacity to 4,000 students from 2,500 as supportive of our view of the stable relationship. In addition, 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 Education has a stable board of directors that consists of five members from the community. The board has largely been stable over time, and is actively 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., Orenda's chief financial officer has been with the district since 2009, having previously worked for an independent school district. 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. We anticipate no changes over the next few years.

Financial Profile

Orenda's financial performance is characterized by consistently positive operating margins with healthy lease-adjusted MADS coverage. Operations have been positive over a long-term trend. This should continue, as management expects to realize a surplus of approximately $1.5 million in fiscal 2022 and a slightly more moderate surplus in fiscal 2023.

While coverage has been healthy in comparison with that of several peers at the rating, increased debt service costs from the potential issuance could temper this ratio. In our view, Orenda has navigated other expansions while successfully expanding enrollment and operations in line with expenditure expectations. In this regard, we anticipate that management will remain thoughtful in its planning over the outlook period.

Orenda's unrestricted reserve position has been healthy and generally growing over at least the past decade. As of fiscal 2021, the school held about $17.2 million in unrestricted cash and investments, equal to 392 days' cash on hand. Despite the use of cash to purchase new facilities, management expects unrestricted reserves to decline only to about $15 million, or about 341 days' cash on hand based on fiscal 2021 expenses, for fiscal 2022. We would still view these reserves as very healthy, and we consider management's plans achievable given financial performance expectations for fiscal 2022. In addition, Management does not anticipate drawing meaningfully on liquidity over the near term as it moves forward with its projects, and we view this as credible given the school's historically prudent management of its expense base.

We view Orenda Education's debt burden as a constraining factor for the rating given the school's moderate debt burden and high debt per student. We anticipate that these metrics could weaken materially over the outlook period given Orenda's financing plans. The school's historical financial performance, reserve position, and history of increasing its enrollment base provide cushion at the rating despite the aforementioned factors. However, the debt burden is likely to remain elevated and at capacity over the long term without significant growth in operations beyond the scope of current planning and discussion.

Orenda Education Enterprise And Financial Statistics

	--Fiscal year ended August 31--					'BBB-' rated charter school medians
	2022	2021	2020	2019	2018	2021
Enrollment						
Total headcount	1,907	1,872	1,827	1,724	1,647	1,264
Total waitlist	1,249	1,208	716	177	62	MNR
Waitlist as % of enrollment	65.5	64.5	39.2	10.3	3.8	31.2
Financial performance						
Accounting standard	N.A.	FASB	FASB	FASB	FASB	N.A.
Total revenue ($000s)	N.A.	20,882	20,496	17,332	15,990	15,656
Total expenses ($000s)	N.A.	17,574	16,929	15,540	14,897	MNR
EBIDA ($000s)	N.A.	6,757	7,129	4,872	3,910	MNR
EBIDA margin (%)	N.A.	32.4	34.8	28.1	24.5	19.0
Excess revenue over expenses ($000s)	N.A.	3,308	3,567	1,792	1,093	MNR
Excess income margin (%)	N.A.	15.8	17.4	10.3	6.8	9.1
Operating lease expense ($000s)	N.A.	495	490	769	790	MNR
Pension/OPEB adjustments ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Lease-adjusted annual debt service ($000s)	N.A.	3,018	3,354	3,503	3,079	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	2.40	2.27	1.61	1.53	MNR

Orenda Education Enterprise And Financial Statistics (cont.)

	--Fiscal year ended August 31--					'BBB-' rated charter school medians
	2022	**2021**	**2020**	**2019**	**2018**	**2021**
Lease-adjusted annual debt service burden (as % of total revenue)	N.A.	14.5	16.4	20.2	19.3	MNR
Lease-adjusted MADS ($000s)	N.A.	3,085	2,923	2,923	3,259	1,398
Lease-adjusted MADS coverage (x)	N.A.	2.35	2.61	1.93	1.44	2.10
Lease-adjusted MADS burden (as % of total revenues)	N.A.	14.8	14.3	16.9	20.4	9.7
Pro forma MADS ($000s)	N.A.	N.A.	N.A.	N.A.	3,059	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	N.A.	N.A.	N.A.	1.54	MNR
Pro forma lease-adjusted MADS burden (as % of total revenues)	N.A.	N.A.	N.A.	N.A.	19.1	MNR
Total revenue per student ($)	N.A.	11,154.9	11,218.4	10,053.4	9,708.6	MNR
Balance sheet metrics						
Unrestricted reserves ($000s)	N.A.	17,201	14,834	11,236	9,290	MNR
Days' cash on hand	N.A.	391.7	351.0	284.3	241.3	164.90
Total long-term debt ($000s)	N.A.	41,780	46,450	47,259	48,029	MNR
Unrestricted reserves to debt (%)	N.A.	42.6	33.0	24.7	20.2	34.0
Unrestricted net assets as % of expenses	N.A.	70.6	52.9	51.7	39.5	42.0
Debt to capitalization (%)	N.A.	78.7	85.0	86.4	89.6	76.0
Debt per student ($)	N.A.	22,318	25,424	27,412	29,162	14,227
Pro forma metrics						
Pro forma unrestricted reserves ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma days' cash on hand	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma long-term debt ($000s)	N.A.	41,780	46,450	47,259	48,029	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	78.7	85.0	86.4	89.6	MNR
Pro forma debt per student ($)	N.A.	22,318	25,424	27,412	29,162	MNR

FASB--Financial Accounting Standards Board. MADS--Maximum annual debt service. MNR--Median not reported. N.A.--Not available. 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 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, 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 (offering kindergarten to grade 12) and Gateway Tech High School (ninth- to 12th-grade); one in Kingsland (Kingsland School; kindergarten to grade 12); one in Belton (Nolan Creek School; kindergarten through sixth-grade), and one residential facility in Goldthwaite (New Horizons School; kindergarten through 12th-grade).
- Bond covenants: A 1.1x annual debt service coverage covenant that allows for the engagement of a management consultant if coverage is 1.0x to 1.1x, and potential acceleration if annual debt service coverage falls to less than 1x. There is also a 45 days' cash-on-hand liquidity covenant, and the additional bonds test includes a 1.1x coverage test on historical debt service and a 1.2x additional bonds test on total pro forma debt.
- Charter authorizer and term: TEA. All schools operate under one charter agreement. The charter was renewed once for a 10-year term extending through July 31, 2025. For more information on Texas charter schools, see our state charter school brief, published Sept. 22, 2022.
- Freestanding management: Orenda Education has a full operational and financial management staff and does not use an outside management company.

Related Research

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

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