S&P Global
Ratings

RatingsDirect®

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

Primary Credit Analyst:
David Holmes, Farmers Branch + 214 871 1427; david.holmes@spglobal.com

Secondary Contact:
Brian J Marshall, Farmers Branch + 1 (214) 871 1414; brian.marshall@spglobal.com

Table Of Contents

Rationale

Stable Outlook

Credit Opinion

Enterprise Profile

Financial Profile

Related Research

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

Credit Profile		
Newark Higher Ed Fin 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	Current
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	Current

Rationale

S&P Global Ratings' underlying rating is 'BBB-' and its long-term program rating is 'AAA' on Newark Higher Education Finance Corp., Texas' series 2017 and 2015 revenue bonds, Newark Cultural Education Facilities Finance Corp.'s series 2011B revenue bonds, and the Texas Public Finance Authority Charter School Finance Corp.'s series 2011Q revenue bonds. All bonds were issued on behalf of Orenda Education. The outlook is stable.

The bonds outstanding consist entirely of fixed-rate debt, and are secured by all revenue or income derived from Orenda pursuant to the loan agreement. Under the loan agreements, the school makes payments from gross revenue. Payments that the corporations receive from Orenda under the loan agreements are the sole source of pledged revenue. As of fiscal year-end 2020, total debt outstanding amounted to $46.5 million.

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 of 1.1x. If debt service falls to less than 1.1x but remains above 1.0x, management may be required to engage a consultant. If annual debt service coverage falls to less than 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 maximum annual debt service (MADS) coverage on a historical basis and 1.2x forward MADS coverage on existing and proposed debt.

Similar to its national peers, in response to the COVID-19 and broader public safety concerns, Orenda Education moved to virtual learning in March 2020 for the duration of the 2019-20 school year. Savings associated with closure of the campus largely offset expenses incurred as a result of the outbreak. In addition, Orenda secured $1.8 million through the Payroll Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act that is not classified as a loan for accounting purposes because it was expected to be forgiven and was forgiven in March 2021. The PPP funds are reflected in the schools' 2020 audits, with the audit recognizing the funds as cash and Orenda noting the funds as a liability. Our analysis mirrors the audited presentation, though we understand this skews performance given the one-time nature of these funds. In addition, Orenda received $205,000 in Elementary and Secondary School Relief funding related to the COVID-19 pandemic. Despite high uncertainty regarding the duration and impact of the pandemic and the related effects on the performance of those charter schools in our rated universe, including the ability to resume classes and absorb unreimbursed additional costs, state per pupil funding in Texas continued as budgeted for fiscal 2020 and is expected to continue unabated for fiscal 2021 based on the most recent state reports; also, the state has a biennium budget. We will monitor developments for any credit effects and take action as we deem appropriate. We believe the school has sufficient liquidity at the rating to withstand any potential moderate funding cuts over the outlook horizon, with 351 days' cash on hand, which includes the PPP loan.

For the 2020-21 school year Orenda opened offering both in-person and remote learning options, in accordance with state and local recommendations. Officials will monitor local COVID-19 metrics and the efficacy of various modes of instruction and make the adjustments it deems necessary to its delivery during the pandemic.

The 'AAA' long-term program rating on Orenda's 2017, 2015, and 2011 bonds reflect 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 program rating, see our report "Texas Permanent School Fund State Revolving Funds/Pools," published June 25, 2020, on RatingsDirect.

Credit overview

We assessed Orenda's enterprise profile as strong, characterized by growing overall enrollment at its five campuses spread across four counties and our expectation for continued growth given facility capacity and the next few years' plans for campus expansion. The strong enterprise profile also reflects our view of good academic performance at the 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 that of most peers, but tempering those factors are an abundance of unrestricted reserves, a history of positive operating performance that we expect will continue, and improved lease-adjusted MADS coverage the we consider solid for the rating. We believe that, combined, these credit factors lead to an anchor of 'bbb-' and a final rating of 'BBB-.'

The rating reflects our view of Orenda's:

- Stable operations, with a 20-year operating history and maintenance of a 10-year charter that runs through 2025;
- Exceptional unrestricted reserves, as measured by 351 days' cash on hand at the end of fiscal 2020, though we expect slight moderation associated with drawdowns for facility expansion;

- Consistent enrollment growth, with an increase to more than 1,850 students in fall 2020 from roughly 1,475 in fall 2016 coupled with our expectation of further growth; and
- Sound 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 leverage, with a lease-adjusted MADS burden of 14.3% of revenue in fiscal 2020, though improved from previous years;
- Expansion risks associated with potential growth plans; 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.

The stable outlook reflects our expectation that the school will maintain its good demand profile, supported by continued enrollment growth over the outlook period. Furthermore, we expect the school to sustain its financial profile through its expansion plans within the outlook.

The stable outlook on the 'AAA' rating reflects our view of the strength of the Texas Permanent School Fund guarantee, based on the fund's assets and performance.

Orenda Education, 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) and Gateway Tech High School (grades nine to 12); one in Kingsland (Kingsland School; kindergarten to grade 10); one in Belton (Nolan Creek School; kindergarten to grade eight), and one residential facility in Goldthwaite (New Horizons School; K-12).

Environmental, social, and governance factors

In our view, Orenda Education is exposed to elevated health and safety social risk given the impact of COVID-19-related economic uncertainty on state funding and the school's dependency on state revenue. Despite the elevated social risk, we believe the school's environmental and governance risks are in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We could lower the rating if demand weakens or if campus expansion plans result in a substantial weakening of financial metrics that are no longer commensurate with the rating. Although we believe the school has taken steps to address COVID-19, and we understand the coronavirus to be a global risk, we could consider a negative rating action during the outlook period should unforeseen pressures related to the pandemic materially affect the school's reserves, demand, or trajectory.

Upside scenario

While a positive rating action is unlikely over the outlook period given the school's elevated debt profile, we could consider a positive rating action in the medium term with a material reduction to the school's debt profile coupled with enrollment growth and maintenance of exceptional liquidity.

Credit Opinion

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 204,000, and is expected to increase at an impressive 11.5% over the next five years. Orenda also operates schools in Llano, Bell, and Mills counties. Two of the 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 cyclicality 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

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 1,872 students at the start of the 2020-2021 school year. This equates to a 4.4% three-year enrollment growth rate, and we expect enrollment to exceed 1,950 in the 2021-2022 school year. Of the network's 1,872 students in fiscal 2021, 1,400 attended Orenda's flagship campus, GCPS. We understand the campus, which has continuously added students year over year for the past five years, is near its facility capacity. Orenda expects to begin construction on an additional building on site that is expected to add student enrollment starting in fall 2022 and support steady growth through the outlook coupled with the area's growing minor-aged population. Based on conversations with management, we believe the goal is for the additional facility to support middle and high school growth and with the campus addition for total enrollment to surpass 2,000 students when built out.

For fiscal 2019, the school received an overall district rating of 'B', which we view as good. In addition, GCPS' 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, we believe Orenda's demand profile further reflects 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 80 students and has capacity to accommodate 90. The school also received an 'A' STAAR rating in 2019. The Kingsland and Belton (Nolan Creek School) campuses are about 60 miles west and 30 miles north of Austin, respectively. In fall 2020, Kingsland School had 165 students in kindergarten through grade 10, and Nolan Creek School had 120 kindergarten to eighth-grade 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 a 'D' STAAR rating 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 70 students with potential to serve as many as 72, but enrollment is not expected to grow. 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 Round Rock independent school districts. Officials do not envision that local competition will profoundly affect operations, and believe the local school districts remain well positioned in their respective markets given area growth within Williamson County. Furthermore, the Orenda waitlist is growing and amounted to about 1208 in the fall of 2020, up from 716 students the previous year. School officials also report that retention is at about 82% based on management estimates. Overall, we believe the historical enrollment growth, supported by sound academics, acceptable 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, despite areas of risk, the framework is not likely to hamper the school's ability to pay debt service.

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 five members from the community. 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, and we believe that this 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, finances, 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, partly as a result of increases in enrollment as GCPS filled in grades. Orenda ended fiscal 2020 with an operational surplus of $3.6 million, or an excess margin of 17.4%, which includes approximately $1.8 million in PPP funding and is an increase from surpluses of 10.3% in fiscal 2019 and 6.8% in 2018. Based on year-end results and our conversations with management, we expect a modest surplus in fiscal 2021 associated with stable enrollment funding coupled with a slight reduction in local funding revenue as a result of reduced food service and after-school programs as a result of the pandemic. Lease-adjusted MADS coverage improved to 2.61x in fiscal 2020 from 1.96x in fiscal 2019, reflecting modular lease payments at GCPS ended in fiscal 2019. Although we expect that lease-adjusted MADS coverage may moderate in future years given the expected new facility construction, we believe coverage should remain solid for the rating through the outlook period.

Liquidity and financial flexibility

Orenda's unrestricted reserve position remains exceptionally healthy. As of fiscal 2020, the school held about $14.8 million in unrestricted cash and investments, equal to 351 days' cash on hand, which includes $1.8 million in PPP money the school received under the ARES Act. While we expect the school's cash position to grow based on year-end result for fiscal 2021, we do not expect a significant boost to Orenda's already robust cash on hand given increasing expenses and expectations of expansion. Although management reports that it could use approximately $2 million of unrestricted reserves to support the financing of the building, 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 outlook period.

The school's unrestricted net assets continue to grow year-over-year, nearly doubling in fiscal years 2017 to 2020. Despite the growth, Orenda's unrestricted reserves were 33% of debt, which we view as acceptable for the rating but below that of peers at fiscal year-end 2020. We expect further growth in fiscal 2021 based on year-end results, but could see this assessment moderate in the medium term in association with the campus expansion.

Debt burden

At Orenda's fiscal year-end 2020, the school's debt outstanding amounted to about $46 million, which was composed of the series 2011B, 2011Q, 2015A, 2015B, and 2017 bonds. Aggregate lease-adjusted MADS, including leases for two of the campuses and a district office, in fiscal 2020 was about $2.9 million and occurred in fiscal 2021. Lease-adjusted MADS for fiscal 2020 is 14.3% of total revenue, which is considered high compared with that of similarly rated peers, though down from 20.4% in previous years. We expect revenue to increase over the next few years given enrollment trends, but we do not expect the debt-to-revenue ratio to materially improve over the outlook period. Debt per student is elevated at $25,424 for fiscal 2020, making the school an outlier among state peers, most of which have less than half that amount per student, though the figure has moderated from more than $30,000 in previous years. The school has no additional contingent liabilities or off-balance-sheet debt. We understand that the school does not anticipate issuing additional debt within the outlook period, but we expect the overall burden to remain manageable as

operations expand, given the stable increase in enrollment.

As with many charter schools, the organization's debt-to-capitalization ratio shows significant leverage on the balance sheet. Based on fiscal 2020 results, debt to capitalization is estimated at 85%. We view the school's debt burden as a constraining rating factor, but we expect these ratios to remain consistent with the rating.

Orenda Education Enterprise And Financial Statistics

	--Fiscal year ended August 31--					'BBB-' rated charter school medians
	2021	2020	2019	2018	2017	2019
Enrollment						
Total headcount	1,872	1,827	1,724	1,647	1,471	1,090
Total waiting list	1,208	716	177	62	128	MNR
Waiting list as % of enrollment	64.5	39.2	10.3	3.8	8.7	35.4
Financial performance						
Accounting standard	N.A.	FASB	FASB	FASB	FASB	N.A.
Total revenue ($000s)	N.A.	20,496	17,332	15,990	14,448	11,322
Total expenses ($000s)	N.A.	16,929	15,540	14,897	12,996	MNR
EBIDA ($000s)	N.A.	7,129	4,872	3,910	3,336	MNR
EBIDA margin (%)	N.A.	34.8	28.1	24.5	23.1	16.2
Excess revenue over expenses ($000s)	N.A.	3,567	1,792	1,093	1,452	MNR
Excess income margin (%)	N.A.	17.4	10.3	6.8	10.0	5.5
Operating lease expense ($000)	N.A.	490	769	790	717	MNR
Pension/OPEB adjustments ($000)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Lease-adjusted annual debt service ($000)	N.A.	3,354	3,503	3,079	2,251	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	2.27	1.61	1.53	1.80	MNR
Lease-adjusted annual debt service burden (% total revenue)	N.A.	16.4	20.2	19.3	15.6	MNR
Lease-adjusted MADS ($000s)	N.A.	2,923	2,923	3,259	3,310	1,223
Lease-adjusted MADS coverage (x)	N.A.	2.61	1.93	1.44	1.22	1.60
Lease-adjusted MADS burden (% total revenue)	N.A.	14.3	16.9	20.4	22.9	11.2
Pro forma MADS ($000s)	N.A.	N.A.	N.A.	3,059	N.A.	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	N.A.	N.A.	1.54	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total revenue)	N.A.	N.A.	N.A.	19.1	N.A.	MNR
Total revenue per student ($)	N.A.	11,218.4	10,053.4	9,708.6	9,821.9	MNR
Balance sheet metrics						
Unrestricted reserves ($000s)	N.A.	14,834.0	11,236.0	9,290.0	8,754.0	MNR
Days' cash on hand	N.A.	351.0	284.3	241.3	258.8	148.70
Total long-term debt ($000s)	N.A.	46,450	47,259	48,029	48,344	MNR
Unrestricted reserves to debt (%)	N.A.	33.0	24.7	20.2	19.0	26.1
Unrestricted net assets as % of expenses	N.A.	52.9	51.7	39.5	37.9	38.0

Orenda Education Enterprise And Financial Statistics (cont.)

	--Fiscal year ended August 31--					'BBB-' rated charter school medians
	2021	2020	2019	2018	2017	2019
Debt to capitalization (%)	N.A.	85.0	86.4	89.6	91.2	81.0
Debt per student ($)	N.A.	25,424	27,412	29,162	32,865	13,509
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 ($000s)	N.A.	46,450	47,259	48,029	48,344	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	85.0	86.4	89.6	91.2	MNR
Pro forma debt per student ($)	N.A.	25,424	27,412	29,162	32,865	MNR

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

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.