S&P Global
Ratings

RatingsDirect®

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

Primary Credit Analyst:
John Miceli, Englewood +1 2148711471; john.miceli@spglobal.com

Secondary Contact:
Mel Brown, New York + 3122337204; mel.brown@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Enterprise Profile

Financial Profile

Credit Snapshot

Related Research

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

Credit Profile		
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	Current

Credit Highlights

- S&P Global Ratings' underlying rating on Newark Higher Education Finance Corp., Texas' series 2015A, 2017, and 2023 bonds and long-term rating on the corporation's series 2011Q bonds, all issued for Orenda Education, is 'BBB-'.
- The outlook is stable.

Security

As of fiscal year-end 2023, total debt outstanding was $54.8 million, consisting of the school's series 2023, 2017, 2015, and 2011Q bonds. All bonds are on parity and are secured by all revenue derived from Orenda, pursuant to the loan agreement. Orenda's series 2023 bonds were issued over a 35-year maturity. Lease-adjusted maximum annual debt service (MADS), which includes debt service on the school's outstanding bonds as well as minimal lease expenses associated with the bonds, is about $3.5 million. However, we note that when smoothing the series 2023 debt service over a typical 30-year amortization, pro forma MADS on the bonds increases minimally.

Management has previously discussed a desire to issue additional debt over the outlook period to finance the construction of classroom facilities for Gateway School of Arts & Sciences (GSAS), a potential grade K-8 school. In fiscal 2022, Orenda completed an approximately $6 million purchase of land adjacent to its current Gateway College Preparatory campus in Georgetown, which is where the GSAS facility would be built. While Orenda previously discussed plans to open GSAS in 2025, the school has articulated that due in part to increases in construction costs and the school's desire to maintain certain debt ratios, the timing on these plans has been delayed and will be reconsidered sometime next year. Generally, although specific project costs have not been articulated, we view Orenda's high debt burden with elevated debt per student as a constraining factor but do see some debt capacity at the current rating level given the school's growing demand profile, steady operations, and healthy liquidity. We expect to incorporate these plans into our holistic 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 its significantly high debt burden relative to enrollment and declining, albeit sufficient, liquidity. 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 leverage compared with that of peers and medians.

The rating reflects our view of Orenda's:

- Solid enrollment levels with expectations for continued growth over the outlook period;
- Sustained track record of operating surpluses and sufficient lease-adjusted MADS coverage;
- Current 10-year charter term through 2025. The school has started the charter renewal process with the Texas Education Agency (TEA) ahead of its June 2025 renewal date and does not anticipate any issues. Based on our conversations with the school's management, we understand TEA has designated an expedited renewal process for Orenda Charter School District's next 10-year term based on meeting the criteria for expedited renewal which is measured on academic, financial and campus performance; 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 MADS burden, high debt per student, and potential plans for additional debt that could further weaken relevant ratios;
- Recent declines in liquidity due to spend-downs on capital projects;
- General expansion risks associated with growth plans, though management has navigated similar expansions 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 (2058).

Environmental, social, and governance

We analyzed the school's environmental, social, and governance factors, 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. We could also consider a negative rating action if enrollment levels were to weaken materially.

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, builds its unrestricted reserves through healthy operating surpluses, and grows operations materially, resulting in a 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 in March 2022 from its authorizer, TEA, to raise charter capacity to 4,000 students from 2,500.

We expect Orenda's facility expansion at Gateway College Prep and potential opening of an additional campus. The school aims to maintain enrollment just above 2,000 for the 2024-2025 school year. In our view, demand will be supported through the near term by a robust waitlist of students for the school's largest campus in Georgetown, where the expansion and a potential 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. The school has performed well on state assessments, including high achievement on academic testing, as well as having a long track record of receiving top scores on the Financial Integrity Rating System of Texas (FIRST). In our discussions with TEA, the authorizer cited no concerns about the school nor any outstanding compliance issues.

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 CFO has been with it since 2009. The school's five-year strategic plan is comprehensive, covering substantially all areas of operations. Management expects to update the strategic plan some time next year. The 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 over the outlook period, 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 generally healthy historically. However, in recent years, unrestricted reserves have declined due to a variety of one-time capital purchases, including the purchase of a $6 million dollar property for the GSAS campus and furnishing and associated costs related to expansion of the existing flagship campus Gateway College Prep School (GCPS) for costs to complete Phase IV construction. In addition, there have been one-time capital purchases to address smaller maintenance needs at the network's existing campuses. Pro forma reserves of $10.8 million in fiscal 2023 account for the school's level of reserves after adjusting the audited figures to account for the effect of unspent bond proceeds. Reserves declined only modestly in fiscal 2023 following the initial capital spend-down and are expected to remain relatively stable in fiscal 2024. In our view, despite these declines, overall liquidity remains in line with the rating level and we feel management has been strategic and deliberate in considering capital needs. Overall, we expect liquidity to remain consistent with the current rating level over the outlook period, though we expect to monitor any potential effects of one-time capital or expansion-related costs on the school's profile.

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 above-mentioned 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, Texas -- Enterprise and financial statistics

	Fiscal year ended Aug. 31				Medians for 'BBB-' rated charter schools
	2024	2023	2022	2021	2023
Enrollment					
Total headcount	1,923	1,878	1,907	1,872	1,299
Total waiting list	1,505	1,546	1,249	1,208	MNR
Waiting list as % of enrollment	78.3	82.3	65.5	64.5	24.6
Financial performance					
Accounting standard	N.A.	FASB	FASB	FASB	MNR
Total revenues ($000s)	N.A.	21,503	22,209	20,882	18,507
Total expenses ($000s)	N.A.	19,405	18,375	17,574	MNR
EBIDA ($000s)	N.A.	5,438	6,889	6,757	MNR
EBIDA margin (%)	N.A.	25.3	31.0	32.4	16.3
Excess revenues over expenses ($000s)	N.A.	2,098	3,834	3,308	MNR
Excess income margin (%)	N.A.	9.8	17.3	15.8	6.6

Orenda Education, Texas -- Enterprise and financial statistics (cont.)

	Fiscal year ended Aug. 31				Medians for 'BBB-' rated charter schools
	2024	**2023**	**2022**	**2021**	**2023**
Operating lease expense ($000)	N.A.	225	454	495	MNR
Pension/OPEB adjustments ($000)	N.A.	N.A.	N.A.	N.A.	MNR
Lease adjusted annual debt service ($000)	N.A.	2,561	2,668	3,018	MNR
Lease-adjusted annual debt service coverage (x)	N.A.	2.21	2.75	2.40	MNR
Lease-adjusted annual debt service burden (% total revenues)	N.A.	11.9	12.0	14.5	MNR
Lease-adjusted MADS ($000s)	N.A.	3,534	3,171	3,171	1,432
Lease-adjusted MADS coverage (x)	N.A.	1.60	2.32	2.29	2.00
Lease-adjusted MADS burden (% total revenues)	N.A.	16.4	14.3	15.2	8.6
Total revenue per student ($)	N.A.	11,450	11,646	11,155	MNR
Balance sheet metrics					
Unrestricted reserves ($000s)	N.A.	22,191	11,965	17,201	MNR
Days' cash on hand	N.A.	456.2	258.4	391.7	182.7
Total long-term debt ($000s)	N.A.	54,767	41,656	41,780	MNR
Unrestricted reserves to debt (%)	N.A.	40.5	28.7	41.2	38.0
Unrestricted net assets as % of expenses	N.A.	132.6	127.9	70.6	43.9
Debt to capitalization (%)	N.A.	69.9	65.8	78.7	72.5
Debt per student ($)	N.A.	29,162	21,844	22,318	15,288
Pro forma metrics					
Pro forma MADS ($000s)	N.A.	N.A.	3,534	N.A.	MNR
Pro forma lease-adjusted MADS coverage (x)	N.A.	N.A.	2.08	N.A.	MNR
Pro forma lease-adjusted MADS burden (% total revenues)	N.A.	N.A.	15.9	N.A.	MNR
Pro forma unrestricted reserves ($000s)	N.A.	10,832	11,965	N.A.	MNR
Pro forma days' cash on hand	N.A.	222.7	258.4	N.A.	MNR
Pro forma long-term debt ($000s)	N.A.	54,767	54,751	41,780	MNR
Pro forma unrestricted reserves to debt (%)	N.A.	19.8	21.9	N.A.	MNR
Pro forma debt to capitalization (%)	N.A.	69.93	71.70	78.68	MNR
Pro forma debt per student ($)	N.A.	29,162.4	28,710.5	22,318.4	MNR

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 GASB 68 and GASB 75. MADS--Maximum annual debt service. N.A.--Not available. N.M.--Not Meaningful.

Credit Snapshot

- Organization: Orenda, about 30 miles north of Austin, is an open-enrollment charter school founded in 2001 in Georgetown. The school operates four campuses throughout the state: two in Georgetown (GCPS, offering grades K-12, and Gateway Tech High School, offering grades 9-12), one in Kingsland (offering grades K-12), and one in Belton (Nolan Creek, offering grades K-7).
- Bond covenants: 1.1x debt service coverage and 45 days' cash on hand (DCOH). Coverage of less than 1.1x but more than 1.0x, or first violation of DCOH 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: Texas Education Agency. All campuses operate under a single charter, first received in 2000. Renewed twice, most recently in 2015 for a 10-year term through 2025.
- Management type: Orenda manages all operations, curriculum needs, and financial oversight in house.
- State enhancement: The 'AAA' long-term rating on Orenda's series 2015, 2017, and 2023 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 program rating, see our report "Texas Permanent School Fund; State Revolving Funds/Pools," published July 3, 2024, on RatingsDirect. This report reflects only the underlying characteristics of the school and does not assess the enhancement program or the school's qualification under that program.
- State per-pupil funding: Per-pupil funding is expected to remain flat for fiscal 2025.

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 October 14, 2024)

Newark Higher Education Finance Corp., Texas

Orenda Education, Texas

Newark Higher Education Finance Corp. (Orenda Education) ed rev bnds

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

Newark Higher Education Finance Corp. (Orenda Education) taxable ed rev bnds (Orenda Education)

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

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	Current

Copyright © 2024 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.spglobal.com/ratings (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.spglobal.com/usratingsfees.

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