Texas Public Finance Authority Charter School Finance Corp.
Evolution Academy Charter School

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Credit Profile		
US$5.695 mil Education Revenue Bonds, Series 2010A dated 07/27/2010, due 08/15/2040		
Long Term Rating	BBB-/Stable	New
US$1.2 mil Taxable Education Revenue Bonds (Qualified School Construction Bonds-Direct Pay), Series 2010Q dated 07/27/2010, due 08/15/2027		
Long Term Rating	BBB-/Stable	New
US$.485 mil Taxable Education Revenue Bonds, Series 2010B dated 07/27/2010, due 08/31/2040		
Long Term Rating	BBB-/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'BBB-' rating, with a stable outlook, to Texas Public Finance Authority Charter School Finance Corp., Texas' series 2010A and 2010B education revenue bonds and series 2010Q taxable education revenue bonds (qualified school construction bonds (QSCB) - direct pay), both issued for Evolution Academy Charter School. The corporation will issue the bonds and subsequently loan the proceeds to Evolution Academy.

The academy will use bond proceeds to pay off its bank loans outstanding and make renovations and repairs to a newly acquired property adjacent to the school's existing facility.

The rating reflects our assessment of the credit characteristics associated with Evolution Academy, which include the following credit risks:

- The general risks associated with charter schools, such as charter renewal and revocation,
- The need for continued demand for school services,

- The need to consistently attract at-risk students and continue to achieve satisfactory academic results, and
- Additional costs associated with expanding into another facility.

In our opinion, sufficiently offsetting these weaknesses are the school's:

- Historically stable demand at the current facilities,
- Satisfactory academic performance, coupled with a 10-year charter renewal,
- Financial ability to cover its obligations with current resources, though debt-serviced coverage is very thin, and
- Current adequate financial position, with a high level of liquidity.

Evolution Academy opened in September 2002 serving an enrollment of 252 in grades 9-12. The school was initially chartered to serve a maximum of 600 students. Since then, enrollment has grown to just over 400. The school targets students who have dropped out of their local school or who are at risk of dropping out. The school currently operates in a renovated building that it purchased in November 2007. It also recently acquired a property that is adjacent to the current building. After the renovations to this new property, total capacity will climb to between 550 and 600.

Despite the availability of other charter schools in the area, demand for the academy's services appears to be stable, with enrollment projected for fall 2010 of 420, and a current wait list of about 120 students. The academy has also seen adequate academic results, with the school achieving "academically acceptable" status from the Texas Education Agency for the past four years. Evolution Academy also saw its charter renewed in 2009 for a 10-year period.

Financially, the school has shown positive results. Audited 2009 results show cash on hand of $1.27 million, with net assets totaling $2.33 million. This balance has grown steadily in the past three years. At the end of 2009, cash on hand represented about 178 days of operations. The primary revenue source for the academy is funding from the state's foundation school program, which totaled $2.86 million in 2009. The school has prepared a multiyear financial forecast, which shows state revenues growing to more than $4.3 million by 2014, with annual operating surpluses. These results assume weighted average daily attendance growing to nearly 700 over the same time period.

In 2009, the academy experienced a surplus of $371,881. When adding back depreciation and the loan payments that will be refinanced, net funds available for debt service totaled approximately $684,000. The school and its financial advisors estimate that the net debt service payment due for the two series of bonds will range from about $590,000 to $613,000, net of annual subsidy payments of about $65,000. Debt service coverage, based on fiscal 2009 adjusted available revenues, would range from 1.12x to 1.16x. For fiscal 2010, however, the school projects new revenues available for debt service (which includes the change in net assets, depreciation, and the bank loan that will be refinanced) would total just under $600,000. The result would be very thin coverage. Debt service carrying charges are likely to range between 15% and 20% depending on future enrollment growth and related expenditures.

The series 2010A QSCBs have a shorter 17-year amortization schedule. We understand that the school intends to make annual sinking fund deposits, and will not rely on interest earnings for the final bullet maturity due in 2027.

Outlook

The outlook reflects Standard & Poor's expectation of continued demand for the school's services, coupled with positive financial results that should result in maintenance of adequate, though thin, debt service coverage. Given the relatively thin margins, we expect proactive management in order to address any potential financial pressure caused by enrollment declines. The outlook is stable, but indications of financial stress or a significant decrease in demand could place downward pressure on the rating.

Related Criteria And Research

USPF Criteria: Charter Schools, June 14, 2007