HR Ratings upgrades from HR BBB- (G) to HR BBB (G) the rating on Education Revenue Bonds Series 2014A issued by TBP. The Rating Outlook is Stable.

The upgrade on the rating is a result of the observed improvement on the financial statements of TBP, as a consequence of their capacity to follow-up their expansion plan in the last two years in terms of enrollment, along with a more efficient spending policy. Our main financial metrics closed FY16 very similar to our expectation, with an important improvement compared to FY15. Furthermore, with information very close to the end of FY17, financial results are expected to be well above our previous forecast, again with a significant improvement with respect FY16. Additionally, in June 2017, TBP allocated the proceeds ($2.6m) from the sale of the Dallas NW building into an escrow agreement, reducing the outstanding value of the debt and covering principal and interest payments of 2014 bonds until 2021, therefore, reducing the medium-term risk of payment.

The rating is based on the following credit rating drivers:

**Enrollment Growth.** The School was able to continue expanding enrollment in the existing campuses with a growth rate of 18.9% in FY17 from an observed growth rate of 27.8% in FY16. TBP expects to continue expanding in the forthcoming years, particularly in the Fort Worth area. For FY18 and FY19 enrollment is expected to grow 9.6% and 7.3% respectively. One of the main drivers of this growth will be the investment in a new building in the Panola campus, this building will not need to obtain a Specific Use Permit (SUP) to operate, as the campus already has it.

**Revenues and EBITDA Margin.** Total revenues per student in our base model would grow at an average annual rate of 0.5%, while total cash expenses per student would rise at an average of 0.4% from FY17 to FY22. EBITDA Margin would have a decreasing trend from 20.4% in FY17 to 13.1% in FY22 on a base scenario but fall to 11.2% in a stress scenario. The projected downward trend in EBITDA margin starts from FY17, which reported a figure that is well above the observed average.

**DSCR and Years of Payment Base Scenario.** Under HR Ratings’ base case scenario, DSCR ranges between 0.79x and 1.68x over the five-year forecast period (2018-2022), while DSCR with cash ranges from between 2.9x and 5.4x. Years of payment would decline from 7.4 to 6.4.

**DSCR and Years of Payment Stress Scenario.** Under HR Ratings’ stress case forecast scenario, DSCR would range from 0.5x to 1.5x, while DSCR with cash would be between 2.3x and 4.9x. Years of payment would go from 9.2 to 11.4 over the five year forecast period.

**Bond Covenants.** According to the master indenture, the School has to comply with some financial covenants. One of these is related with DSCR levels and the other with liquidity measurements (days cash on hand). According to our projections in a base scenario TBP would continue complying with them. The ‘G’ indicates that the rating is based on a global scale. The rating is based on TBP’s credit risk. Please see disclaimers at the end of the report. Arlington Higher Education Finance Corporation, Trinity Basin Preparatory, Inc. (the School or TBP)
Relevant Events

Financial results of the past two fiscal years have shown the ability of TBP to improve its spending efficiency, as well their debt management in order to keep up with their expansion plans. TBP’s financial position in FY16 closed very similar to our last year expectations and in FY17 their preliminary financial results are expected to close much better from what we expected. EBITDA Margin for FY16 closed at 12.23% while our previous expectation was 12.53%. In FY17 EBITDA Margin is expected to close around 20.4%, while our previous projection was 13.9%.

TBP has been able to keep up with their expansion plans in terms of enrollment, either by debt, capital leases or own revenues, the School has invested in increasing student capacity as well as opening new campuses. In the past two years enrollment increased by approximately 1,000 students, this represents a 52% increase. The percentage increase in FY17 was 18.9%, with all of their campuses having a double-digit growth rate.

According to information provided by the School, on August 15th 2017 the total amortization of 2014 Bonds Series B will be carried out through Wilmington Trust for an amount of $550,000 plus interests. Therefore, at the moment HR Ratings has evidence of this payment its current rating will be withdrawn for the 2014 Bond Series B.

In June 2017, the School entered into an escrow agreement with Wilmington Trust, National Association as escrow agent. The main purpose was the deposit by TBP of $2.6m into an irrevocable escrow in order to be pledged to the payment of principal, redemption premium, and interest of 2014 bonds. The escrow will cover all capital payments of the bonds from 2018 to 2020 and 75% of 2021, and approximately 6.0% of interest payments from 2018 to 2019. According to information provided by TBP, this instrument was created in order to maintain the tax exemption of the bonds and as a result of the sale of the Dallas NW building which was part of the allocation of the bond proceeds.

In 2015 TBP was not able to open a new campus at NW Dallas due to the failure of obtaining the SUP (Specific Use Permit), therefore, this asset was held for sale and in FY17 they managed to sell it. The price of sale was below the book value of the property, thus, they had to register a loss from the sale. The net proceeds from the sale were put into the escrow agreement which covers principal and interest of the bonds in the next four years.

A new revolving credit line with Liberty Capital Bank was opened for an amount of $2.6m, TBP used $1.2m, half of which were paid the revolving credit line previously held with Frost Bank. Even though it has not been necessary, the purpose of this line is to comply with financial bond covenants and to offer flexibility to the School in case of liquidity pressures. The annual interest rate is based on the prime rate, plus 2.0%, being the minimum rate 5.5%. In FY18 the School expects to pay the $1.2m drawn in FY17.

Financial covenants from the trust indenture related with debt service and liquidity were complied with in FY16. The Debt Service Cover Ratio (DSCR) closed at 2.0x. According to the indenture, this metric must be above 1.10x. Regarding the liquidity covenant, days of cash on hand closed at 85 while the trust indenture requires at least 30 days.

TBP continues with expansion plans which include buying a property called Griggs adjacent to the Panola Campus. This investment will allow TBP to maintain an average growth rate, in that specific campus, of 30.6% from 2018 to 2022. As of today, Panola has 224 students and is expected to grow each year until reaching 818 in 2022. This investment is planned to be financed in FY18 through a long-term loan of $5.0m.
with Liberty Capital Bank. We have incorporated this loan into our model, considering assumptions provided by TBP.

In order to keep up with enrollment growth, in April 2017 TBP asked for an increase of their enrollment cap. Once the Texas Education Agency (TEA) reviewed some specific elements of the School, the enrollment cap was lifted from 3,500 to 5,000. This allows the School to sustain the expected increase in enrollment for the next several years. The enrollment cap accounts for all TBP’s campuses, permitting the School to distribute the students among their different facilities. The last time TBP was granted a lift in enrollment cap was in 2014.

In the 2015-2016 Accountability Rating provided by the Texas Education Agency (TEA) TBP obtained Met Standard\textsuperscript{5}, meeting the target in each of the four indexes. The School has never been at a substandard performance level and is not considered a risk since the current system in Texas requires three years at substandard performance to revoke a charter’s license. According to information related with grades provided by TBP, they are expecting again to obtain Met Standard in the 2017 Accountability Rating. HR Ratings will monitor the official publication of the rating.

The Average Daily Attendance (ADA), a key variable to determine most of the funding that the School receives, closed in FY17 at the same level of FY16, 95.3%. Since 2009, TBP’s ADA has never been under 95.0% of enrollment. The School has implemented diverse strategies to maintain the observed level, hence, our projected scenarios were estimated on the base of stable attendance ratios.

The 2014 Series Bonds in August 2014 received the guarantee of the Permanent School Fund (PSF). This guarantee helped to reduce the interest rate of the bonds and secures all payments of principal or interest that the School has to make. In the event that TBP has to make use of the guarantee, the School will have to repay the PSF the amount utilized. It is important to mention that the existence of this guarantee is not incorporated in this credit rating.

Continued demand of students is shown in the waitlist numbers. For the 2017-2018 school year TBP is expecting to enroll around 148 additional students in their Dallas campuses, with a waitlist of 289 students. While in the Fort Worth District they are expecting to enroll around 248 additional students, with a waitlist of 449.