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Magnolia Charter Schools Receive Improved Outlook

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Caprice Young, CEO of Magnolia Public Schools, plans to grow the chain of California charter schools.

LOS ANGELES — Magnolia Public Schools' credit outlook was changed to stable from negative by Standard & Poor's after the Los Angeles-based charter school chain prevailed in a dispute with the Los Angeles Unified School District.

S&P also affirmed Magnolia Public Schools' BB long-term rating on the California School Finance Authority's series 2014 school facility revenue bonds issued on behalf of MPM Sherman Way LLC, according to the rating agency's June 19 report.

The bonds were issued for the Magnolia Science Academy Reseda Project.

"The revision of the outlook to stable and affirmation of the BB rating reflects our view that the risk of charter revocation of Magnolia Education and Research Foundation's schools has been greatly reduced given the settlement agreement between MERF and Los Angeles Unified School District," said S&P credit analyst Debra Boyd.

The charter operator, which has \$6 million in debt, told the Bond Buyer in May that it is working closely with RBC Capital Markets for a market return to support growth plans.

Magnolia wants to be able to grow enrollment in each of its schools from 200 to 450 to 750.

Magnolia, a network of 11 public charter schools in Los Angeles, San Diego, Santa Clara and Orange counties, provides a college preparatory education program emphasizing science, technology, engineering and math.

Its Los Angeles schools triggered a legal battle with the massive LAUSD, the nation's second largest with more than 660,000 students.

LAUSD had moved to close three of its Los Angeles-area schools, but Magnolia challenged the move in court and won.

The series 2014 bond proceeds were used to finance the purchase and renovation of the building occupied by MSA-1. The bonds are secured by gross revenues of MSA-1 with state payments intercepted each month by the trustee.

"Management has indicated that it could issue up to \$9.1 million in debt over the next year to acquire a permanent facility for its San Diego campus and to acquire a facility adjacent to MSA-1," Boyd said. "We believe MERF has the capacity at its current rating level to issue this debt given its solid liquidity levels and coverage levels."

Any substantial amounts of additional debt beyond what is anticipated that causes a substantial decline in liquidity or coverage could pressure the rating, however, Boyd said.

Magnolia received approval from the state June 11 for \$17.4 million in funding to build a school in Santa Ana.

The funding will enable MERF to grow that school to 1,020 students by 2018, according to Magnolia officials.

It would be completed in time for the 2016-17 school year.

Link: <http://www.bondbuyer.com/news/regionalnews/magnolia-charter-schools-receive-improved-outlook-1077115-1.html>