

RatingsDirect®

Summary:

California School Finance Authority MPM Sherman Way LLC; Charter Schools

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California School Finance Authority MPM Sherman Way LLC; Charter Schools

Credit Profile

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California Sch Fin Auth (MPM Sherman Way LLC) CHARTERSCH

Long Term Rating BB/Watch Neg On CreditWatch Negative

California Sch Fin Auth (MPM Sherman Way LLC) CHARTERSCH

Long Term Rating BB/Watch Neg On CreditWatch Negative

Rationale

S&P Global Ratings placed on CreditWatch with negative implications its '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 for Magnolia Science Academy (MSA-1), Reseda Project.

The CreditWatch action reflects our view that we could lower the rating, potentially by multiple notches, if the Los Angeles County Board of Education denies Magnolia Educational Research Foundation's (MERF) appeal and MERF fails to secure an alternative arrangement for its nonrenewed charters.

On Oct. 18, 2016 the Los Angeles Unified School District (LAUSD) Board of Education voted to not renew the charters for three of the 10 schools managed by MERF, including MSA-1, whose revenue secures the 2014 bonds. LAUSD's recommendation for nonrenewal included failure of the schools' English learner subgroup to make academic gains with no students in this subgroup meeting or exceeding English language arts and math standards. In addition, LAUSD reports that MERF failed to provide reasonable documentation in its renewal petitions regarding governance structure, employees, admissions requirements, and suspension and expulsion procedures. Finally, MERF's failed to provide LAUSD's Office of Inspector General and the state's Fiscal Crisis Management Assistance Team with documentation in a timely manner. MERF's leadership disputes the factual accuracy of LAUSD's findings.

MERF's management plans to seek an appeal with the Los Angeles County Board of Education with a decision expected no later than January of 2017. If the appeal is approved, the county would become MERF's authorizer. If not, the petition would go to the state with a decision coming as late as May 2017. Should MSA-1 fail to receive authorization from the county or state, it would close at its current site at the end of the 2016-2017 school year. In our opinion, the heightened risk associated with the denial of the appeal and the future nonrenewal of MERF's other charters authorized by LAUSD place pressure on the MERF 'bb' group credit profile (GCP) and the 2014 bond ratings. At the same time, the 'BB' rating reflects our view of the strength of MSA-1 and MERF's operations and financial resources, as stated in our latest review, published Sept. 16, 2016 on RatingsDirect.

CreditWatch

We will monitor the appeal process for MSA-1, MSA-2, and MSA-3. We could remove the rating from CreditWatch if the Los Angeles County Board of Education renews all charters, which we expect would occur no later than January 2017, and we receive assurance that MERF's other LAUSD-authorized charters remain in good standing. If the Los Angeles County Board of Education does not grant the appeal, we could lower the rating by multiple notches to reflect the increased risk of closure.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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