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Avon Grove Charter School, PA Series 2017A And 2017B Revenue Bonds Rated 'BBB-'; Outlook Stable

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SAN FRANCISCO (S&P Global Ratings) April 13, 2017--S&P Global Ratings assigned its 'BBB-' rating and stable outlook to Chester County Industrial Development Authority, Pa.'s \$28.5 million series 2017A and 2017B revenue bonds, issued for Avon Grove Charter School (AGCS), and affirmed its 'BBB-' rating, with a stable outlook, on the authority's series 2007 revenue bonds, issued for AGCS.

"We could lower the rating or revise the outlook to negative if demand were to weaken or if funding pressure were to intensify over the next few fiscal years, negatively affecting operating performance. We would also take a negative view of any maximum annual debt service coverage declines or cash position failing to improve to levels we consider more in-line with AGCS' similarly rated peers," said S&P Global Ratings credit analyst Kaiti Wang. "Due to the current cash position, we believe a positive rating action is unlikely during the two-year outlook period. However, we could raise the rating if the school were to improve liquidity and operating results significantly and if it were to sustain that trend while it maintains a stable enterprise profile."

S&P Global Ratings assessed AGCS' enterprise profile as adequate, characterized by steadily growing enrollment, stable demand with a modest waitlist, good academics, and proactive management. The rating service assessed AGCS' financial profile as adequate with a trend of weakening operations--but performance is expected to rebound in fiscal 2017; sufficient pro forma maximum annual debt service coverage; and extremely weak liquidity for the rating. While AGCS is adding a modest amount of new-money debt with its series 2017 issuance, S&P Global Ratings views the school's financial metrics overall as still consistent with the rating. This incorporates the rating service's expectation of operational improvement in fiscal 2017 due to a larger increase in per-pupil funding than originally projected. S&P Global Ratings believes that combined, these credit factors lead to an indicative standalone credit profile of 'bbb-' and a final rating of 'BBB-'.

The stable outlook reflects S&P Global Ratings' opinion that during the next two years, the charter school will likely maintain steady enterprise and financial profiles by keeping enrollment at or above current levels, return to positive operations, maintain its maximum annual debt service coverage at current levels or better, and improve its cash position.

Loan payments directly to the trustee from AGCS secure the bonds. AGCS makes payments from revenue, as defined in governing bond documents, consisting primarily of per-pupil funding from the state.

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 and at www.spcapitaliq.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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