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S&P: U.S. Charter School Ratings Continued to Slip as 2013 Medians Sent Mixed Signals.

The number of charter schools that Standard & Poor's Ratings Services rates has continued to grow since our last report on the sector's median performance ratios (see "Charter School Medians Reflect Operating Pressures In A Growing Sector," published June 27, 2013). Most of the growth has been in the 'BB' category ('BB+', 'BB', and 'BB-'), as it was in the previous year, and we've downgraded a number of schools to speculative-grade as well. We believe this increase at the lower end of our rating scale reflects the culmination of years of per-pupil funding cuts and the resulting pressure on schools' operations, along with increased competition in some markets. In addition, schools are entering the capital markets and requesting ratings earlier in their lifecycles.

For these reasons, we anticipate that ratings will continue to move to the lower end of our rating spectrum, and our outlook on the sector remains negative overall (see "The U.S. Charter School Outlook Is Still Negative in 2014," published Feb. 24, 2014 on RatingsDirect). Of our 214 public charter school ratings, currently, 41 (19%) have negative outlooks while only 5 (2%) are positive. Although funding may be beginning to stabilize in many states, it generally hasn't returned to pre-recessionary levels, and some schools are struggling to operate in this "new normal."

Overview

- Funding is increasing for charter schools in some states, but many are still struggling from the Great Recession fallout.
- More schools are beginning to issue debt (and request ratings) earlier in their life cycle.
- The portion of charter school ratings at the lower end of the range for this sector continues to rise.
- The sector's medians showed mixed results with weakening financials but increased cash and demand across most rating categories.

Read the Report.

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