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S&P: U.S. Charter Schools' Median Ratios Reveal a Young Sector Growing Rapidly but with Volatility.

Standard & Poor's Ratings Services' view of the U.S. charter school sector is mixed. The growth and volatility of charter school ratings exceed that of our other public finance sectors and we expect that to continue as this one evolves, schools adapt to local political climates, new financing opportunities emerge, and schools continue to access the capital markets to secure funding for facility needs. However, the charter schools' small size and relatively short operating history and limited financial flexibility present performance uncertainty and potential for rating changes.

We believe the long-term general environment for charter schools is improving gradually. However, with exceptions that vary by state, we expect downgrades will continue to outpace upgrades in 2015 because of the difficulties individual schools face. In our opinion, charter school margins and balance sheets will remain slim throughout their institutional lifetime, either intentionally as part of their mission, or unintentionally as a reflection of school performance. In either case, this limits the potential for upgrades. In addition, increased competition for enrollment, covenant violations, and debt and capital plans for many schools continue to put pressure on individual credit profiles, which we believe leads to increased ratings volatility and the potential to lower ratings.

The factors that will most influence performance are the schools' management, charter environment, financial performance, covenant violations, and financial obligations. (Watch the related CreditMatters TV segment titled, "U.S. Charter School Median Ratios Spotlight Growing Enrollment And Volatility," dated Aug. 13, 2015.)

Overview

- Sector performance is mixed, with greater growth and volatility than other public finance sectors.
- The schools' small sizes and short operating histories present uncertainties about future performance.
- We expect downgrades to outpace upgrades in 2015.
- Charter school margins and balance sheets will remain thin for various reasons.

Continue reading.

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