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S&P: U.S. Charter School Medians In 2019 Were Stable Pre-COVID-19, But Disparity Grows Between Higher And Lower Rated Schools

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The key median indicators for U.S. charter schools were generally stable in fiscal 2019. Overall enrollment, demand, and financial profiles for charter schools remained similar to prior years, although the fiscal 2019 metrics were recorded before the unprecedented disruption that the COVID-19 pandemic has caused the sector. We expect to see the effects of operational and financial challenges related to the pandemic reflected beginning with the fiscal 2020 median credit metrics, with more pronounced changes likely in fiscal 2021. For charter schools already facing operational and financial challenges before the pandemic, we believe COVID-19 has exacerbated these pressures. Due to the duration of COVID-19 and the gradual, uneven economic recovery, we believe charter schools face heightened risk of state or local funding cuts due to the COVID-19 pandemic. Additionally, we believe there is potential for enrollment fluctuations, given the uncertainty surrounding school re-opening plans.

We are closely monitoring fiscal 2021 state budgets for potential funding pressure. We recognize the possibility of mid-year cuts, and even if fiscal 2021 funding holds in many of the key states in which our rated charter schools operate, there could be repercussions for fiscal 2022 and beyond. In our view, the ability of schools to react proactively and manage their expenses is key. With certain states indicating greater budget pressures than others, with end-of-year cuts to operating appropriations as well as state hold-backs and deferrals, many schools have reported offsetting operating pressure by cutting discretionary spending, enacting salary freezes, and pausing or re-evaluating capital projects. In addition to the receipt of federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding that has helped offset increased COVID-19 related expenses. Some schools also qualified to receive loans through the Paycheck Protection Program (PPP) under the CARES Act, which in our view provides these schools with additional liquidity flexibility in the near term. We believe schools with stronger enrollment trends and financial cushion are likely to fare better, while lower-rated schools in pressured states will have less flexibility to absorb steep cuts. For more information see “How COVID-19 And The Recession Could Affect Credit Quality For U.S. K-14 Schools,” published Sept. 3, 2020, on RatingsDirect.

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