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Fitch U.S. Charter School Rating Criteria: Discussion Paper (Potential Changes to Charter School Rating Methodology in Advance of Exposure Draft)

Fitch Ratings believes that components of its current “U.S. Public Finance Charter School Rating Criteria,” particularly the criteria’s treatment of some major revenue defensibility factors, may be better characterized as scalable, rather than “asymmetric” credit factors. (“Asymmetric” factors have only neutral or negative rating impacts.) Fitch’s new view of revenue defensibility would add the possibility that certain factors — such as charter renewal prospects and certain governance metrics, including authorizer framework — may have positive rating impacts, instead of just neutral or negative “asymmetric” impacts. Fitch’s existing criteria resulted in “weaker” revenue defensibility profiles for almost all charter schools, effectively limiting ratings across the sector. A potential shift in view is that competitive funding positions vary widely among issuers and could result in higher revenue defensibility profiles for a subset of charter schools. Issuers that may receive higher revenue defensibility assessments will demonstrate favorable attributes across Fitch’s proposed enhanced revenue defensibility factors, including authorizer funding and charter renewal protocols, competitive position, academics and certain governance metrics.

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