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Fitch Ratings Publishes U.S. Public Finance Charter School Rating Criteria Exposure Draft.

Related Content: Exposure Draft: U.S. Public Finance Charter School Rating Criteria

Fitch Ratings-Chicago/New York-04 August 2025: Fitch Ratings has published an exposure draft detailing proposed revisions to its rating criteria for U.S. Public Finance Charter Schools.

"The proposed revisions will better reflect the diverse risk profiles of charter schools as the sector has evolved to encompass stronger, established operators as well as weaker, possibly newer entrants," said Senior Director Emily Wadhwani. The updated criteria will remodel the way Fitch addresses the sector's unique risks, including those related to renewal and revocation of charters, which are typically shorter in length than a school's bond maturities. The criteria will also explicitly incorporate evaluations of management and governance, and certain bond provisions, in Fitch's analysis.

Highlights of the proposed charter school criteria include:

–Increased granularity within the three Key Rating Drivers (KRDs) that are inputs to final ratings, growing the possible number of KRD assessment outcomes to four from three. In addition, the new proposed nomenclature for the assessments of 'a', 'bbb', 'bb' and 'b' will more intuitively align KRD assessments to final ratings than the current 'Stronger', 'Midrange', and 'Weaker' assessments;

–Revision of the Revenue Defensibility KRD to include three distinct subfactors: enrollment and academics, revenue and funding, and policy framework. In addition, Fitch currently categorizes certain regulatory, political, and charter renewal considerations as "asymmetric" factors that can only negatively affect the KRD assessment. Under the updated criteria, they will be able to either positively or negatively affect the KRD assessment;

–Enhancement of the Operating Risk KRD to include key metrics that scale operating cash flow, carrying costs, and capital spending. A new management framework to be incorporated into the Operating Risk KRD will provide a more structured and transparent approach to assessing the management and governance factors most likely to contribute to the health of a charter school's operations.

–Expansion of the Financial Profile KRD, incorporating three leverage-related metrics instead of one. The KRD will also explicitly consider debt structure risks and certain bond provisions that may promote solvency in stress situations such as financial covenants and debt service reserves; and

–The addition of weights to the components of each KRD to aid consistency and transparency.

"As the charter school sector has matured, the range of management and governance structures and credit risk profiles has widened," Wadhwani added. "The proposed criteria enhancements will support more differentiation among ratings for Fitch-rated charter schools within a more modernized, relevant and transparent ratings framework."

Fitch anticipates no rating impact to current ratings from the proposed criteria updates.

Fitch is actively soliciting market feedback on the proposed criteria. Send comments to criteria.feedback@fitchratings.com by Sept. 30, 2025. In addition to the exposure draft, Fitch has also published an Exposure Draft Frequently Asked Questions (FAQs) on the proposed U.S. Public Finance Charter School Rating Criteria.

Fitch's "Exposure Draft: U.S. Public Finance Charter School Rating Criteria" and the FAQs are available at www.fitchratings.com or by clicking the link above.

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