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U.S. Public Finance Charter Schools: Methodology And Assumptions

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U.S. Public Finance Charter Schools: Methodology And Assumptions

I. SCOPE AND OVERVIEW

1. S&P Global Ratings is updating the methodology for assigning ratings and related credit products to U.S. not-for-profit charter schools (charter schools). This update follows our request for comment, "Request For Comment: Charter Schools: Methodology And Assumptions", published on May 19, 2016, and provides additional transparency and comparability to help market participants better understand our approach to assigning charter school ratings, to enhance the forward-looking nature of these ratings, and to enable better comparison of these ratings to ratings in other sectors and countries.

2. These criteria describe S&P Global Ratings' methodology for rating U.S. not-for-profit charter schools and charter school networks. Charter schools are nonprofit, independent public schools which receive public funds and operate under a charter or contract for a specified period to educate elementary, middle, and high school students according to the school's own design. They generally operate outside of the existing public education bureaucracy, although the schools are considered public and remain subject to state academic standards. Charter school networks are organizations with two or more related charter schools or campuses that are linked operationally through a legal structure: one or more related charter contracts, a parent-subsidiary structure, or an obligated group structure. Students attend charter schools by choice of their parents or guardians rather than by assignment by a school district, although in some locales, geographic boundaries or other limits on open enrollment may apply. As with public schools, charter schools do not charge tuition.

3. S&P Global Ratings maintains ratings on the debt of more than 250 charter schools included in the scope of this criteria. Assuming that charter schools maintain their current credit characteristics, testing suggests that about 75% of the ratings would remain unchanged under this criteria, while 15%-20% would be lowered and 5%-10% would be raised, generally by one notch.

4. These criteria address the fundamentals set out in "Principles Of Credit Ratings", published on Feb. 16, 2011.

5. These criteria supersede the following article: "Charter Schools", published June 14, 2007.

6. All terms followed by an asterisk (*) are defined in the glossary in Appendix 1.

II. EFFECTIVE DATE AND TRANSITION

7. The criteria described in this article are effective immediately and apply to all new and outstanding ratings within scope. We intend to complete our review of issuers affected within the next 15 months.

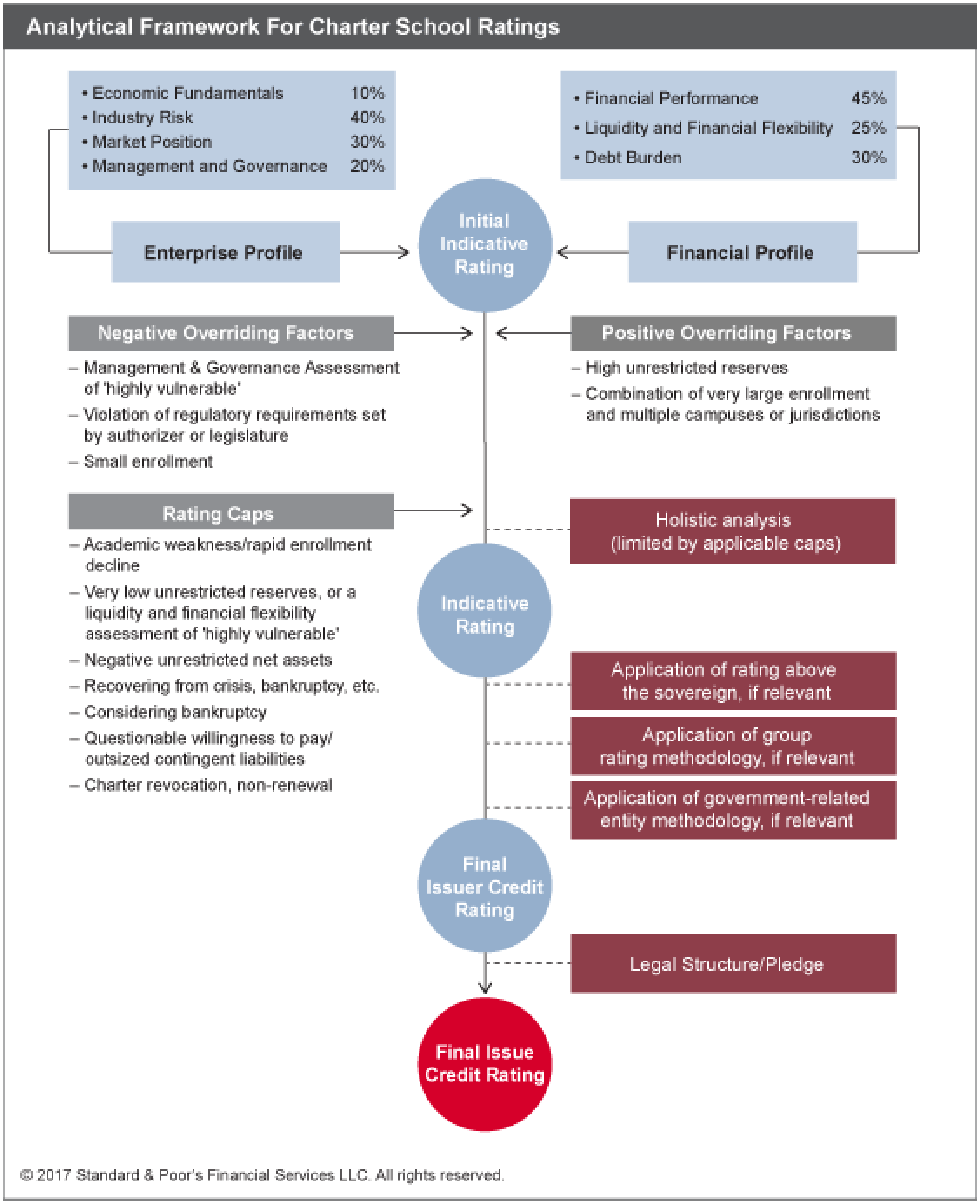
III. CRITERIA FRAMEWORK

8. We start our analysis with the assessment of a charter school's enterprise and financial risk profiles. Within the enterprise and financial profiles, we consider a number of factors, and we assign an assessment to each factor which is any of 'extremely strong' (the strongest), 'very strong', 'strong', 'adequate', 'vulnerable', or 'highly vulnerable' (the weakest), which equate to numeric assessments of '1' to '6', respectively. Since we believe that some factors are more likely to affect credit quality than others, we assign a weight to each of the enterprise and financial profile factors, described in chart 1.

9. Chart 1 depicts how the enterprise and financial profile characteristics combine to reach the initial indicative rating. The indicative rating is established after applying any applicable positive or negative overriding factors, caps, and holistic analysis. The final outcome is reached after incorporating any external factors.

10. Our methodology for evaluating charter schools classifies the primary credit factors that we review as either enterprise profile or financial profile factors. There are seven key factors that we review--four enterprise profile factors and three financial profile factors. While many of an organization's activities affect both the enterprise and the financial profile, we believe our approach clearly identifies the various ways that strategic and operational activities affect an organization. For example, a capital building plan could improve the enterprise through enhanced facilities, while also resulting in higher operating or capital expenses. These impacts are captured in both the enterprise and financial profiles, and if one of the effects is more dominant, we can identify that dynamic and ultimately its impact on the rating through the relative impact on the enterprise profile and financial profile assessments.

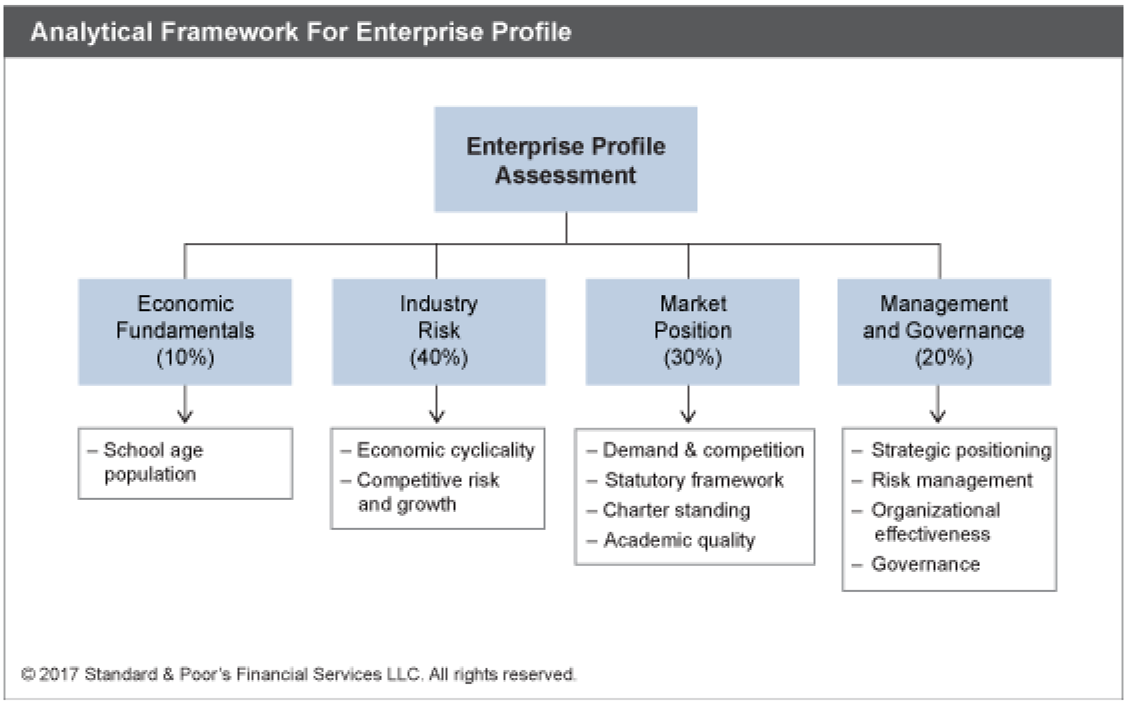
Chart 1



11. We use the assessments for each factor and the percentage weightings described in charts 2 and 3 to determine the overall enterprise profile assessment and financial profile assessment, which also range from 'extremely strong' to 'highly vulnerable'. There may be circumstances in which we assign an enterprise or financial profile assessment that is different from the assessment we calculate based on the individual factor assessments. Examples of those circumstances are in tables 11 and 12.

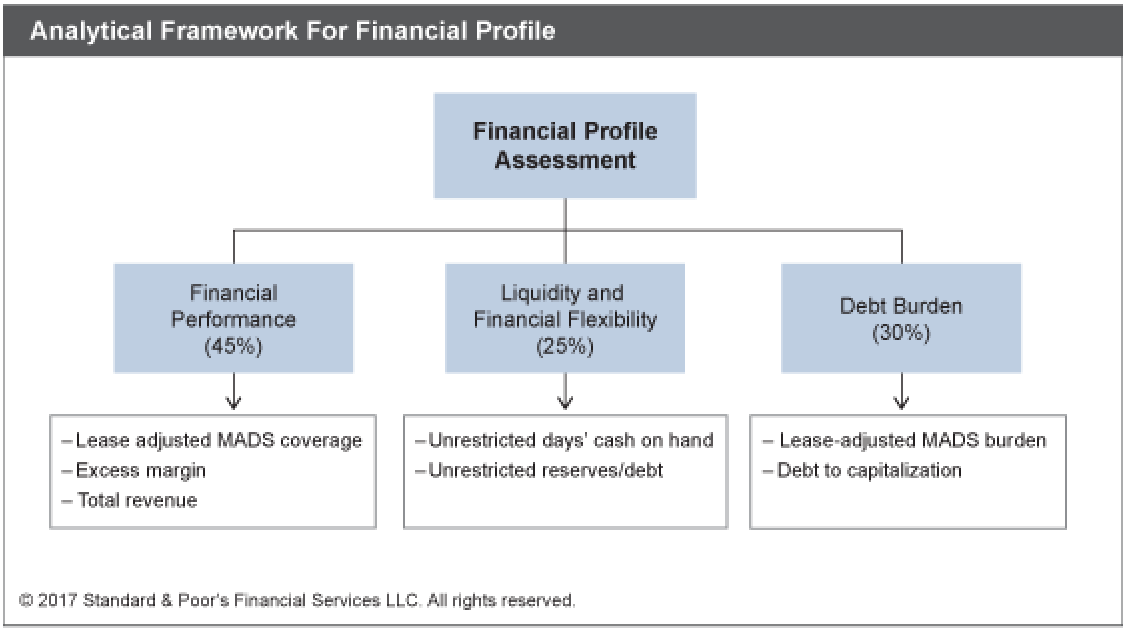
12. The enterprise profile assesses the operating environment and incorporates broad industry factors as well as organization-specific factors. Four factors are assessed: industry risk, economic fundamentals, market position, and management and governance. Industry risk and market position receive the highest enterprise profile weights. While industry risk is static, we believe that a charter school's statutory framework, market position, competition, and relative strength in the market establish the conditions for the level of operating and financial success achieved. Once we determine the initial enterprise profile assessment, we may adjust the initial assessment for unusual factors, such as when we believe the charter may be at risk due to a regulatory review. Other examples of such factors are in table 11.

Chart 2



13. The financial profile assesses the financial strength of the charter school. Three factors are assessed: financial performance, liquidity and financial flexibility, and debt burden. Once we determine the initial financial profile assessment, we may adjust the initial assessment for unusual factors, such as when we believe that financial policies are weak. Other examples of such factors are in table 12.

Chart 3



14. Once we determine the final enterprise and financial profile assessments, we combine them using table 1 to arrive at the suggested initial indicative rating. We use the term "initial" indicative rating because there may be overriding factors or caps, which we may use to adjust that which is suggested by table 1. For example, if a charter school's liquidity is critically low, we may feel it is very vulnerable to stress and has elevated risk of default as a result. In those circumstances, other credit strengths such as a very strong enterprise profile are less important than they would otherwise be. Such unusual factors aren't always negative and some can favorably affect the outcome suggested by table 1.

Table 1

Initial Indicative Rating

	Financial Profile					
Enterprise Profile	**1-Extremely Strong**	**2-Very Strong**	**3-Strong**	**4-Adequate**	**5-Vulnerable**	**6-Highly Vulnerable**
1-Extremely Strong	a+	a+	a+	a	bbb+/bbb	bb+/bb
2-Very Strong	a+	a+	a+	a-	bbb/bbb-	bb/bb-
3-Strong	a+	a+	a	bbb+/bbb	bbb-/bb+	bb-
4-Adequate	a	a/a-	a-/bbb+	bbb/bbb-	bb	b+
5-Vulnerable	bbb+	bbb/bbb-	bbb-/bb+	bb	bb-	b
6-Highly Vulnerable	bbb-	bb	bb-	b+	b	b-

15. We use lower case letters to highlight that the outcomes in table 1 are not ratings themselves, but rather indicative credit levels suggested by the enterprise and financial risk profile assessments. In cases where table 1 presents a range of outcomes, the choice between the two outcomes is based on our view of the charter school's relative position within the range.

16. We believe that the charter school sector's risks are incompatible with indicative ratings of the 'aa' category or higher, outside the application of external support, other legal or structural support including the application of moral obligation pledges and guarantees, because of charter terms that are typically shorter than the term of the bonds, charter renewal and revocation risk, and annual funding that is subject to the public sector budgeting process. While we believe that certain charter schools and charter networks may exhibit characteristics which help to offset these risk factors, we believe the inability to control all of these factors precludes indicative ratings higher than 'a+'.

17. After we apply any relevant overriding factors and caps, we perform our holistic analysis. This helps us capture a more comprehensive analysis of creditworthiness and recognizes our forward-looking view of sustained, predictable operating and financial underperformance or outperformance, which may be informed by competitive analysis and sectorwide data, including ratio analysis. The holistic analysis also includes rare or strongly positive or negative characteristics which the criteria do not separately identify. The holistic analysis can result in an improvement or worsening of the indicative rating by one notch, or no change at all. If a rating cap applies, for example, if the charter school is considering a bankruptcy filing resulting in a 'b' category cap, we do not apply a holistic analysis to raise the indicative rating above the level of the cap.

18. We use the term "indicative rating" to reflect the guidance from table 1 plus any relevant overriding factors and caps and the holistic analysis. This is also called a "stand-alone credit profile" (SACP). For more information about SACPs, please see our general criteria, "Stand-Alone Credit Profiles: One Component Of A Rating", published Oct. 1, 2010.

19. Next we analyze the influence of external factors such as sovereign risk, the potential for extraordinary support or intervention from a related government, and for those charter schools that are part of a group, the potential for support to or from other group members, where there is an obligated group. We use related criteria to make those assessments. Most commonly, these criteria are: "Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions" and "Group Rating Methodology", both published Nov. 19, 2013, and "Rating Government-Related Entities: Methodologies and Assumptions", published March 25, 2015. If a charter school meets the guidelines outlined in "Criteria For Assigning ‘CCC+’, ‘CCC’, ‘CCC-‘, And ‘CC’ Ratings", the charter school will be rated under that criteria published Oct. 1, 2012.

20. Once the effect of any external factors is incorporated we arrive at the final issuer credit rating (ICR). The ICR reflects the general creditworthiness of the entity. It does not apply to any specific financial obligation, as it does not take into account the nature and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation.

21. In the final step of the analysis, if we are rating a specific debt instrument, we review the legal structure of the instrument, including the pledge and covenants, to determine the issue credit rating. This analysis most often results in an issue credit rating that is the same as the ICR. However, the two may differ in some circumstances. For more information about how we determine issue credit ratings, see "Assigning Issue Credit Ratings of Operating Entities," May 20, 2015.

IV. ANALYTICAL METHODOLOGY

A. Guidelines For Assigning Analytic Assessments

22. Assessments for each factor range from 'Extremely Strong' (the strongest) to 'Highly Vulnerable' (the weakest). We generally average each of the assessments according to the weights described in charts 2 and 3 to determine the initial enterprise profile and initial financial profile assessments. After making any necessary adjustments to the initial enterprise and financial profile assessments for unusual factors, the final financial and enterprise profile assessments are applied in table 1 to arrive at the suggested initial indicative rating.

23. If the assessment falls at or near a midpoint when scoring the enterprise or financial profile assessments (table 1), or at or near a cut-off for any component thereof, we generally assign the stronger assessment if trends are improving or we believe future performance will improve. The weaker assessment generally is assigned if trends are weakening or we believe future performance will be weaker.

24. Our assessment of a charter school's financial metrics is based on ratios and numbers derived from interim, audited, budgeted, and forecasted financial statements. When determining a group credit profile in accordance with "Group Rating Methodology", published Nov. 19, 2013, these statements should reflect the operations of the charter school and all other related companies under common control. In these cases, the rating is based on our view of the group credit profile, which reflects the credit strength of the consolidated organization, and the obligated group's status, which reflects its importance to the group. In cases where an organization has multiple obligated groups seeking ratings, we generally assign a rating to each obligated group based on the group credit profile and each obligated group's status within the larger consolidated organization. Absent structural enhancements, our assessment of the group credit profile is the highest rating an obligated group could achieve.

25. Our assessment of all factors in these criteria is based on our forward-looking view of the entity's performance. Commonly, we begin our assessment with examining historic and current performance metrics, including the volatility and trend of historic results. Our view of future performance may differ from historic or current results. Our forward-looking view of a factor is informed by our opinion of macro conditions such as economic, legislative, and regulatory, in addition to our view of entity-specific factors such as capital plans, revenue stream trends, and management actions, and the entity's own forecast. Pro forma or projected data will be used based on our analytical assessment of the local and national environment for charter schools and may, but do not have to be, informed by a review of the organization's internal projections or pro forma expectations.

26. Examples of situations where our forward-looking view will likely differ from what historic performance would suggest are:

- A potentially large debt issuance,
- Pending liability,
- Likely acquisition, merger, or divestiture, or
- Plans to draw down internal reserves.

27. When analyzing historic data, in most cases, ratio calculations are based on the three most recent periods of financial information as defined by three audits or two audits and interim data as long as at least one quarter of interim data (in a format comparable to the audit) is available. We may make reconciling adjustments to financial information to account for differences in reporting under Government Accounting Standards Board (GASB) standards and Financial Accounting Standards Board (FASB) standards to ensure consistent treatment across our rated universe. As an example of the financial statement weightings, when three audited periods are used, typically the most recent audit is weighted at 45%, the previous year's audit at 35%, and the audit period before that at 20%. Similarly, when interim-period data is included, typically the interim data is weighted at 20%, the previous year's audit at 45%, and the audited period before that at 35%. However, there are instances where we may adjust these weightings if we believe that financial results in one or more of the periods contains unusual items or is otherwise not indicative of future performance.

B. Methodology and Assumptions

1. Enterprise Profile Assessment

28. The enterprise profile assesses the qualitative strength of the charter school. Four factors are assessed as part of the initial enterprise profile assessment. The factors and their weightings are as follows:

- Economic fundamentals, 10%
- Industry risk, 40%
- Market position, 30% and
- Management and governance, 20%

a. Economic Fundamentals

29. The economic fundamentals assessment measures the viability of the charter school's service area and the characteristics of the service area population. These factors influence the charter school's ability to attract students, which in turn directly affects the level of net revenue available for debt service payments.

30. Charter schools are public schools and do not charge tuition. Charter schools receive state and local funding provided by the state in which the school operates on a per enrolled student basis. Often, demand is high in areas where parents feel that local public schools are not providing the quality of education they desire for their children. In our experience, demand for charter schools is not highly correlated with service area wealth or income levels.

31. In assessing economic fundamentals, we believe the primary factor for charter schools is the size and growth of the local school-age population, which is typically defined by the county in which the school is located, because it provides an indication of whether the pool of potential students will be growing or shrinking. In general, we believe that projected school-age population growth of greater than 5% in a five-year period is indicative of an initial assessment of 'extremely strong', flat trends are indicative of 'adequate' or 'strong' assessments, and a decline of 5% or more is indicative of an initial assessment of 'highly vulnerable'.

32. In addition to the primary factor, there are others factors we consider that may result in a more, or less, favorable economic fundamentals assessment, based on the preponderance of available information and our view of the relevance of these factors to the overall assessment.

Examples of positive and negative economic fundamental considerations

- An example of a positive factor that we consider, which could result in a more favorable economic fundamentals assessment, is a diverse geographic footprint, which may occur for charter school systems operating in multiple counties, most of which have at least stable school-age population projections. We could consider economic fundamentals as 'extremely strong' for exceptionally diverse systems with favorable growth projections.
- An example of a negative factor we consider, which could result in a less favorable economic fundamentals assessment, is a small school-age population base in the school's home county, which we generally consider to be a population of less than 5,000 in the 0-24 age group. Those schools have a smaller potential pool of students to draw from and may be more vulnerable to new competition than schools in areas with larger populations.

b. Industry Risk

33. Industry risk is important as it measures risk in each sector and allows comparisons across sectors. We assign a standard industry risk assessment that is the same for all charter schools, to reflect factors that are common to all charter schools such as economic cyclicality and competitive risk. The industry risk assessment provides a common baseline of risk that we believe all charter schools face, and as a result, we assign the same industry risk assessment for all charter schools. We capture each charter school's unique risks and strengths through the other three enterprise profile factors.

34. The weight assigned to industry risk is the highest in the enterprise profile at 40%. We believe that, compared with other industries, charter schools face industry risks that are significant and harder to overcome than in other sectors, where the individual characteristics of the institution or entity are much more dominant.

35. We believe that the charter school industry represents "moderately high" credit risk, on a six-point scale of very low, low, intermediate, moderately high, high, and very high risk when compared to other industries and sectors. Moderately high industry risk equates to an 'adequate' on the six-point charter school specific scale we refer to in table 1. All charter schools receive the same assessment of 'adequate'. The industry risk assessment is consistent with principles outlined in "Methodology: Industry Risk", published Nov. 19, 2013.

36. We view industry risk as the impact of an industry's characteristics on a specific entity within that industry. An assessment of the industry risk results from a combination of assessments of: industry cyclicality and industry competitive risk and growth environment. The latter is based on the degree of the effectiveness of barriers to entry, levels and trends of profitability, substitution risk, and growth trends.

37. We assessed the economic cyclicality of the charter school sector as 'extremely strong' in parallel with our assessment of economic cyclicality for the higher education industry, which we believe has some demographic parallels to the charter school sector.

38. We assessed the competitive risk and growth of the charter school sector as 'adequate', based on the following:

Effectiveness of barriers to entry. The charter is an effective barrier to entry but other competitors like private schools do not need charters to operate. Capital cost to start a charter school is generally very low.

Level and trend of industry profit margins. Charter school margins are low, revenue diversity is very limited, and there is essentially no pricing flexibility.

Risk of secular change and substitution of service, products, and technologies. Charter schools face many substitutes including other charter schools, public schools, and private schools.

Risk in growth trends. The industry as a whole is growing rapidly but that has increased competition and hasn't helped profitability for existing schools. In addition, charter schools are a start-up industry with an unproven growth record.

39. The combination of the economic cyclicality assessment of 'extremely strong' and the competitive risk and growth assessment of 'adequate' results in the overall industry risk assessment of 'adequate'.

c. Market Position

40. Market position helps assess a charter school's desirability relative to its competitors. Market position has the second-highest weight in the enterprise profile assessment because a strong market position, characterized by steady or improving demand, strong academic quality, good competitive position, and a supportive statutory framework position a charter school to weather economic and demographic cycles and be successful over time.

41. In assessing market position, we generally focus on four components outlined below. In general, we consider demand and competition to be the most important factor, followed by statutory framework. Tertiary factors are charter standing and academic quality. However, where the charter is at risk for any reason or we believe weak academic quality could affect demand or put the charter at risk, there can be significant credit implications, which are captured as overriding factors and caps. In addition to these factors, in certain circumstances, there may be additional market position characteristics that we evaluate as part of this assessment.

Demand and competition. Demand for a charter school and its competitive environment is influenced by local demographics, the school's reputation, its academic offerings, location, and competition. We primarily use four measures to evaluate demand and competition: Enrollment, enrollment growth*, wait list as a percentage of enrollment, and retention rate. We generally consider the level of enrollment and enrollment growth to be the most important factors, while the wait list and retention rate are secondary factors.

Statutory framework. Refers to the legal and regulatory environment under which a charter school organization is authorized into existence, funded, and sustained over time. Political considerations in the state or local jurisdiction often determine how 'friendly' a particular locale is to the sector, as well as how quickly and to what extent it is allowed to grow. Charters are typically authorized by the state or a state agency in which the school operates, a local school district, or public university or university system. The statutory framework assessment is authorizer-specific and is the same for all schools chartered under the same authorizer. The statutory framework assessment measures the predictability and stability of the authorizing and funding process. Institution-specific factors such as the amount of time remaining on the charter in relation to the term of the bonds, is measured by the charter standing assessment, which is unique to each credit.

Charter standing. Because charter schools need their charters to continue operating, charter standing is an important factor. A school whose charter has not been renewed, or has been revoked for performance or other reasons, is at risk of losing its funding, and could be forced to close its doors, which could lead to a default. We generally consider charter standing to be of tertiary importance within the market position assessment, unless the charter is at risk of nonrenewal or revocation. Those risks may result in an adjustment to the enterprise profile assessment or a rating override

Academic quality. This is an important factor in a student's decision to enroll in a charter school. In addition, failure to meet academic standards as set by state regulation and/or the charter authorizer can result in charter revocation or additional oversight. Although changes are being made toward establishing national common standards of academic performance, nationally comparable data is not yet widely available for all schools. We rely on comparison between the charter school's performance on state-level standards, which differ from state to state, but are universally available.

42. Tables 2 to 5 includes guidance on the characteristics we typically expect to see for each assessment level. We do not expect a charter school to demonstrate all of the characteristics at any given assessment level; rather, we assess each school by looking at the variety of factors cited and use a preponderance of factors to determine the overall assessment. Where the guidance combines a range of assessments, such as "extremely strong" and "very strong", we evaluate the overall preponderance of factors and our view of the organization's relative strengths within the range.

Table 2

Demand And Competition Characteristics

	Extremely Strong	Very Strong	Strong	Adequate	Vulnerable	Highly Vulnerable
Enrollment (students)	10,000 or more	5,000-10,000	2,000-5,000	1,000-2,000	400-1,000	400 or less
Annual enrollment growth	20% or more	10%-20%	5%-10%	2%-5%, or at least stable and near the facility's capacity	0%-2%	Shrinking enrollment
Wait list	2x enrollment or more	1.5x-2x enrollment	Approximates enrollment	Exceeds 50% of enrollment	Some wait list but well below enrollment	No or very modest wait list
Retention rate	95% or more	90%-95%	85%-90%	80%-85%	70%-80%	70% or less

43. In making our assessment of demand and competition, we may also take additional considerations into account, based on the preponderance of available information and our view of the relevance of these factors to the overall assessment. These additional considerations could result in a demand and competition assessment that is stronger or weaker than that indicated by table 2. Examples of the some of the positive and negative factors we consider include:

Example of positive demand and competition considerations:

- Because charter school networks can spread their risk in many ways, including the risk of charter renewal, risk of demand fluctuations, and other risk mitigants, we consider charter school networks in general to be better competitively positioned than stand-alone schools. For networks, our assessment is generally based on the characteristics outlined above for the overall network to the extent network-wide measures are meaningful or a subset of the network if we believe there is concentration of credit risk with respect to geography, demographics, number of schools, number of charters, number of authorizers, or enrollment.

Examples of negative demand and competition considerations:

- A charter school's academic offering represents a narrow niche, such as foreign language, music, or athletics.
- The school's students are assigned by the local school district or other entity, sometimes based on student characteristics or special education needs.
- Where jurisdictional rules affect the breadth of school choice available to students, resulting in a charter school facing high competition that can be a threat to enrollment and has the potential to draw away students.
- The school experiences volatile enrollment, particularly declines in enrollment in excess of 5% in any of the last three academic years, unless the decline was due to a planned change, such as the number of grades the school offers.
- A school is planning to relocate or faces construction delays, which may cause changes in demand due to changes in the convenience of the location for its students.

Table 3

Statutory Framework Characteristics

	Assessment of Extremely Strong or Very Strong	Assessment of Strong or Adequate	Assessment of Vulnerable or Highly Vulnerable
Authorizer process	Authorizer has a clear and transparent authorization, renewal and revocation process with established milestones/benchmarks, which are closely monitored. There is a formal and consistently applied appeal process for a school whose charter has not been renewed or has been revoked.	Authorizer process is established for renewal, oversight and revocation, but may not be completely transparent or has not always been consistently applied. Limited or unclear benchmarks/milestones for schools to meet during charter term.	Authorizer's approval process is opaque or inconsistent or authorizer has a history of arbitrary or politically motivated renewal, non-renewal, revocation, or oversight actions. No clear milestones or benchmarks for schools to meet during charter term. No formal appeal process for a school whose charter has not been renewed or has been revoked.
Authorizer choice/ independence	More than one authorizer option (e.g. the additional option of another state agency, local school district, public university or other organization) that may grant and reauthorize charters, and there is no evidence of a vested interest in the outcome of the authorization process. The authorizer does not compete for students or funding with the charter schools it authorizes.	Only one authorizer with no vested interest in the outcome of the authorization process and which does not compete for students or funding with the charter schools it authorizes, or if these characteristics exist, there is a long history of a collaborative relationship.	The charter authorizer is the public school district in which the charter school operates and the authorizer competes for students or funding with the charter schools it authorizes, or the relationship between the authorizing entity and the charter schools is generally not collaborative.
Per-pupil funding	Recent (last three years) increases in annual per pupil funding in excess of the higher of 2% or the annual CPI, which are expected to continue AND timely receipt of payments equal to amount due. No authorizer cap on the use of per pupil funds for debt service AND there is state aid for facility costs or demonstrated higher per pupil funding in lieu of state aid for facility costs.	Recent (last three years) stable funding to small increases in annual per pupil funding, which are expected to continue AND timely receipt of payments equal to amount due.	Recent or expected decreases in annual per pupil funding OR hold back of funding beyond the fiscal period in which those funds were earned. Authorizer or state statute limits use of per pupil funding to no more than a specific percentage (e.g., 20%) of debt service.

44. Charters are typically authorized by the state or a state agency in which the school operates, a local school district, or public university or university system. The statutory framework assessment measures the predictability and stability of the authorizing and funding process. The assessment is authorizer-specific and is generally the same for all schools chartered under the same authorizer. In our assessment of per-pupil funding, we generally assess funding trends relative to inflation, particularly during periods of high inflation.

Table 4

Charter Standing Characteristics

	Assessment of Extremely Strong or Very Strong	Assessment of Strong or Adequate	Assessment of Vulnerable or Highly Vulnerable
Charter term/extensions	Two or more term extensions for maximum terms, generally a charter held continuously for >= 10 years, always received before expiration. Charter is evergreen, or extends beyond final debt maturity.	Received at least one charter extension, before expiration, for maximum term, generally a charter held continuously for 5-10 years. Or extension was for a term less than maximum allowable under the authorization framework.	Under its initial charter authorization, has held charter <5 years, or there is an unresolved or unexplained gap between charter expiration and renewal.
Charter review findings	No negative findings in reviews, authorizer views school as exemplary.	No significant negative findings in charter reviews. Generally meets all academic and operating requirements, and authorizer expectations.	The school failed to meet at least one academic or operating requirement or showed negative findings of some kind as part of the authorizer review.
Authorizer support	There is a history of the charter authorizer providing financial, training, or other material direct support.	Good authorizer relationship, but no history of financial or other material direct support.	History of adversarial relations with charter authorizer.

Table 5

Academic Quality Characteristics

	Assessment of Extremely Strong or Very Strong	Assessment of Strong or Adequate	Assessment of Vulnerable or Highly Vulnerable
Ranking	Top 10% statewide, meaningfully better than local competitors.	Average statewide on common academic measures such as standardized test scores in key academic subjects. On par or better academic quality assessments than comparable local competitors.	Bottom quartile on statewide on common academic measures such as standardized test scores in key academic subjects. Academic quality assessments below local competitors.
SAT/ACT (if applicable)	SAT/ACT scores are 20% above national average or top quartile nationally. Graduation rate > 90%.	National average or better.	Bottom quartile nationally, or graduation rate is 20% below the national average.

45. In making our assessment of charter standing and academic quality, we may also take additional considerations into account, which could result in assessments that are stronger or weaker than that indicated by tables 4 and 5. Examples of positive and negative academic quality factors we consider include:

Example of positive academic quality consideration:

- A school receives an award of academic distinction from either a state or national level organization, or receives grant funding from a nationally recognized organization due to academic distinction, particularly if the academic award is presented by a state- or national-level organization and is awarded to 10% or fewer schools in the state.

Example of negative academic quality consideration:

- A school does not meet state-determined academic targets or does not meet federal annual standards, or a grade level or academic program fails to meet a state minimum academic requirement in multiple years, or where multiple programs or grade levels fail to meet standards in a single year such that we anticipate it materially affect the school's demand.

d. Management and Governance

46. The management and governance assessment measures the strength of a charter school's management team and the oversight provided by its governance. Key factors that we assess include strategic positioning, such as the clarity and specificity of strategic plans; risk/financial management, such as the articulation of operational and financial risks and mitigation plans; and organizational effectiveness, such as the predictability of cash flows and management's depth and breadth. We assess management, similar to the other enterprise profile factors, from 'extremely strong' to 'highly vulnerable'.

47. Governance is assessed as 'neutral' or 'negative'. While we believe that good governance is essential, we believe that good governance does not, by itself, improve credit quality. We believe that good governance is evidenced in the strength of management and other factors that we already assess in these criteria. On the other hand, demonstrably weak governance could have a significant negative impact on credit quality. A neutral governance assessment does not affect the overall management and governance assessment. A negative governance assessment results in a capped management and governance assessment of no better than 'vulnerable'.

48. The guidance in table 6 provides typical characteristics of charter schools at each of the six assessment levels for management. In general, we assess each factor in the table by looking at the variety of factors cited and use a preponderance of factors to determine the initial assessment. Where the guidance combines a range of assessments,

such as "extremely strong" and "very strong", we evaluate the overall preponderance of factors and our view of the organization's relative strengths within the range.

49. Because of the direct impact that management and governance practices have on an organization's credit profile, any one sub-factor that is materially deficient could potentially be harmful to credit quality. If we view any one factor as presenting sufficient risk to the enterprise's credit profile, we generally cap the management and governance assessment at 'vulnerable' even if the remaining factors are assessed more favorably.

Table 6

Assessing Management

	Assessment of Extremely Strong or Very Strong	Assessment of Strong or Adequate	Assessment of Vulnerable or Highly Vulnerable
Strategic positioning	Evidence of specific operational goals with clear measures of achievement. A track record of market leadership. A track record of achieving financial/operational goals; successful relative to peers.	Plans lack depth or specific financial/operational goals A track record of achieving most financial/operational goals.	Limited evidence that plans exist, or are superficial. Strategy inconsistent with enterprise's capabilities or market conditions. Abrupt or frequent changes in strategy, acquisitions, divestitures, or restructurings. Management often fails to achieve its financial/operational goals.
Risk management/financial management	Management has successfully instituted policies that mitigate key risks. Management has set rigorous and ambitious, but reasonable standards for operational performance.	Management has set standards for operational performance that are achievable and similar to industry norms.	Management lacks wherewithal, discipline, or commitment to achieve set standards, or has low standards.
Organizational effectiveness	Management has considerable expertise, experience, and a track record of success in operating all of its major lines of business. Management has good depth and breadth across its major lines of business.	Management has sufficient but unexceptional expertise and experience in operating its major lines of business. Management depth or breadth is limited in some areas.	Management lacks the expertise and experience to fully understand and control its business. The enterprise often deviates significantly from its plans. The loss of key personnel would seriously affect the enterprise's operations.

50. The governance measures as outlined in table 7 are assessed as neutral or negative with four or more neutral assessments resulting in a neutral governance assessment and two or more negative assessments resulting in a negative governance assessment. In addition, a negative governance assessment generally may be assigned, resulting in a capped management and governance assessment of no better than 'vulnerable', if any of the following three conditions exist:

- The board does not hold all key reserve powers and have the ability to remove management and approve all meaningful financial transactions. We consider board independence as paramount to effective governance.
- More than 20% of board members must be approved by an outside entity or an outside entity appoints more than 20% of board members, if we believe such requirements result in the board not acting in the best interests of the organization. Examples of such outside entities include governments, universities, and school districts. Boards that are self-perpetuating and have little or no requirement for outside appointees, or requirements that outside entities approve board membership have the most control over the organization's strategic direction and are less likely to be influenced by competing forces, including politics.
- The board is very small (generally less than five members), has a limited range of skill sets among its members, or has no or limited requirements for board member rotation. Effective boards provide robust oversight of the organization, demonstrate an independent view, separate from the school's management and founders, have sufficient membership to demonstrate a diversity of views and skill sets, and have regular board member rotation

requirements.

Table 7

Assessing Governance		
	Neutral Assessment	**Negative Assessment**
Board effectiveness	The board maintains sufficient independence from management to provide effective oversight of it.	The board manifests a lack of independence from management and provides insufficient oversight and scrutiny of key enterprise risks, compensation, and/or tolerates unmanaged conflicts of interest.
Management culture	Management is responsive to all stakeholders' interests, appropriately balances those interests, and acknowledges that the board of directors is the ultimate decision-making authority.	Governance proves incapable of managing conflicts of interest, or there is excessive management turnover. Alternatively, management dominates the board of directors.
Regulatory, tax, or legal infractions	The enterprise generally remains free of regulatory, tax, or legal infractions and has stable relationships with regulatory authorities.	The enterprise has a history of regulatory, tax, or legal infractions beyond an isolated episode or outside industry norms.
Internal controls	Internal controls are viewed as adequate.	Internal controls are viewed as deficient (e.g. restatements or delays in filings).
Financial reporting and transparency	Accounting choices are usually reflective of the economics of the business. Financial reports are timely, accurate, and provide detail sufficient to support quality financial statement analysis.	Financial statement reporting is consistently not timely, inaccurate, incomplete, or presented in a format that is not understandable, or is inadequate for quality financial statement analysis.

2. Financial Profile Assessment

51. The financial profile assesses the financial strength of the charter school. Three factors are assessed as part of the initial financial profile assessment. The factors and their weightings are as follows:

- Financial performance, 45%
- Liquidity and financial flexibility, 25%
- Debt burden,30%

52. We also assess financial policies, which can result in a neutral or negative influence on the overall financial profile assessment.

a. Financial Performance

53. The financial performance assessment measures how a charter school's absolute level and volatility of recent and projected earnings and cash flow could affect its debt servicing capability. We use three measures to determine the initial financial performance assessment: Lease-adjusted maximum annual debt service (MADS) coverage*, total revenue*, and excess margin*. We generally consider the most important factor to be lease-adjusted MADS coverage, while secondary factors are total revenue and excess margin.

- Lease-adjusted MADS coverage represents the number of times that an organization is able to cover its lease-adjusted MADS from cash flow generated through operating and nonoperating activities. A higher metric reflects greater flexibility in covering debt service particularly in times of occasional cash flow deterioration. Lease-adjusted MADS coverage is used in this measurement to stress the calculation to reflect the highest future year's debt service.
- Excess margin factors in both operating performance and other revenues that the charter school receives outside the scope of its core educational operations, such as investment earnings and fundraising.
- Total revenue reflects the relative size of the organization's business. A larger revenue base may be less vulnerable to revenue volatility from minor enrollment fluctuations, and may allow for greater expense management due to

economies of scale in purchasing and other services, and the ability to flex staff more readily.

54. The guidance in table 8 provides typical characteristics of charter schools at each of the six assessment levels. In most instances, we apply the following weights to determine the initial financial performance assessment. However, if we believe that a charter school's financial performance characteristics are not typical, and as a result these weightings are not indicative of the true financial performance for the charter school, we assign an assessment based on our view of the guidance in table 8 without relying on specific weights for each measure:

- Lease-adjusted MADS coverage 65%
- Excess margin 20%
- Total revenue 15%

Table 8

Assessing Financial Performance

	Assessment					
	Extremely Strong	**Very Strong**	**Strong**	**Adequate**	**Vulnerable**	**Highly Vulnerable**
Lease-adjusted MADS coverage (x)	>=5	3.5-5	2-3.5	1.5-2	1-1.5	<=1
Excess margin (%)	>=20	15-20	10-15	5-10	0-5	<=0
Total revenue (Mil. $)	>=150	75-150	30-75	10-30	5-10	<=5

55. In making our assessment of financial performance, we may also take additional considerations into account, based on the preponderance of available information and our view of the relevance of these factors to the overall assessment. These additional considerations could result in a financial performance assessment that is stronger or weaker than that indicated by table 8.

Example of negative financial performance consideration:

56. If a charter school's lease-adjusted MADS coverage, as calculated by S&P Global Ratings, was or is expected to be below 1x, we believe this is an indicator that future cash flow and credit quality could be jeopardized. Under this condition, financial performance generally is assessed at either 'vulnerable' or 'highly vulnerable'. We may choose not to restrict the assessment to a 'vulnerable' or a 'highly vulnerable' in cases where weak coverage is driven by short-term nonoperating losses or nonrecurring events. However, under those circumstances, we expect that coverage will exceed 1x in the near term (generally defined as the next one to two fiscal years), and we believe the organization has ample liquid reserves to cover debt service in the meantime. In making this assessment, we consider the cause(s) of the coverage drop, whether it is nonrecurring in nature, and consider management actions to address the situation.

Example of positive or negative financial performance consideration:

57. We may also consider a school's operating flexibility, as either a positive or negative adjustment to the financial performance assessment. If applied, the financial performance assessment generally is adjusted by one level. Examples of characteristics we generally view positively: the school has a dedicated and material source of revenues outside of per-pupil funding, such as a strong fundraising history; or the school has the demonstrated ability and willingness to meaningfully reduce expenses without affecting demand or academic performance. Examples of characteristics we generally view negatively: a school is operating at or near its enrollment cap or facility capacity, and has limited ability to raise it, which speaks to limited revenue flexibility and the potential to pressure operations; or a school has

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aggressive growth plans that could pose operating challenges--a situation seen most commonly among charter school networks.

b. Liquidity and financial flexibility

58. The liquidity and financial flexibility assessment measures how a charter school's cash flow and internal sources of unrestricted reserves may affect its debt servicing capability. We use two measures to evaluate liquidity and financial flexibility: unrestricted days' cash on hand and unrestricted reserves to debt. We generally consider unrestricted days' cash on hand as the most important measure, followed by unrestricted reserves to debt.

- Unrestricted days' cash on hand reflects a charter school's financial flexibility and capability to withstand operating challenges while still covering its operating expenditures. A higher days' cash metric may also indicate greater resources available to fund other investment or debt service needs, while still maintaining sufficient operating reserves.
- Unrestricted reserves to debt measures a charter school's financial flexibility, and is a way to assess a school's debt capacity and debt servicing ability.

59. The guidance in table 9 provides typical characteristics of charter schools at each of the six assessment levels. We use two measures to evaluate liquidity and financial flexibility. In most instances, we apply the following weights to determine the liquidity and financial flexibility assessment. However, if we believe that a charter school's liquidity and financial flexibility characteristics are not typical, and as a result these weightings are not indicative of the true liquidity and financial flexibility of the charter school, we assign an assessment based on our view of the guidance in table 9 without relying on specific weights for each measure:

- Unrestricted days' cash on hand 70%
- Unrestricted reserves to debt 30%

Table 9

Assessing Liquidity And Financial Flexibility

	Assessment					
	Extremely Strong	**Very Strong**	**Strong**	**Adequate**	**Vulnerable**	**Highly Vulnerable**
Unrestricted cash on hand (days)	>=400	250-400	150-250	75-150	30-75	<=30
Unrestricted reserves/ debt (%)	>=225	100-225	50-100	20-50	10-20	<=10

60. In making our assessment of liquidity and financial flexibility, we may also take additional considerations into account, based on the preponderance of available information and our view of the relevance of these factors to the overall assessment. These additional considerations could result in a liquidity and financial flexibility assessment that is stronger or weaker than that indicated by table 9.

c. Debt Burden

61. The debt burden assessment measures the extent current, proposed, and off-balance-sheet liabilities may affect a charter school's debt servicing capability. We use two measures to evaluate the debt burden: lease-adjusted MADS as a percent of total revenue (or lease-adjusted MADS burden) and debt to capitalization*. We generally consider the lease-adjusted MADS burden as the most important factor, while debt to capitalization is a secondary factor.

- The lease-adjusted MADS burden reflects the demand that a school's debt service has on total revenues. A lower debt burden indicates greater flexibility.

- Debt to capitalization is used to determine how heavily leveraged the organization is, and provides a means to assess debt capacity.

62. The guidance in table 10 provides typical characteristics of charter schools at each of the six assessment levels. In most instances, we apply the following weights. However, if we believe that a charter school's debt burden characteristics are not typical, and as a result these weightings are not indicative of the true debt burden for the charter school, we assign an assessment based on our view of the guidance in table 10 without relying on specific weights for each measure to determine the debt burden assessment:

- Lease-adjusted MADS burden 80%
- Debt to capitalization 20%

Table 10

Assessing Debt Burden

	Assessment					
	Extremely Strong	**Very Strong**	**Strong**	**Adequate**	**Vulnerable**	**Highly Vulnerable**
Lease-adjusted MADS burden (%)	<=1	1-3	3-5	5-12	12-20	>=20
Debt to capitalization (%)	<=10	10-30	30-50	50-70	70-90	>=90

63. In making our assessment of debt burden, we may also take additional considerations into account, based on the preponderance of available information and our view of the relevance of these factors to the overall assessment. These additional considerations could result in a debt burden assessment that is stronger or weaker than that indicated by table 10. Examples of the some of the positive and negative factors we consider include:

Examples of positive and negative debt burden considerations:

- We may consider total debt per student* as a debt burden measure, which reflects a charter school's debt relative to its enrollment, as either a positive or negative adjustment to the debt burden assessment based on comparisons with local or regional market peers. Higher ratios indicate that the organization is highly leveraged and may be vulnerable to declines in enrollment. If applied, the debt burden assessment generally is adjusted by one level.
- We may consider sizable unfunded defined-benefit pension plan and other postemployment benefits (OPEB) obligations as a negative adjustment to the debt burden assessment. Our assessment includes a forward-looking view of changes in assets and liabilities, funded ratios, and funding discipline and is generally based on whether the charter school maintains a pension plan funding ratio below 60% or if there is a failure to cash fund actuarially determined contributions or statutorily required contributions in full. If the charter school pension and/or OPEB are reported as part of a larger general government rather than as stand-alone liabilities, we generally assume the charter school's funded ratio is proportionally the same as that of the entire unit of government unless more specific information is available for the charter school.

3. Overriding Factors And Caps

a. Adjustments to the enterprise profile

64. Table 11 outlines examples of situations where we generally adjust the initial enterprise profile assessment to arrive at the final enterprise profile assessment. On an exceptional basis, there may be additional situations we haven't yet observed that are not in table 11 but could also result in an adjustment to the initial enterprise profile assessment.

Table 11

Examples Of Adjustments To The Initial Enterprise Profile Assessment	
The charter is at risk due to regulatory review or oversight that identified deficiencies	Enterprise profile assessment generally would be negatively adjusted by up to two assessment levels
Country risk assessment for U.S. is '4', '5', or '6'	Enterprise profile assessment generally would be capped at ‘adequate’, ‘vulnerable’, or ‘highly vulnerable’, respectively
Economic fundamentals or market position is assessed as ‘highly vulnerable’	Enterprise profile generally would be assessed ‘highly vulnerable' if economic fundamentals or market position presents sufficient risk to the enterprise

65. Because charter schools need a valid charter to continue operating, enroll students, and receive state funding, its ability to pay debt service could be severely impaired if its charter is revoked or not renewed. When there is evidence that a school's charter is at risk of nonrenewal or revocation due to specific performance issues, political considerations, or other reasons, the enterprise profile generally is negatively adjusted by up to two assessment levels. The severity of the authorizer action, including whether or not it applies to the entire organization, or to only a subset of the charter system's schools, determines the magnitude of the enterprise profile adjustment.

66. Once a charter is revoked, nonrenewed, or otherwise not available to the obligor, we apply the rating override, which results in the indicative rating being capped in the 'b' category (see table 14).

67. The relevant credit risks for U.S. not-for-profit charter schools are also influenced by country-specific risks (see "Country Risk Assessment: Methodology and Assumptions", published Nov. 19, 2013). Country risk is the risk an entity faces by having some of its operations or assets exposed to one or more countries. Country-specific risks consist of economic risks, institutional and governance effectiveness risks, financial system risk, and payment culture/rule of law risk. The country risk assessment is determined on a scale of '1' (very low risk) to '6' (very high risk), which equates to the same scale of '1' (extremely strong) to '6' (highly vulnerable) used in this criteria.

68. The country risk assessment with respect to this criteria derives from the current U.S. country risk assessment as determined under the criteria cited above. If the U.S. country risk assessment is '3' or better, there is generally no positive or negative impact on the final rating. However, if the U.S. country risk assessment were to worsen to '4' or above, this could affect the enterprise risk profile assessment. Specifically, if the U.S. country risk assessment is '4', '5', or '6', we generally assign an enterprise risk profile assessment of no better than 'adequate', 'vulnerable', or 'highly vulnerable', respectively.

69. We believe that any one primary enterprise profile factor assessed as 'highly vulnerable' could have a material impact on a school's operating environment. When there is evidence that a 'highly vulnerable' market position or economic fundamentals assessment represents significant credit risk and such vulnerability is not captured sufficiently in other parts of the analytical framework, the enterprise profile generally is assessed as 'highly vulnerable'. If management and governance is assessed as 'highly vulnerable', we apply a rating override under which the indicative rating could be lowered by up to three notches lower than suggested by table 1 (see table 14).

b. Adjustments to the financial profile

70. Table 12 outlines examples of situations where we generally adjust the initial financial profile assessment to arrive at the final financial profile assessment. On an exceptional basis, there may be additional situations we have not identified in table 12 but could also result in an adjustment to the initial financial profile assessment.

Table 12

Examples Of Adjustments To The Initial Financial Profile Assessment	
Contingent liabilities are greater than unrestricted reserves, or lack of appropriate insurance coverage could cause contingent liabilities to exceed unrestricted reserves	Financial profile assessment generally would be negatively adjusted by up to two assessment levels
Negative financial policies assessment	Financial profile assessment generally would be negatively adjusted by one assessment level

71. Provisions in certain financial instruments create potential additional claims on the liquidity of obligors upon the occurrence of certain events or conditions specified in the instrument's terms. For obligors with unrestricted reserves below the amount of contingent liabilities, such an event could materially weaken our assessment of the obligor's reserves and we generally negatively adjust the initial financial profile assessment by as much as two points. We expect that charter schools carry appropriate business disruption and general liability insurance. Where insurance is not in place, or we believe insurance is inadequate, we generally adjust the financial profile by up to two points. For more information, see the article, "Contingent Liquidity Risks In U.S. Public Finance Instruments: Methodology And Assumptions", published March 5, 2012.

72. The financial policies assessment does not positively affect the rating as we believe that good policies are reflected in results which are measured. The financial policies assessment consists of five sub-factors:

- Transparency and disclosure;
- Investment allocations and liquidity;
- Debt profile;
- Contingent liability principles; and
- Legal structure

73. This assessment measures how a charter school's financial management and policies have affected and are likely to affect an organization's ability to pay debt service. When evaluating the five sub-factors, we rely on documentation provided by the school, in addition to our periodic discussions with management. Relevant documents typically include audited financial statements, budget documents, financial forecasts, and various policy documents related to treasury and risk management.

74. The financial policies assessment will generally be negative and the overall financial profile assessment typically is negatively adjusted by one assessment level to reflect the risk of weakening future performance if two or more of the characteristics as outlined in table 13 are identified as negative. In addition, if any one characteristic outlined in table 13 is identified as negative and, if in our view, that characteristic poses a significant credit risk, then we generally negatively adjust the overall financial profile assessment by one level.

Table 13

Assessing Financial Policies	Negative
Transparency and disclosure	The audit is qualified or may be typically late (not published within a reasonable timeframe following fiscal year-end).
Investment allocations and liquidity	If applicable, the school's investment management policy is more aggressive than its capabilities. The school needs to access lines of credit regularly to meet working capital needs.
Debt profile	Contingent liability debt is more than 50% of total debt

Table 13

Assessing Financial Policies (cont.)	
Contingent liability principles	Liquidity is below the level of its potential liabilities under its contingent liability documents. The school is reliant on swaps, with the total notional amount outstanding, including basis swaps, greater than 50% of long-term debt
Legal structure	The legal and security covenants may exclude, or have unusually favorable calculations, for one or more traditional covenant tests

c. Overriding factors

75. Certain conditions result in the indicative rating moving a specified number of notches above or below the initial indicative rating. Other conditions place a specific cap on the indicative rating. If multiple overriding conditions exist, which we expect to be rare, we generally adjust the initial indicative rating by the net effect of those conditions. However, rating caps are absolute, meaning that the positive relative adjustments described below do not allow indicative ratings to exceed the cap, regardless of our holistic analysis. Depending on the severity of the condition, we could assign an indicative rating below the cap. Examples of these factors are outlined in table 14. On an exceptional basis, there may be additional situations we haven't yet observed that are not in table 14 but could also result in rating overrides and caps.

Table 14

Examples Of Overriding Factors To The Initial Indicative Rating

Overriding Factor/Cap	Additional Comments
Factors that generally cap the rating in the 'a' category	
General charter risk associated with charter terms, renewal, and revocation, and state appropriation.	
Factors that generally cap the rating in the 'bb' category	
Evidence of significant academics weakness or rapid enrollment decline.	Generally applicable if a school is significantly underperforming relative to peers or state performance measures, and there is evidence that this presents concern on the part of the authorizer or we believe the charter may be at risk.
Very low unrestricted reserves at any measurement date (which we generally consider to be 30 days' cash or less), or a liquidity and financial flexibility assessment of 'highly vulnerable'.	
Negative unrestricted net assets	
Credit recovering from a financial crisis, emerging out of recent bankruptcy, receivership, or with consultant oversight following an event of default including a covenant violation. This also applies to charter schools with a qualified audit or going concern opinion.	Indicative rating remains capped in the 'bb' category until the organization achieves a resolution of its covenant defaults and establishes a two- or three-year record of sustainable financial performance.
Factors that generally cap the indicative rating in the 'b' category	
Management demonstrates a lack of willingness to support debt or contingent liability obligations or we believe the organization may be considering a bankruptcy or receivership filing.	Indicative rating generally up to two notches below the initial indicative rating, and capped in the 'b' category.
Charter is revoked, expired and we do not expect it to be renewed, or the charter is otherwise no longer available to the school and is not expected to be restored, or we have a high level of confidence that the charter will be revoked and is not expected to be restored.	

Table 14

Examples Of Overriding Factors To The Initial Indicative Rating (cont.)

Overriding Factor/Cap	Additional Comments
Factors that generally notch the indicative rating up	
Networks with a combination of very large enrollment, multiple chartered campuses, or schools in multiple jurisdictions (for example, more than 10,000 students, five or more separately chartered schools, limited exposure to any one authorizer).	Indicative rating generally one notch higher than suggested by table 1.
High unrestricted reserves at any measurement date (which we generally consider to be about 365 days' cash and at least 100% unrestricted reserves to debt).	Indicative rating generally one notch higher than suggested by table 1.
Factors that generally notch the indicative rating down	
Management and governance assessment of 'highly vulnerable'.	Indicative rating generally up to three notches lower than suggested by table 1.
Violation of bond covenants or regulatory requirements set by charter authorizer or legislature.	Indicative rating generally up to 3 notches lower than suggested by table 1. However, if a covenant has not been breached but we believe it may in the near future, the indicative rating generally is up to three notches lower than that suggested by table 1 based on both the potential for the breach to occur and the severity of the expected impact.
Small enrollment (which we generally consider 400 or less).	Indicative rating generally one notch lower than suggested by table 1.

V. FREQUENTLY ASKED QUESTIONS

What types of ratings and other credit- related evaluations can be assigned under these criteria?

We can assign stand-alone credit profiles (SACPs); group credit profiles (GCPs), issue credit ratings, and issuer credit ratings (ICRs). For more details on these types of credit evaluations where there is an obligated group, please see our rating definitions and the related criteria for SACPs and group rating methodology. For those charter schools that are part of a group, as defined by "Group Rating Methodology" (published Nov. 19, 2013), these criteria are used to determine the group credit profile and, if relevant, the SACP, which is also referred to as indicative credit rating in this article.

Are there other factors, aside from a charter school's credit characteristics, that can constrain the rating?

Yes. Following are some additional factors that may influence the final outcome:

- The final rating generally is constrained by the sovereign rating on the U.S., in accordance with our criteria "Ratings Above The Sovereign – Corporate And Government Ratings: Methodology and Assumptions" (Nov. 19, 2013).
- Issue credit ratings are determined based on our view of the ICR and the legal/covenant package, as more fully described in "Assigning Issue Credit Ratings Of Operating Entities" (May 20, 2015). Further guidance regarding our view of debt security and covenants is in table 13.
- Subordinate debt obligations issued by charter schools under the scope of these criteria will be rated consistent with "Assigning Issue Credit Ratings Of Operating Entities" (May 20, 2015). The issue credit rating could be affected by structural enhancements or other security features such as subordination or additional collateral.

VI. APPENDIX 1: GLOSSARY OF RATIOS AND TERMS

Ratios And Terms	
Debt per student	Total debt / enrollment
Debt to capitalization (%)	[Long-term debt / (unrestricted net assets + long-term debt)] x 100
EBIDA ($000s)	Net income before interest, depreciation, and amortization expenses. Generally includes reconciling adjustments to account for differences in reporting under GASB and FASB standards.
Enrollment growth %	Average of enrollment growth for each of the three most recent years: [(current enrollment – prior year 1 enrollment)/prior year 1 enrollment + (prior year 1 enrollment – prior year 2 enrollment)/prior year 2 enrollment + (prior year 2 enrollment – prior year 3 enrollment)/prior year 3 enrollment)] * 100 / 3.
Excess margin (%)	[(Total revenues - total expenses) / total revenues)] x 100
Lease adjusted MADS burden (%)	[(MADS + operating lease expense) / total revenues] x 100
Lease-adjusted MADS coverage	(Net revenue available for debt service + operating lease expense) / (MADS + operating lease expense)
MADS ($000s)	The greatest annual debt service, when including principal and interest payments on all obligated and nonobligated group debt, including long-term bonds, capital leases, mortgages, and bank debt. For variable-rate debt, we generally assume a 3.5% interest rate. For draws on lines of credit and commercial paper, assume the actual fixed rate or a 3.5% variable interest rate with principal payments spread over 30 years. Debt guaranteed for a third party is included at 100% if the guarantor has made any payments over the past five years, or the guaranteed entity is currently generating less than 1x coverage of its MADS. Variable-rate debt swapped to fixed should be run at the swap rate.
Net nonoperating revenue	Nonoperating revenue - nonoperating expenses.
Net revenue available for debt service	EBIDA
Nonoperating revenue	Investment earnings, unrestricted contributions, equity in earnings from unconsolidated organizations, discontinued operations, and other nonoperating revenue. Excluded from nonoperating revenue are unrealized gains or losses on investments, gains or losses from debt refinancing, unrealized gains or losses from annual swap valuation, asset impairment, and other one-time financial events. However, in certain circumstances, we may include items reported as nonrecurring into operations if we believe these costs have been or will be an ongoing part of the school's annual financial performance.
Stand alone credit profile (SACP)	SACPs refer to S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention from its parent or affiliate or related government, and are but one component of a rating. We use lowercase symbols, for example 'a', or 'bbb', to designate SACPs, and may modify this symbol with a "+" or "-" sign, depending on the specificity of the relevant analysis. SACPs do not have outlooks and are not placed on CreditWatch. We do not consider SACPs to be ratings, in contrast to SPURs (Standard & Poor's underlying ratings), which reflect an issuer's credit quality without enhancement.
Total revenue	Total operating revenue + net nonoperating revenue
Unrestricted days' cash on hand	Unrestricted reserves / [(total expenses - depreciation and amortization expense) / 365)].
Unrestricted net assets ($000s)	Net assets excluding any restricted items. Generally includes reconciling adjustments to account for differences in reporting under GASB and FASB standards.
Unrestricted reserves to debt (%)	(Unrestricted reserves / total long-term debt) x 100
Unrestricted reserves	Unrestricted cash, unrestricted investments, unrestricted board designated. Excluded from unrestricted reserves are debt service funds, donor restricted amounts, funds designated for pension, temporarily or permanently restricted funds, receivables, and other funds that are legally restricted. Generally included in unrestricted reserves are exceptional deferrals of state funding when we determine there has been an established record of payment in full and cash balances have been artificially suppressed at year-end.

VII. APPENDIX 2: RELATED CRITERIA AND RESEARCH

Article to be superseded by the criteria:

- Charter Schools, June 14, 2007

Articles complementing the criteria:

- S&P Global Ratings Definitions, Aug. 18, 2016
- Credit Stability Criteria, May 3, 2010
- The Time Dimension of Standard & Poor's Credit Ratings, Sept. 22, 2010
- Rating Government-Related Entities: Methodologies and Assumptions, March 25, 2015
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- Contingent Liquidity Risks In U.S. Public Finance Instruments: Methodology And Assumptions, March 5, 2012
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use of 'D' and 'SD' Ratings, Oct. 24, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- 2015 Annual U.S. Public Finance Default Study And Rating Transitions, May 4, 2016
- Country Risk Assessment: Methodology and Assumptions, Nov. 19, 2013
- Country Risk Assessments Update, Nov. 10, 2016
- Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015.
- Moral Obligation Bonds, June 27, 2006
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as S&P Global Ratings' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

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