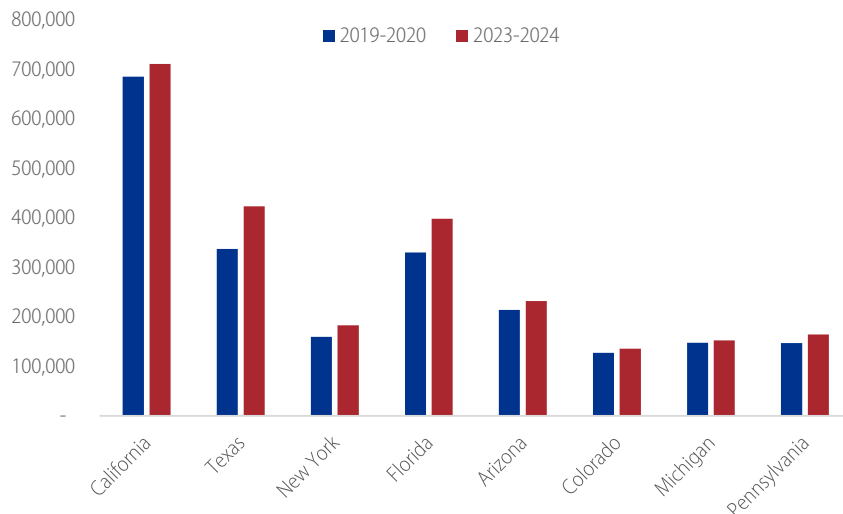


U.S. Municipal High Yield Market

Stable Outlook for Charter Schools into 2025

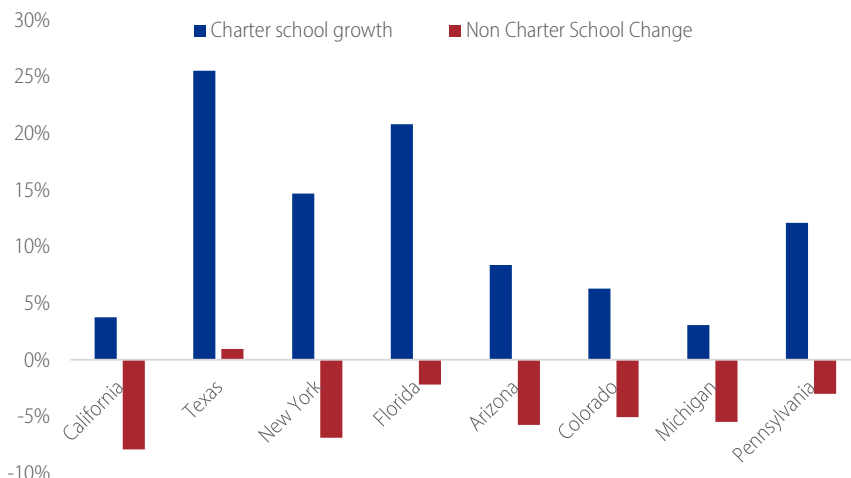
HilltopSecurities maintains a stable outlook on the Charter School Sector. Looking ahead to 2025, the continued need for charter schools to accommodate growing enrollment is evident as charter school enrollment increased 3.7 million students and now accounts for the education of almost 8% of US k-12 students. Of note, charter school enrollment grew by 83,172 in 2023-24 and almost 400,000 since fiscal year 2020 -2021. At the same time, district public schools saw a decline of 274,412 students this year and a decline of 1.8 million since fiscal year 2021 according to the National Alliance for Public Charter Schools. This enrollment shift is creating additional opportunities in the charter school sector but may introduce fiscal challenges to traditional schools that have declining enrollment.

Charter School Enrollment FY 2020 vs 2024



Source: National Alliance for Public Charter Schools¹ and HilltopSecurities.

Charter School vs Non Charter School Enrollment Change FY 2020 vs 2024



Source: National Alliance for Public Charter Schools¹ and HilltopSecurities.

Please see disclosure starting on page 3.

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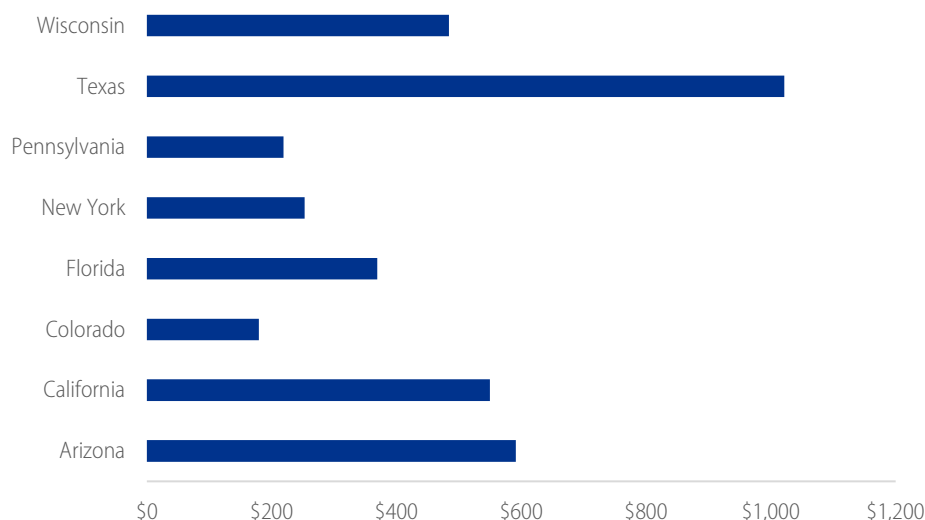
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Looking ahead to 2025, the continued need for charter schools to accommodate growing enrollment is evident as charter school enrollment increased 3.7 million students and now accounts for the education of almost 8% of US k-12 students.

Charter school issuance in 2024 increased by more than 25%, reaching \$4.3 billion from \$3 billion in 2023. This growth reflects the rising enrollment at charter schools and the need for additional capital capacity. Texas, Arizona, California, Florida, and New York accounted for just over two-thirds of the 2024 issuance, with the Wisconsin PFA contributing another 10% of the total par value.

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2024 Charter School Issuance (\$ in millions)



Source: Bloomberg 1/1/2024 through 12/11/2024 and HilltopSecurities.

Approximately 50% of the deal volume, as a percentage of par, was rated by S&P, and just over 21% was rated by Moody's. No deals were rated by Fitch or Kroll, although Fitch has published criteria for rating charter schools. Ratings ranged from AAA for Texas school districts benefiting from the Texas Permanent School Fund to a California charter school rated B+ with a negative outlook. There was also one charter school with a MIG 3 rating.

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Investing in charter schools is not without risk. In 2024, five charter schools posted impairment notices, and another four defaulted (including one of the five that posted an impairment notice), together, affecting approximately \$185 million in debt according to data provided by Bloomberg. The key takeaway is that well-managed charter schools with stable or growing enrollments and good academic performance are likely to be attractive investments. In contrast, single-site charter schools with weak management, declining enrollment, or late disclosures may be more vulnerable.

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1. "Do You Know Where The Children Are?," National Alliance for Public Charter Schools, October 8, 2024

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