

U.S. Municipal High Yield Market

HilltopSecurities' Outlook for Charter Schools - Growing Imbalance in Credit Quality

Hilltop has revised its outlook for the charter school sector from stable to unbalanced, signaling growing divergence in credit quality across states. This outlook covers the approximately \$4.6 billion in debt issued in 2025 and an expectation of a similar issuance trend in 2026.

2024 Charter School Enrollment By State

■ California ■ Arizona ■ Florida ■ Texas ■ New York

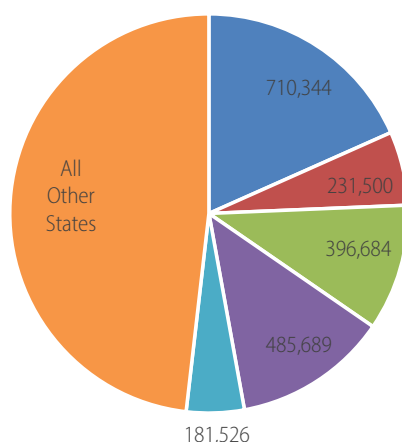


Figure 1: National Alliance for Public Charter Schools.

Five states: California, Texas, Florida, Arizona and New York account for over 1.9 million or 50% of the 3.87 million charter school enrollment and 62% of the 2025 debt issuance (see figures 1 & 2). Therefore, it is critical to focus on individual state fiscal pressures and demographic trends, which we believe will inform the 2026 financial flexibility and stability of charter schools.

2025 Key State Charter School Issuance

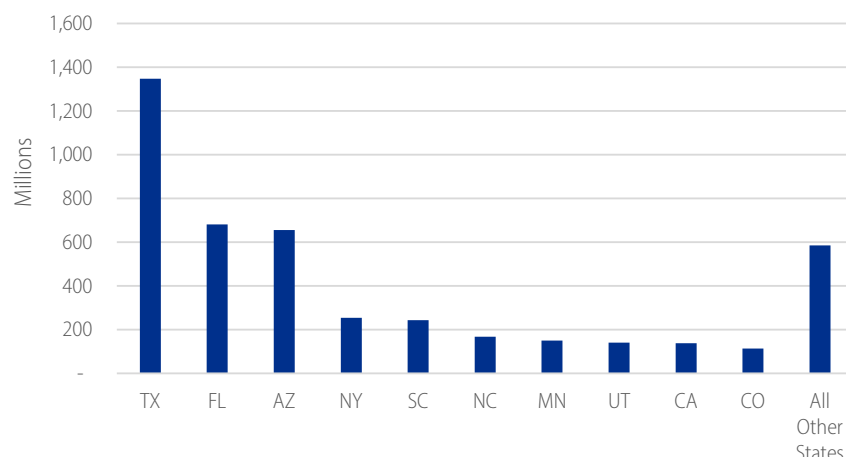


Figure 2: Bloomberg, ICE, and HilltopSecurities.

Please see disclosure starting on page 4.

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The national population increased slightly over the last three years; however, school aged children (ages 5-18) in the United States has declined, and the overall state specific demographic landscape has been uneven.

States including California, New York, Pennsylvania, Ohio and Michigan are losing children.

U.S. Population Compared to School Aged Population

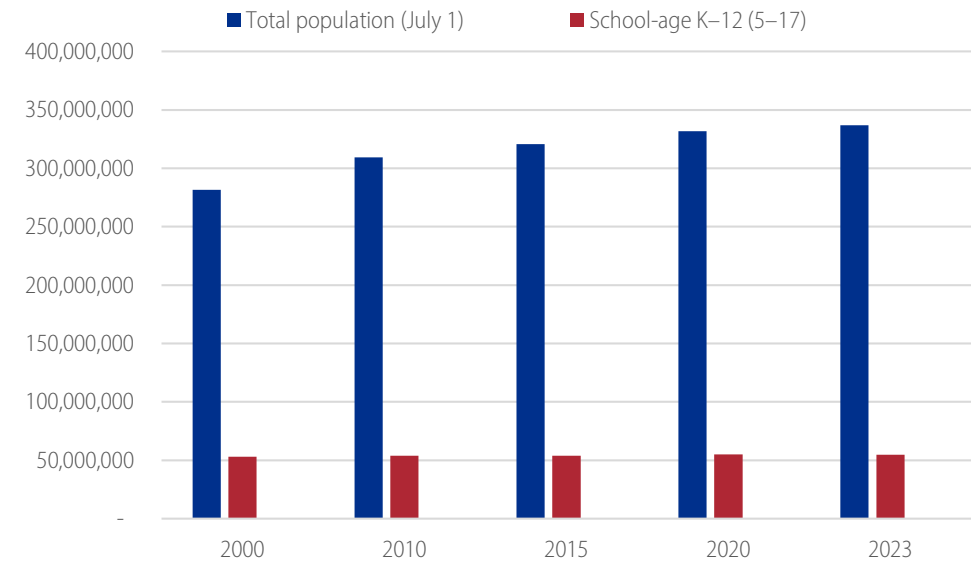


Figure 3: U.S. Census Data.

As a result, it is imperative to look at the demographic trend in each state to understand the potential effect of the population shifts. Figure 3 details population shifts in the 10 largest states and shows that states including California, New York, Pennsylvania, Ohio, and Michigan are losing children. Conversely, states including Texas, Florida, and North Carolina continue to grow both their general and school aged populations.

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Furthermore, Texas and Florida accounted for the greatest charter school enrollment growth between 2019 and 2025 – respectively at 29.4% and 23.6% as well as the most significant 2025 debt issuance according to the National Alliance for Public Charter Schools and Bloomberg, supporting our expectation of continued debt issuance.

U.S. Population by State by Ages 0-18

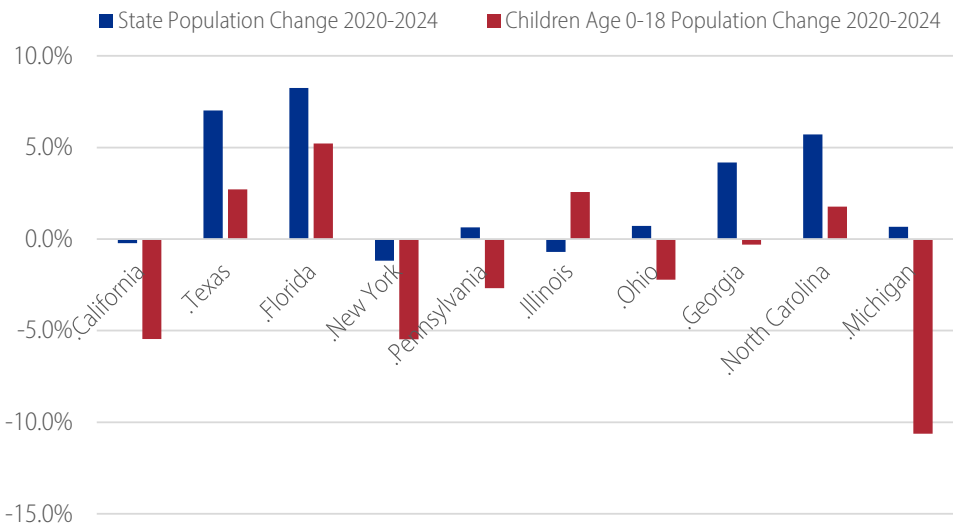
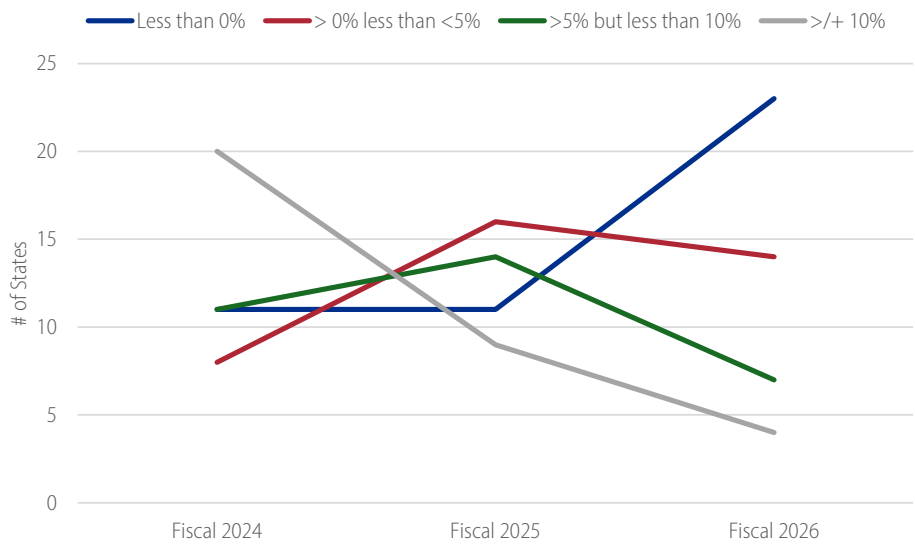


Figure 4: U.S. Census Bureau and HilltopSecurities.

In addition to population shifts, it is important to consider state fiscal health, as state aid is the predominant source of revenue for charter schools. In fact, according to the National Alliance for Public Charter Schools, on average state aid represented almost 60% of annual charter school revenues. To compare, this number approximates 40% for traditional public schools with significant potential differences depending on the socio-economic elements of the local school and the associated wealth of the property taxbase. **Charter schools in states like Texas, Arizona, Maine, Minnesota, South Carolina, and Utah derive approximately 80% or more derived from state aid rendering state budgetary health of critical importance to the financial health of charter schools.** To the extent that expense pressures beyond K-12 education, including Medicaid, Higher Education, Transportation, and Public Safety continue to increase, there will likely be more pressure on funding available to fund charter schools which are more reliant on state resources than traditional public schools. Furthermore, and as reported by the National Association of State Business Officers **the median General Fund expense growth for states into 2026 is 0.2% down from 4.5% in 2025** as states tighten their spending given economic uncertainty. Therefore, states with overall growth in the the general and school age populations are better positioned than states with declining populations and overall budgetary pressures.

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Annual State Budget Growth



Our outlook for charter schools located in Texas and Florida is stable.

Figure 5: National Association of State Business Officers.

States Positioned for Growth

Our outlook for charter schools located in **Texas** and **Florida** is stable. These states continue to experience robust population growth, higher student enrollment and increased charter school funding.

Certain states including New York, California, Michigan, and Pennsylvania are facing fiscal and demographic challenges.

States Facing Headwinds

In contrast, certain states including **New York, California, Michigan, and Pennsylvania** are facing fiscal and demographic challenges. Both states face budget pressures which can constrain charter school funding.

Unbalanced Charter School Outlook

The bifurcation of charter school credit profiles will increasingly reflect local economic conditions, state funding priorities, and demographic patterns. As a result, charter school credit quality will require careful assessment of demographic changes, state budgetary environment, and an assessment of management who will be ultimately responsible to maintain fiscal health, student enrollment and academic excellence.

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Ultimately, it is this concentration and population shift that supports our unbalanced outlook for charter schools as state fiscal health and demographic trends are uneven. As a sector, charter schools in states like Texas and Florida are poised for financial stability while charter schools located in California, New York, Pennsylvania and Michigan will potentially face greater fiscal challenges to educate their charter school students and maintain fiscal health.

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