

Charter Policy Issue Brief

State credit enhancement with public funding



This document examines state policies that improve the credit profile of charter school borrowers through loan guarantees or other mechanisms. States may use their own funds to enhance charter school credit profiles or may use federal funds available since 2001 through the Charter School Program's [Credit Enhancement grant program](#).

This document is divided into two sections: The first one focuses on a table that presents various details about each state's policies for state credit enhancement with public funding; the second section outlines some policy considerations for state policymakers and advocates to wrestle with when designing a state credit enhancement with public funding policy.

Section I: State policies for state credit enhancement with public funding ranking table

As of this writing, six states and the District of Columbia have provided credit enhancement with public funding. The table below presents various details about each state's policies for credit enhancement with public funding. The states are listed in order of the percent of schools accessing state credit enhancement, from largest to smallest. The text box after the table provides more information about what each column of the table represents.

State	Percentage of charter schools benefitted	Number of charter schools benefitted	Funding source ¹	Bond or loan enhancement ²	Funding available ³	Charter schools only ³	Eligibility ³	Funds committed to projects to date	Total amount of financing leveraged	Maximum amount
Massachusetts	74%	58	CSP	L	Y	Y	Y	\$89,218,737	\$510.2 million	\$3 million
DC-12	34%	43	S	L	Y	Y	N	\$38,000,000	\$389 million	\$1 million
DC-23	21%	26	CSP	L	Y	Y	N	\$22,242,792	\$144.5 million	–
Texas-14	13%	109	S	B	Y	N	Y	Unsure	\$3.55 billion	–
Texas-25	9%	77	CSP	B	Y	Y	Y	\$21,390,744	\$455.4 million	–
Michigan	5%	20	CSP	B	Y	Y	N	\$10,616,356	\$181.5 million	–
Arkansas	3.30%	3	S	B	N	N	Y	Unsure	\$14.43 million	–
Arizona	2.60%	15	S	B	Y	N	Y	\$75,000,000	\$349.9 million	–
California	2.60%	25	CSP	L	Y	Y	Y	\$27,064,715	\$540.1 million	\$1.5 million

1. S = state funding (blue); CSP = federal funding through the Credit Enhancement for Charter School Facilities Program (purple).
2. L = loan enhancement (orange); B = bond enhancement (gray).
3. Y = yes (green); N = no (yellow).
4. This D.C. program is the Credit Enhancement Revolving Fund.
5. This D.C. funding supports the Charter School Incubator Initiative, which began as a collaboration between Building Hope and D.C. Office of the State Superintendent of Education and has since grown into its own entity called Building Pathways.
6. This Texas program is the Charter District Bond Guarantee Program that is a component of the Permanent School Fund in the state.
7. This Texas program is the Texas Credit Enhancement Program and is a consortium of Texas entities, including the Texas Public Finance Authority Charter School Finance Corporation and the Resource Center for Charter Schools, which was replaced by the Texas Charter Schools Association.

State policies for state credit enhancement with public funding table column descriptions

Percentage of charter schools benefitted: The number of charter schools that have benefitted from the state's credit enhancement program is divided by the number of charter schools in each state.

Number of charter schools benefitted: Based on the information available, the total number of charter schools that have received a transaction through the credit enhancement program.

Funding source: Where the original funds came from: either through state funding or through a federal grant through the Credit Enhancement for Charter School Facilities Program from the U.S. Department of Education.

Bond or loan enhancement: Whether each state's program focuses on either bonds or loans.

Funding available: Whether any funding remains in the program for new school transactions.

Charter schools only: Most of the identified programs are charter-school specific, though a few extend their credit enhancement programs to all public schools.

Eligibility: Different states have differing eligibility criteria for charter schools to access credit enhancement. Some programs have a single criterion, while others have multiple that must be met. Eligibility criteria include the following:

- Investment grade ratings (Texas)
- Academic accountability ratings (Arizona, Massachusetts, Texas)
- Financial accountability ratings (Texas)
- Community free and reduced-price lunch ratings (California, Massachusetts)
- At least one year of operation (California)
- In good standing with authorizer (California)
- Attendance rate (California)
- Majority of instructional time on site (California)

Funds committed to projects to date: Public funding allocated on behalf of specific charter school borrowers.

Total amount of financing leveraged: Dollar amount of resulting financing transactions.

Maximum amount: Whether state programs cap the total amount available per transaction or borrower.

Section II: Policy considerations

States are generally willing to use public funds for credit enhancement for two main purposes: to increase access to financing among schools that might otherwise struggle to obtain credit and to reduce the borrowing costs involved.

In most states, there are more schools and outstanding financing needs than state funding can effectively impact so states may find themselves having to prioritize among borrowers, purposes and projects.

A majority of state programs operate using federal grant funds awarded through the CSP Credit Enhancement program and notably are managed by state finance agencies, not state departments of education.

Both Arizona and Texas have invested significant state funding to guarantee bond transactions for high-performing, strong credit schools. The resulting impact on interest rates shows how much impact that level of investment can have, while also showing how hard it would be for that impact to be widespread because of the significant investments that are required.