

Charter Policy Issue Brief

State credit enhancement with state credit



This document examines state policies that use the state's credit to enhance charter school financing. State credit ratings are generally very strong. The options outlined below use those strong credit ratings to strengthen the credit ratings of charter school borrowers, thereby lowering the interest rates paid on their facility financing.

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 state credit; the second section outlines some key policy considerations for state policymakers and advocates to wrestle with when designing a state credit enhancement with state credit policy.

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

As of this writing, four states have enacted policies for state credit enhancement with state credit. The table below presents various details about each state's policies. The states are listed in order of the rate of enhanced transactions by total transactions, from largest to smallest. The text box after the table provides more information about what each column of the table represents.

State	Total amount enhanced ¹	Number of enhanced transactions	Percent of tax-exempt transactions that are enhanced	Percent of schools benefitted	Active ²	State credit protection through reserve fund ¹	Credit quality ³	Limit on state-enhanced lending
Colorado	\$1,066,810,000	77	28%	18%	Y	Y	I	\$750 million
Utah	\$525,425,000	31	26%	17%	Y	Y	I+	\$549.7 million ⁴
Idaho	\$92,850,000	10	21%	13%	Y	Y	S	\$190 million ⁵
Indiana	–	–	–	–	N	–	–	–

1. Estimated savings are estimated from anywhere between \$1 million to \$14 million per transaction, depending on the size of the principal amount.
2. Y = yes (green); N = no (yellow).
3. I = investment grade (blue); I+ = investment grade plus additional state criteria (purple); S = state criteria (gray).
4. As of January 2023 — this cap is determined each January and is limited by the formula described in statute.
5. As of July 2023 — this cap will change based on the statutory formula.

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

Total amount enhanced: Total amount of tax-exempt bond financing enhanced with state credit.

Number of enhanced transactions: Number of individual transactions enhanced with state credit.

Percent of tax-exempt transactions that are enhanced: Percentage of all tax-exempt bond transactions for charter schools in the state that are enhanced with state credit.

Percent of charter schools benefitted: The percentage of the state's charter schools that have benefitted from this policy.

Active: Whether currently active or not.

State credit protection through reserve fund: Whether state policy establishes a reserve fund that can be tapped in the event of a charter school default before making an appropriation request.

Credit quality: Refers to the school "credit quality" requirements imposed by the state to access the credit enhancement program.

Limit on state-enhanced lending: The amount of cumulative tax-exempt debt the state program is allowed to enhance. It may be expressed in statute as a fixed dollar amount or a formula that will result in a defined dollar limit that may change over time.

Section II: Policy considerations

In most states, there are more charter schools with outstanding financing needs than states are positioned to enhance so states may have to prioritize what schools they want to benefit from their credit enhancement.

Related to the first point, these programs expose their states to some degree of credit risk so there is a real incentive to protect the state's credit by applying meaningful eligibility criteria to these transactions, understanding that doing so may put the program out of reach for some of the state's charter schools.

The state may also wish to consider other mechanisms to minimize exposure to the state's credit, including common reserve funds.