

MOODY'S RATINGS

US Public Finance

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Credit outlook for the public K-12 and charter school sectors July 2024



Webinar Series



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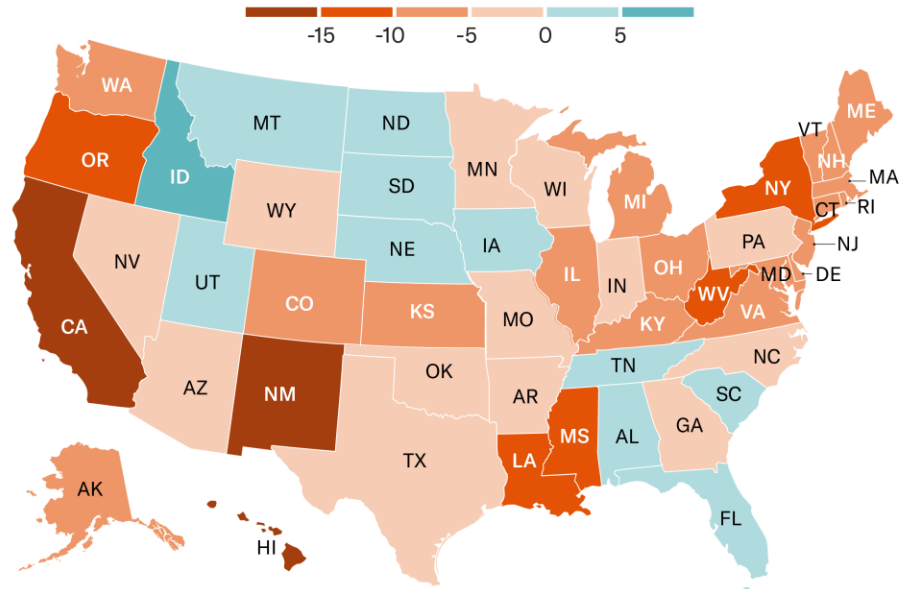
 Live Q&A

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Enrollment declines will continue as competition intensifies

Enrollment declines uneven across the US (map); revenue impact differs by state (exhibit)

Change in projected enrollment from 2021 through 2031



Long-standing hold-harmless	Rolling mitigant	Loss cap	Pandemic-specific
Illinois	Alaska	Idaho	Arizona
Iowa	Arkansas	Nevada	California
Massachusetts	Kansas	New Jersey	Florida
Nebraska	Maine		Michigan
New York	Maryland		North Carolina
North Dakota	Missouri		Texas
Ohio	Montana		
Pennsylvania	Oklahoma		
	Oregon		
	South Dakota		
	Utah		
	Wisconsin		
	Wyoming		

Source: US Department of Education and National Center for Education Statistics; Edunomics Lab at Georgetown University

Competition is increasing

Legislation expanding school choice is gaining traction

Charter schools

- Publicly funded schools that operate independent of public school districts.
- Primarily funded from the same state per pupil funding as public school districts.
- Charter schools continue to proliferate and increase enrollment, which diverts students from public schools.

Open enrollment programs

- Some states allow students to attend districts other than the one they live in. The state aid often travels with the student.
- Historically, districts had to primarily contend with competition from a limited number of neighboring districts that were logistically convenient for parents.
- Virtual academies spread substantially during the pandemic era.

Private schools and homeschooling

- While private schools have long been a fixture of the US education landscape, in recent years an increasing number of laws has allowed the use of tax dollars to fund private schools, including tax credit programs.
- The percentage of parents opting to homeschool their children, while still small, has been increasing.

Extraordinary federal support is ending

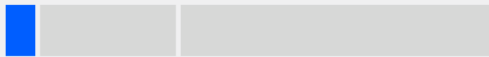
Services can develop strong political and popular support, creating pressure to continue them when federal aid is depleted

2020

March

CARES Act:

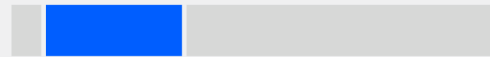
For ESSER



\$13.23 billion

December

CRRSA Act:



\$54.31 billion

2021

March

ARP Act:



\$121.97 billion

2024

September

Deadline to obligate
ESSER funds

State aid will not fill the gap left by federal aid

Few states are cutting aid, but increases vary widely

California

- The state's initial budget proposed reductions for TK-12 education (transitional kindergarten through 12th grade).
- It appears now that the sector will be spared major cuts, but on a per-pupil basis funding will remain relatively flat from 2024 with just a 1% cost of living adjustment (COLA).
- The current budget projects the use of the entirety of the state's education reserve fund, which could pressure state aid in fiscal 2026 if the state sees budget challenges.

Texas

- The state's aid per pupil will remain flat in fiscal 2024 and 2025 for the fourth and fifth years in a row.
- Positively, population growth and economic expansion continues almost unabated in many districts, driving increased revenue.

Pennsylvania

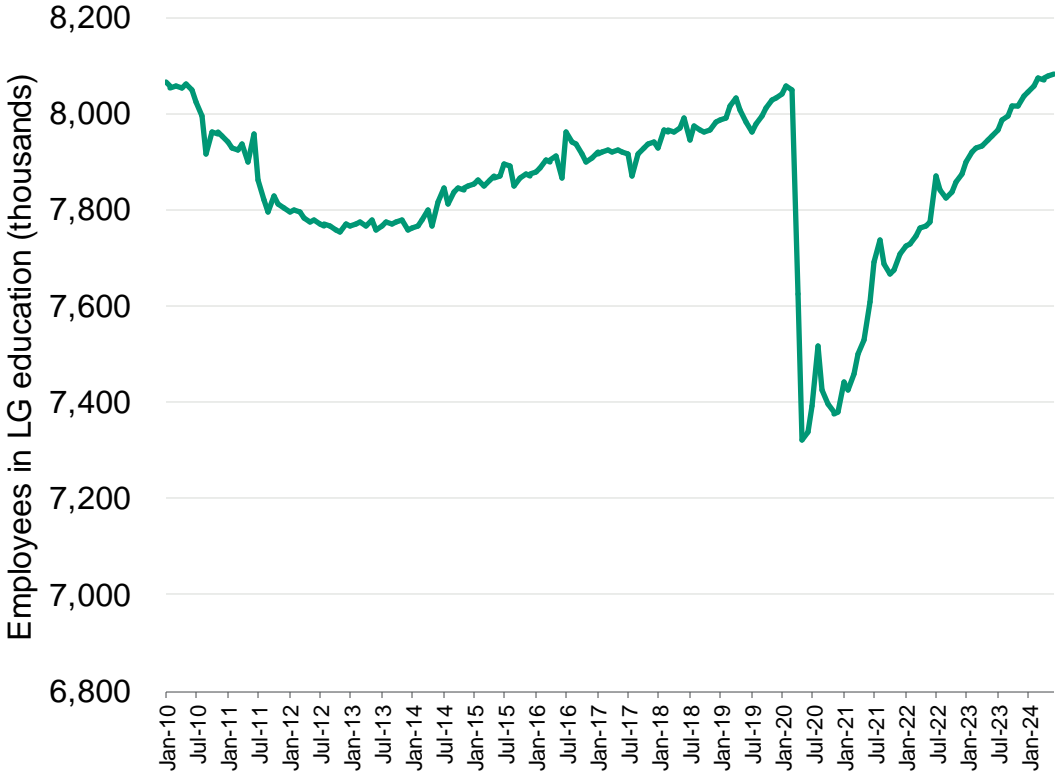
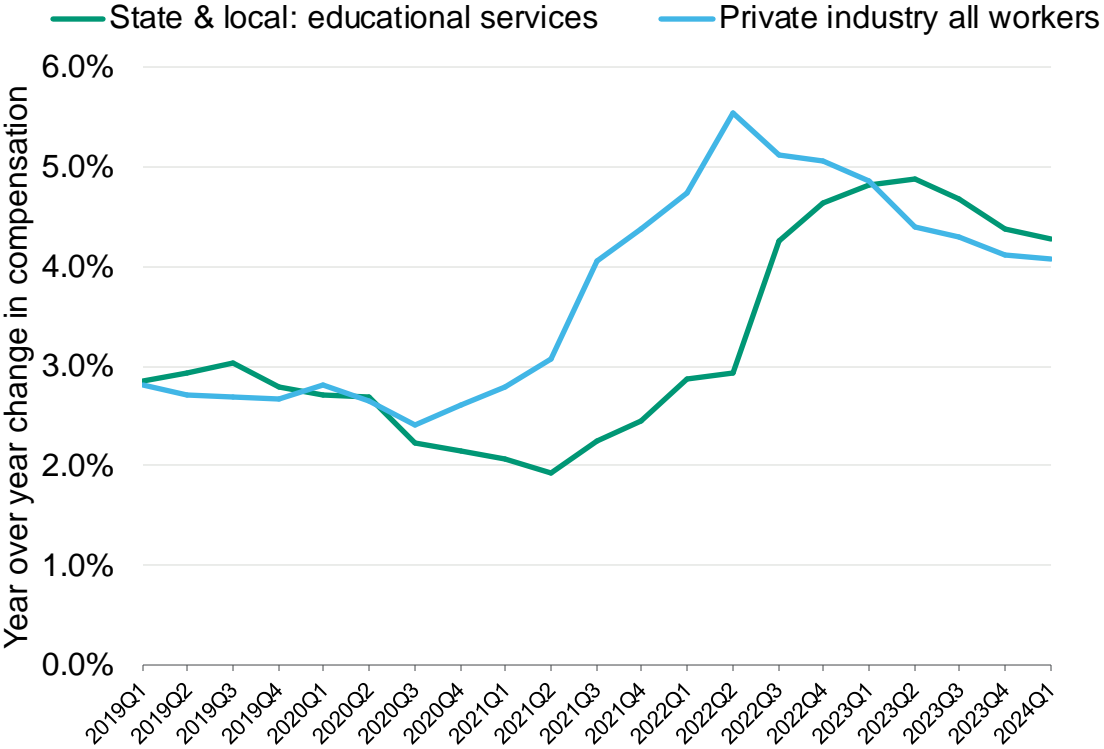
- The state's \$1.1 billion increase in school funding is the largest in history.
- Nearly half of the increase (526 million) will address what was deemed as an unconstitutional funding formula.

Michigan

- The state held per-pupil funding flat in its fiscal 2025 budget.
- To provide districts with additional resources, the state reduced required retirement benefit contributions by school districts.
- Less money today into the Michigan Public School Employees' Retirement System (MPERS) means slower asset accumulation and likely higher long-term liabilities in the future.

Salary & benefit costs are rising

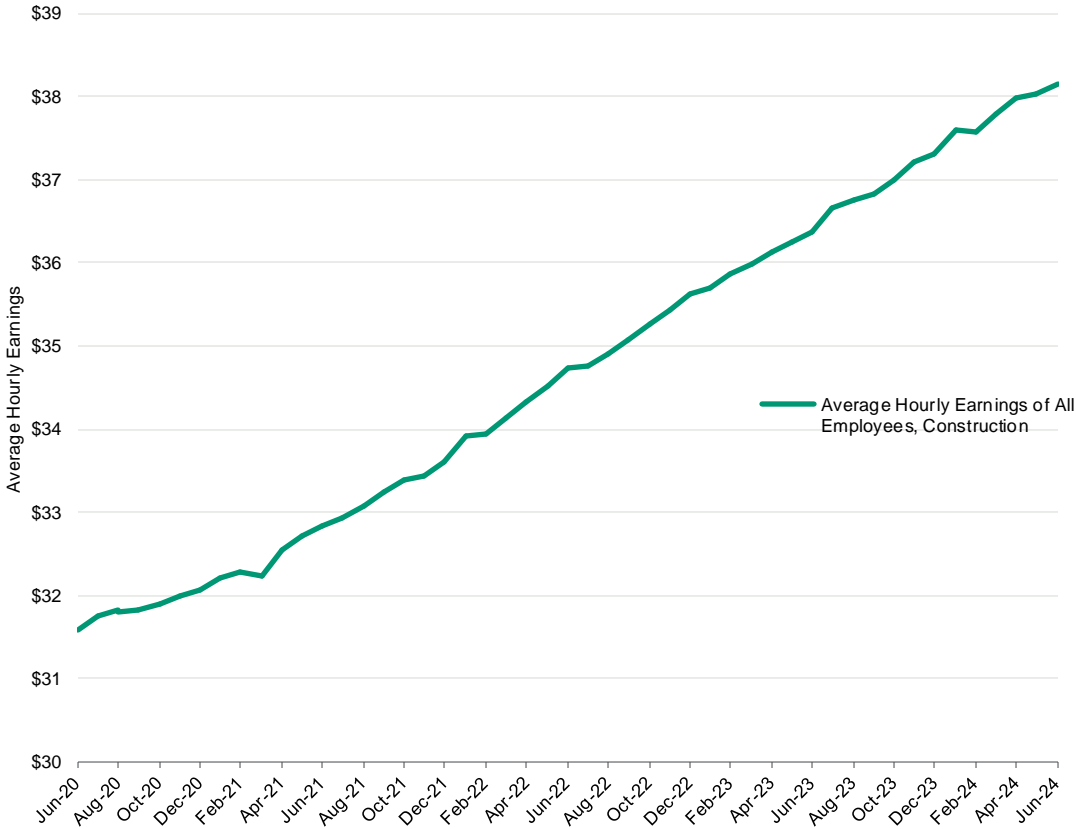
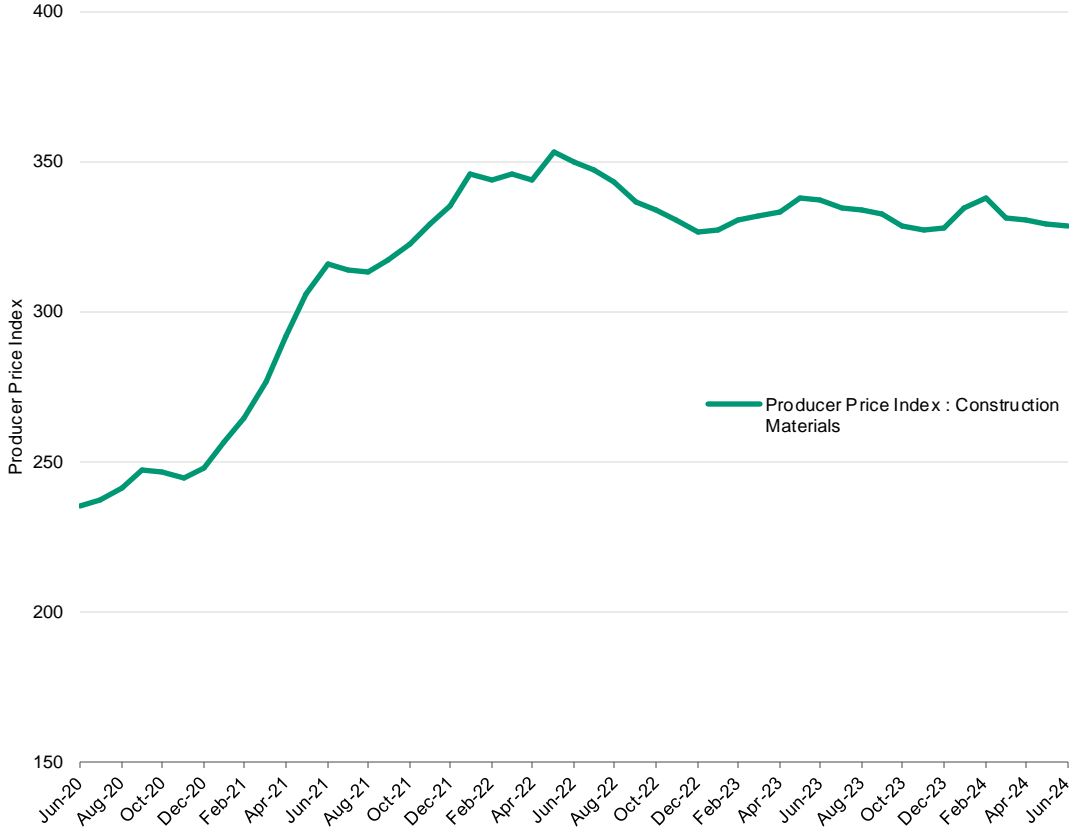
Compensation growth has caught up with the private sector and staffing levels are at a peak



Sources: US Bureau of Labor Statistics (BLS): Employment Cost Index (ECI), Federal Reserve Bank of St. Louis and Moody's Ratings; compensation includes wages, salaries, and employer costs for employee benefits

Construction costs remain elevated

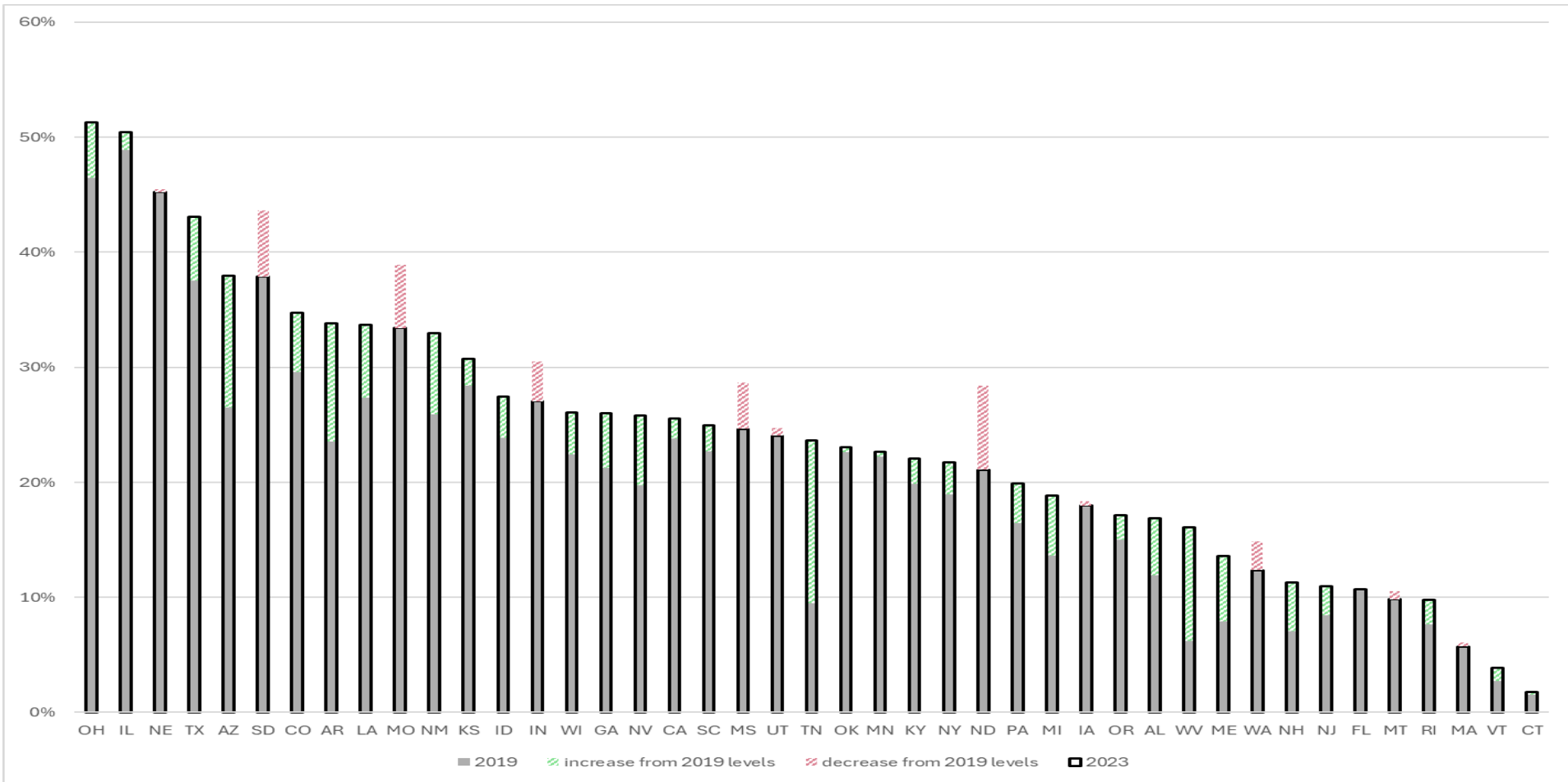
Construction material costs have stabilized but labor costs continue to rise



Sources: US Bureau of Labor Statistics (BLS); Producer Price Index for Construction materials, Index 1982=100, Not Seasonally Adjusted;

Growth in fund balance is uneven across states

Median fund balance 2019 to 2023: red indicates decline and green growth relative to 2019



Thank you

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