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A quarterly publication analyzing
credit themes across the broad
education sector

EDUCATION QUARTERLY: ENROLLMENT

Higher Education – US 2

Student demand will drive modest growth in enrollment for 2024-2025, with fall 2024 head count likely to increase by about 0.25%. The numbers are more uncertain than normal this fall amid uncertainty over the problematic rollout of the simplified FAFSA and concerns over affordability.

Historically Black Colleges and Universities 4

An enrollment boost at several HBCUs due to a heightened social and political focus, generous donor contributions and federal support, and a Supreme Court ruling banning race-based considerations in admissions is likely to continue over the next couple of years.

Higher Education – Global 7

New restrictions on overseas students will affect the credit quality of universities and colleges around the world differently. Large global universities with strong domestic demand will be less affected, but regional universities with growing international student cohorts face more exposure.

Public K-12 School Districts 12

Traditional K-12 school districts, already adjusting to shifting demographic trends like lower birthrates, will also face enrollment loss due to competition from charter schools and private schools, ultimately undermining what was once a monopoly.

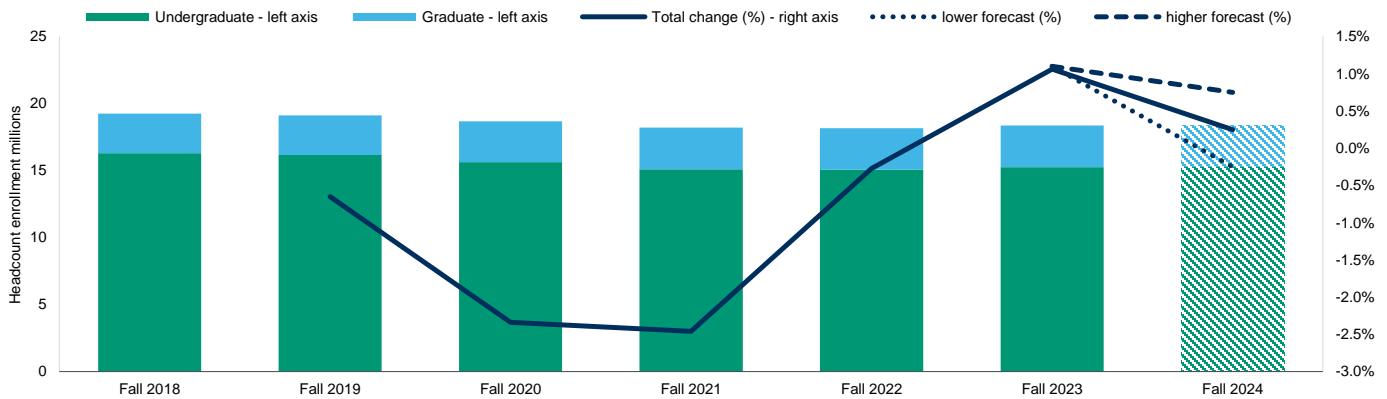
Charter Schools 16

Charter schools continue to see steady enrollment growth, contrasting with an overall decline in traditional public school enrollment. Total charter enrollment increased 3% in the 2023-24 school year in states where we maintain charter school ratings, continuing a longer-term trend.

Higher Education – US

Student demand will drive modest growth in US higher education during the 2024-2025 academic year. We estimate fall 2024 headcount enrollment will edge upward by about 0.25% (see Exhibit 1). The numbers are more uncertain than normal this fall, however, with our estimate at the midpoint of a likely band between a 0.25% decline and a 0.75% increase. The uncertainty arises, among other things, from [the problematic rollout](#) of the simplified Free Application for Federal Student Aid (FAFSA) and from the possibility that concerns over affordability will counteract the positive impact of a slightly larger population of recent high-school graduates and of a cooling labor market.

Exhibit 1
Fall enrollment is poised to edge upward in 2024 but remain well below peak



Fall 2024 is estimated projection
 Sources: National Student Clearinghouse and Moody's Ratings

While the COVID-19 pandemic led to significant disruptions in higher education, including a sharp decline in enrollment in fall 2020, a measured recovery continues. By the spring semester of 2024, undergraduate enrollment had rebounded to 93% of the 15.7 million students in spring 2019. Recent community college students comprise a key feeder of four-year higher education and the gradual post-pandemic enrollment recovery of recent years is supporting some gains. Graduate enrollment surpassed the spring 2023 level by 3%, with roughly 3.1 million students.

A slight cooling of the labor market may play a role in increasing higher education enrollment. When job prospects become less certain, or the employment rate dips, individuals may choose to pursue or return to education as a means of improving their qualifications and employability. This economic dynamic can encourage more students, particularly those on the margin, to enroll in higher education programs.

Affordability will also continue to drive the higher education selections of US consumers. Market share gains for public two-year colleges as well as public primarily associate degree granting baccalaureate (PAB) institutions will continue into the 2024-2025 academic year. For the spring 2024 semester, these institutions, oriented toward affordable access, were responsible for more than two-thirds of total undergraduate growth over the prior year. Enrollment growth will continue to benefit from concurrent enrollment of high-school students. The gain in market share of lower-priced options across the sector will dilute the average net tuition revenue per student.

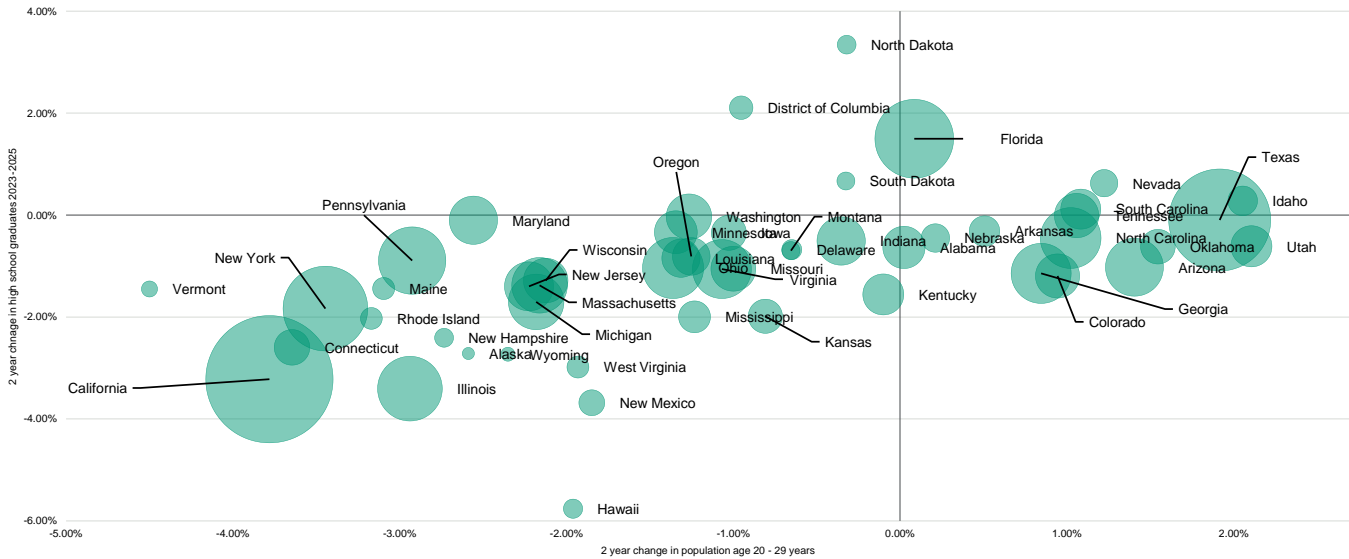
[FAFSA issues](#) will weigh on enrollment. The attempt to simplify the Free Application for Federal Student Aid process encountered significant challenges, resulting in 432,000 fewer applicants. This decrease highlights the critical role of financial aid accessibility in higher education enrollment. While this primarily affected first-time students, the challenges also impacted returning students. Difficulties in navigating the financial aid process can serve as a barrier to entry for prospective students, particularly those from lower-income backgrounds for whom financial aid is a decisive factor in the ability to afford college.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

The US population as a whole is growing, but a significant segment of it is increasingly less likely to enroll in higher education for various reasons: lower household income, lower household educational attainment and the growing availability of career opportunities that do not require a traditional degree. These demographic shifts suggest a narrowing of the traditional college-going population, influenced by both economic barriers and the perceived necessity of a college degree for career success.

Demographic trends including the number of high-school graduates and the population of young adults will drive contrasting enrollment impacts across the 50 states, with most students enrolling close to where they attended high school. Among the largest states, these population headwinds are greatest in California, New York, Pennsylvania and Illinois. These same forces provide opportunities in Texas, Florida, Nevada, Idaho and North Carolina (see Exhibit 2).

Exhibit 2
Demographic changes bring varied enrollment management challenges and opportunities across the 50 states



[1] Bubble size based on spring 2024 semester enrollment
 Source: Western Interstate Commission for Higher Education, Moody's economy.com and National Student Clearinghouse

While Exhibit 2 focuses on students aged 29 years and younger, the 30-and-older segments will also inform the enrollment management strategies of many providers. In the spring 2024 semester, students 30 years and older made up 16% of undergraduate enrollment and 44% of graduate enrollment, for a combined 5.6 million students.

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Historically Black Colleges and Universities

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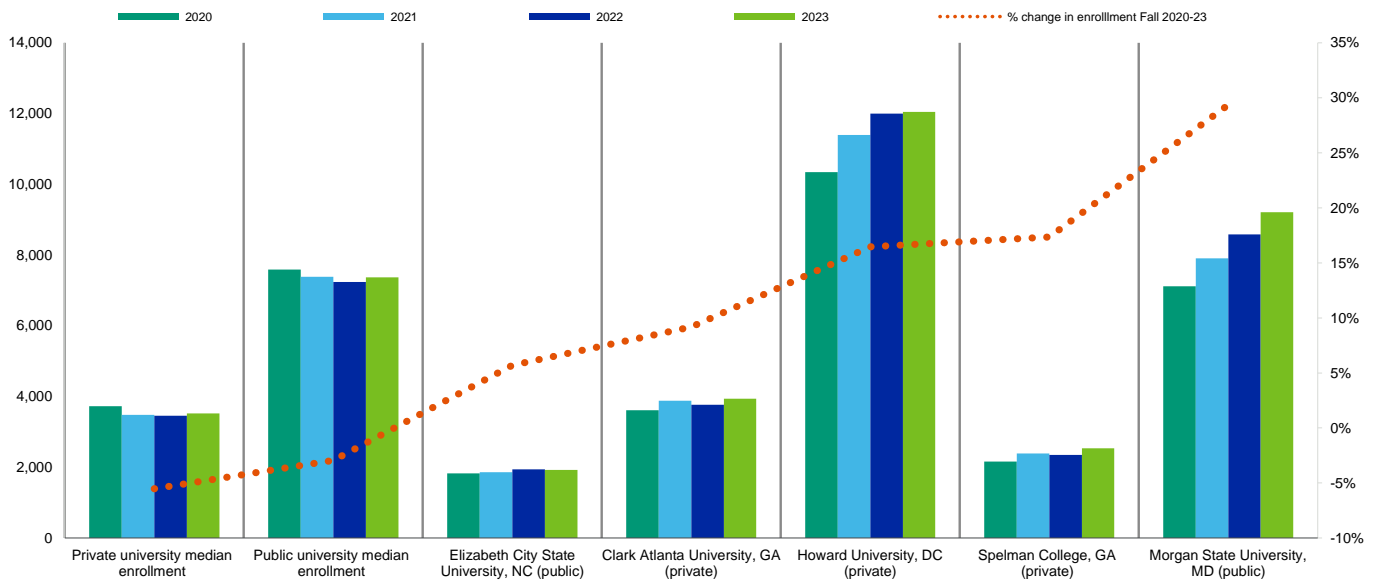
Enrollment at several Historically Black Colleges and Universities (HBCUs) has grown significantly in recent years due to various factors: a heightened social and political focus since 2020 stemming from protests against racial inequalities, generous donor contributions and federal support, and more recently a 2023 Supreme Court ruling banning race-based considerations in college admissions. These developments are likely to sustain favorable enrollment trends over at least the next couple of years – a credit positive for HBCUs.

The increase in enrollment is due in part to the heightened public awareness of HBCUs following the racial justice protests that erupted after George Floyd's death in 2020. According to the National Center of Education Statistics, total enrollment at four-year HBCU institutions rose by 3% between fall 2020 to 2022¹. The number of African American students enrolled at four-year HBCUs also rose by 3% during the same period. This marked a reversal from fall 2011 to 2020, during which both total enrollment and African American student enrollment at four-year HBCUs declined by 13% and 18% respectively.

Of the eight institutions rated by Moody's, for which we have enrollment data through fall 2023, five have reported increased enrollment in the past few years. [Clark Atlanta University](#) (Ba1 stable), [Howard University](#) (Ba1 positive), [Morgan State University](#) (A1 stable), [Spelman College](#) (A1 stable) and [Elizabeth City State University](#) (Baa1 stable) reported gains in enrollment ranging from 6% to 29% between fall 2020 and fall 2023. In comparison, the change in median enrollment at private and public institutions rated by Moody's over the same period was -6% and -3% respectively (see Exhibit 1).

Exhibit 1

Median enrollment growth at certain HBCUs outpaced the higher education sector more broadly



Full-time equivalent enrollment as of the fall term in each given year (i.e., fall 2020-2023)

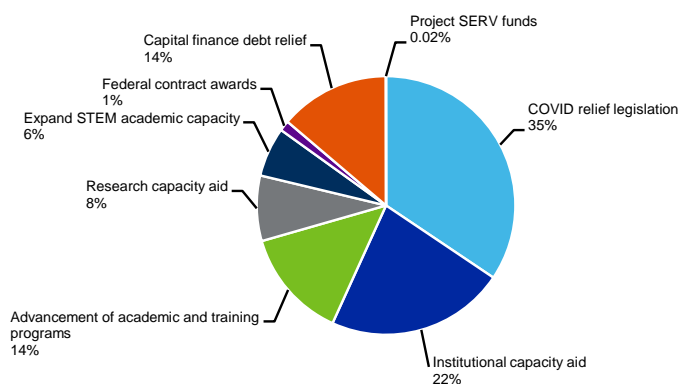
Source: Moody's Ratings

The increased social and political focus has also led to substantial new funding for HBCUs, from wealthy benefactors and the federal government. The additional resources are being used to enhance facilities, boost marketing and retention efforts, and make education more accessible to prospective students through increased financial aid. Among other contributors, McKenzie Scott donated over \$560 million across 23 HBCUs by 2021². The gifts were largely unrestricted and meant to support strategic initiatives including programs to promote postgraduate preparedness, develop in-demand academic programs, and address financial hardship among prospective and enrolled students. Early in 2024, billionaire Ronda Stryker and her husband William Johnston [contributed \\$100 million to Spelman College](#), the largest single donation ever made to an HBCU. Of the \$100 million, \$75 million was designated to fund endowed scholarships, while the remaining \$25 million will be used to support strategic and capital needs.

On the federal front, the Biden administration awarded \$11.4 billion directly to HBCUs between fiscal 2021 and 2024 including federal grants, pandemic-related aid and capital finance debt relief (see Exhibit 2).³ The aid will allow institutions to dedicate more resources to attracting and retaining students, for example through enhanced marketing efforts and renovation of aging facilities. The administration has also invested \$4.1 billion in need-based aid-related programs, including Pell Grants, and programs to support veterans attending HBCUs. HBCUs enroll higher proportions of Pell-eligible students and therefore have a higher reliance on federal financial aid programs than the sector overall.

Exhibit 2

Financial support for HBCUs from the Biden administration will cover a variety of purposes
Breakout of the \$11.4 billion federal funds awarded directly to HBCUs between fiscal 2021 and 2024



Source: The Biden Administration

Most recently, following the US Supreme Court's decision to prohibit race-conscious admission practices in June 2023, several high-profile colleges and universities have reported a decline in the percentage of some minority groups, primarily African American students, in their incoming fall 2024 class compared with previous years. Some of the more well-known institutions that reported such a decline include [Harvard](#) (Aaa stable), [MIT](#) (Aaa stable), [Amherst](#) (Aaa stable), [Brown](#) (Aa1 stable) and [Boston University](#) (Aa3 stable)^{4,5,6}. All of these mentioned institutions, except for [Harvard](#) (Aaa stable), also reported an uptick in the percentage of Asian American students enrolled^{7,8,9}. Not all schools reported declines in enrollment by African American students, but the Supreme Court ruling is likely to have a lasting impact on the student profile of some institutions. Consequently, we expect some of the better-known HBCUs will benefit from increased student demand, particularly combined with the recent injections of additional financial support.

Indeed, early enrollment indicators for fall 2024 are positive for several HBCUs. While final figures are not yet publicly available, Howard University and Spelman College each reported a rise in undergraduate applications, by 12% and 13% respectively^{10,11,12}. Both of these institutions are among the more selective of the HBCUs, with reported selectivity rates of 53% and 34% in fall 2023 for Howard and Spelman respectively, and desirable options for many academically strong students. Other HBCUs have also reported similar trends in applications. As enrollment data becomes more definitive over the coming months, better-known HBCUs are likely to see enrollment growth rising through the fall.

Still, many HBCUs will continue to face retention challenges given their relatively high number of lower-income students, who are more likely to pause or suspend their education because of affordability reasons. Sustained credit improvement across HBCUs will depend on each institution's ability to improve its strategic position by leveraging the increased demand and bolstered financial reserves to enhance student outcomes, grow market share, strengthen governance and management, and refresh aging infrastructure.

Endnotes

- 1 [National Center for Education Statistics - Digest of Education Statistics, Total fall enrollment and enrollment of Black students in degree-granting historically Black colleges and universities](#)
- 2 ["MacKenzie Scott Donated \\$560 Million to 23 HBCUs. These Are the Other Things They Have in Common." The Chronicle of Higher Education, 9 August 2021.](#)
- 3 [The White House. "Fact Sheet: Biden-Harris Administration Announces Record Over \\$16 Billion in Support for Historically Black Colleges and Universities \(HBCUs\)."](#)

- [4 Boston University. "Drop in Black Students Enrolled After Supreme Court Affirmative Action Ruling." BU Today, Boston University, 2024](#)
 - [5 "Harvard Releases Race Data for Class of 2028." Harvard Gazette, Harvard University, 11 Sept. 2024](#)
 - [6 MIT Admissions. "First-Year Class Profile." MIT Admissions, Massachusetts Institute of Technology, 2024](#)
 - [7 The Brown Daily Herald. "Brown University Sees Uptick in Admission Yield After Last Year's Lows." The Brown Daily Herald, Brown University, 2024](#)
 - [8 MIT Admissions. "First-Year Class Profile." MIT Admissions, Massachusetts Institute of Technology, 2024](#)
 - [9 "Class of 2028 Profile." Amherst College, \[https://www.amherst.edu/about/facts/secondary_school_reports/class-of-2028-profile\]\(https://www.amherst.edu/about/facts/secondary_school_reports/class-of-2028-profile\)](#)
 - [10 "Howard Receives Nearly 37,000 Applicants for 2028 Class, Breaking Record." The Hilltop, 22 Apr. 2024](#)
 - [11 "Spelman Gets Application Surge, Bucking College Enrollment Trend." Bloomberg, 27 Mar. 2024](#)
 - [12 Spelman College. "Spelman College Welcomes the Class of 2028." Spelman College, Spelman College, 2024](#)
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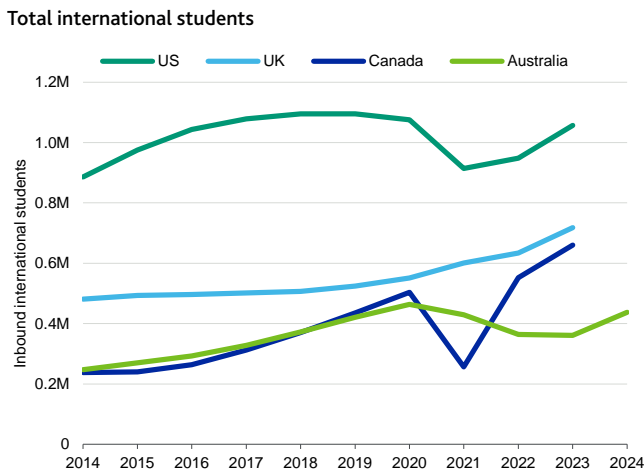
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Higher Education – Global

New restrictions on overseas students will affect the credit quality of universities and colleges differently. In Canada, Australia and the UK, rules are tightening due to a backlash against rising immigration. A reduction in higher-paying international students, as a result of stricter rules and related reputational effects, is credit negative because it will constrain revenue growth. In the UK, for example fewer international students will add to budgetary pressure universities have faced since tuition was first frozen in 2012¹. In Canada, international students offset declining domestic demand, exposing universities reliant on them. US policies remain more stable, which could benefit universities in light of the greater restrictions elsewhere, but future rule changes may arise after the election. Overall, large global universities with strong domestic demand will be less affected, but regional universities with growing international student cohorts face more exposure.

International student enrollment has surged in Canada, Australia, and the UK (see Exhibits 1 and 2), bringing both benefits and increased exposure to changing immigration policies. In contrast, the US has seen a rise in international students from recent dips but still relies less on them, with just under 6% of its student population being from overseas.

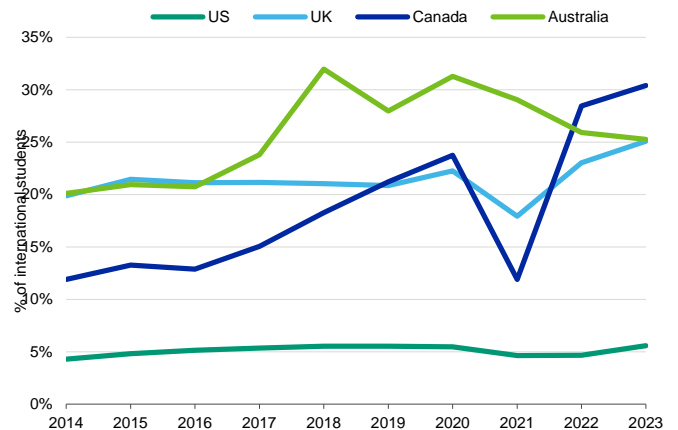
Exhibit 1
International student numbers have risen rapidly in Canada, the UK and Australia...



The drop in 2021 in Canada and the US was driven by border/travel restrictions due to the pandemic. In Canada, students were able to continue studies remotely, which reduced the impact.

Source: *Institute of International Education, Inc.*

Exhibit 2
...while in US institutions the proportion remains relatively low
International students as a percentage of total enrollment in each country



Source: *Institute of International Education, Inc.: Project Atlas*

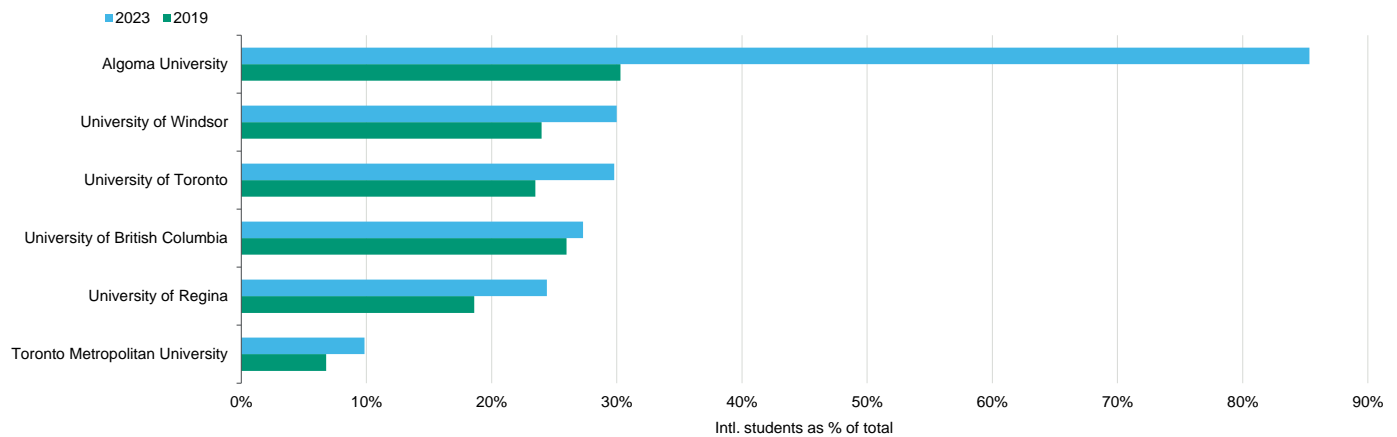
Canada places cap on study permits

Canada's initial two-year 35% reduction in study permits for new undergraduate international students countrywide took hold in September 2024. A further 10% reduction (for September 2025), extension of the cap through 2026 and an expansion of the cap to include graduate students were implemented more recently. These, and other restrictions², are harming Canada's reputation with international students, [with applications for study permits down 50% in the first half of 2024](#).

This report was republished on 18 October 2024 with a corrected rating reference.

The impact on individual universities, both directly from the cap and indirectly from reduced attractiveness to study in Canada, will vary. Overall, mid-sized and smaller universities, which rely heavily on international students to counter weak domestic demographics (see Exhibit 3), are likely to face the most risk.

Exhibit 3
A sample of Canadian universities highlights significant rises in international students



Source: Data from universities' documents

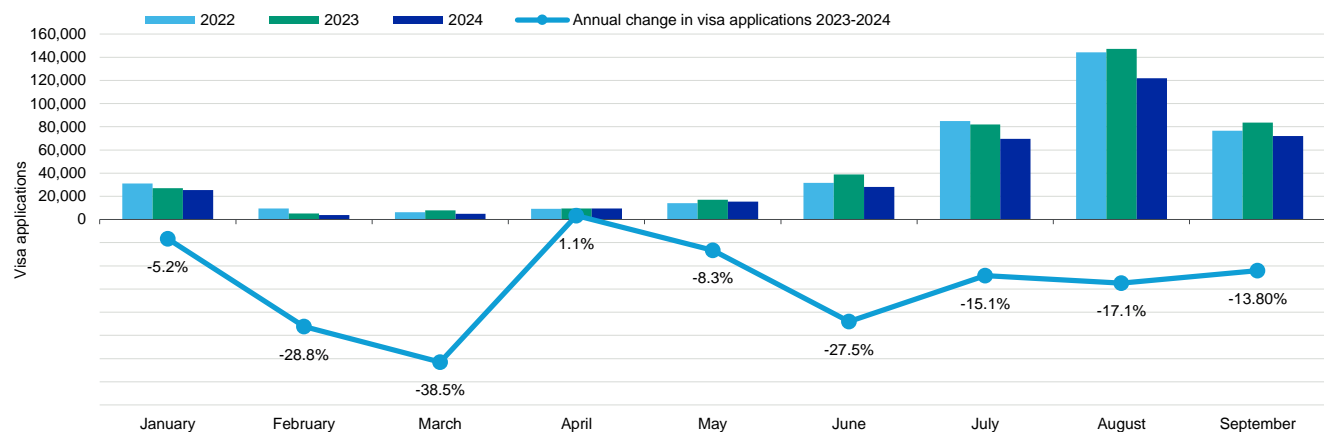
[Algoma University's](#) (A2 stable) very rapid growth in international students and high reliance on this cohort, at 85% of total enrollment in 2023, heightens its exposure to a decline in overseas students.³ The [University of Windsor](#) (Aa3 stable), with 30% reliance on international students and a weak domestic enrollment catchment area, will also face less favorable trends under the recently expanded restrictions, particularly given its reliance on Masters students from overseas, who will be included in the cap in 2025.

Larger universities with a strong brand and reputation, such as the [University of Toronto](#) (Aa1 stable, UofT), are likely to see negligible impacts. Although it has a relatively high reliance on international students (30%), UofT has an exceptional ability to attract domestic students, making it less vulnerable to any declines in foreign students.

UK limits students bringing dependents

The UK government no longer allows (as of January 1, 2024) international students enrolled in certain masters programs (taught masters programs) to bring dependents, following the revocation of dependent visa rights.⁴ As of September 2024, visa applications for study have declined by 16% (year over year from January to September overall) (see Exhibit 4 for monthly changes).

Exhibit 4
Monthly applications for student visas have declined in the UK; overall year over year declining by 16%



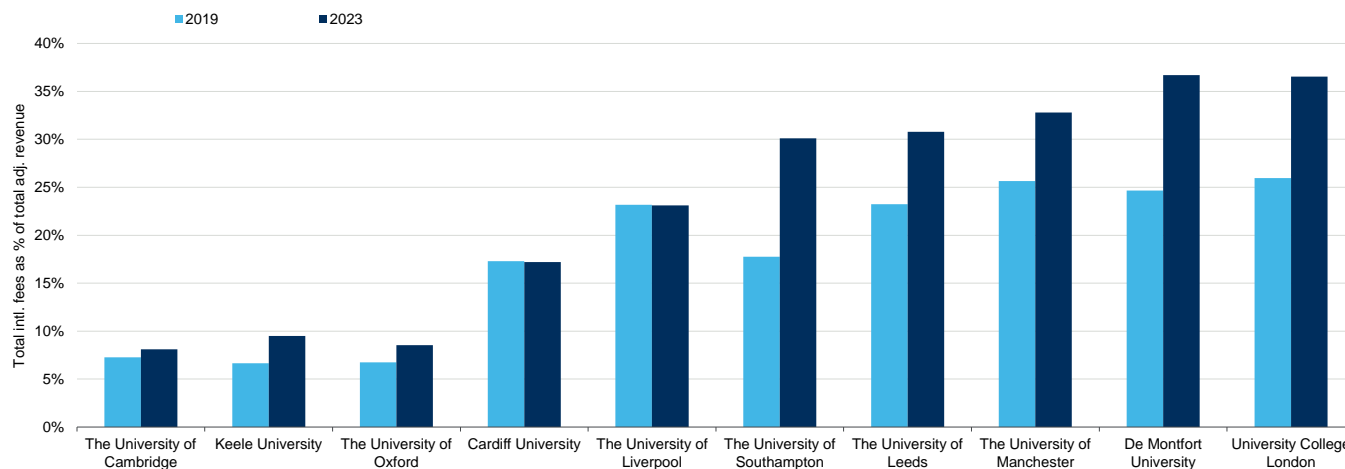
Source: UK Home Office Data: Monthly Entry Clearance Visa Applications (August 2024)

UK universities most at risk from the recent visa changes are those that rely on markets where international students tend to be accompanied by dependents, such as Nigeria and India. [De Montfort University](#) (A1 stable) is more vulnerable than other rated universities (see Exhibit 5), with its reliance on international tuition fees jumping from 25% of its total adjusted revenue in 2019 to 37% in 2023, and a high proportion of international students from Nigeria and India, at 9% and 39% respectively.

In contrast, although [University College London](#) (Aa3 stable) has a similar level of reliance on international tuition fees, it is likely to be less affected since half of its international student body is from China, where students are less likely to bring dependents, and it has a stronger market position.

Exhibit 5

Some UK universities have increasing exposure to overseas students
Total international fees as a percentage of adjusted revenue



Sources: Universities' financial statements, HESA and Moody's Ratings

Australia is in flux with proposed caps on new international students

In Australia, proposed caps on international students⁵, would reduce new students (new commencements) starting in 2025 by 10% countrywide if enacted. As the proposed caps apply only to new students, the impact is spread over several years. If the legislation is enacted, the government intends to impose overall limits on total enrollment in 2026, which could have a larger impact in the future.

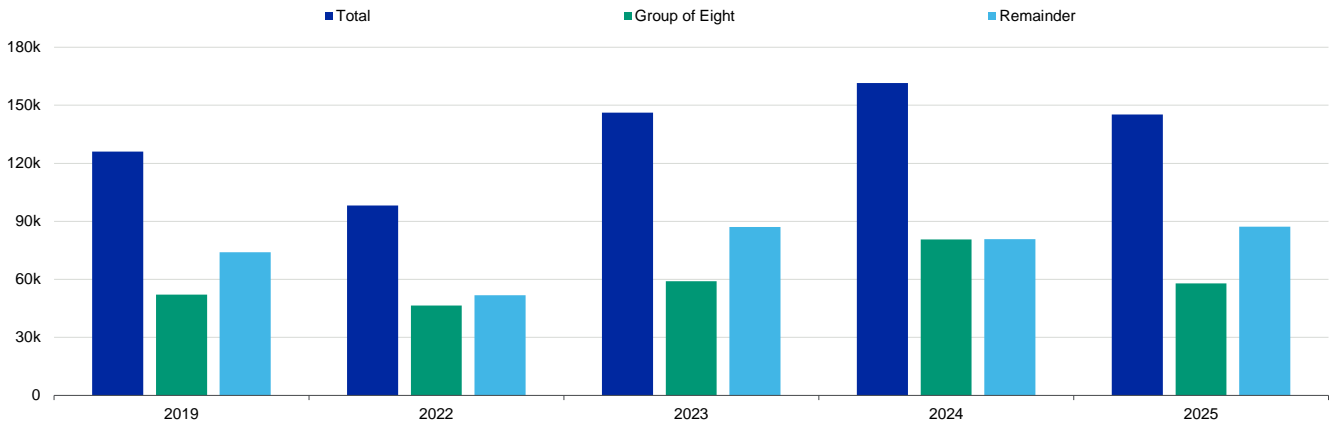
Visas have already declined by 32% this year (as of June), according to Universities Australia⁶, as a result last year's government direction that prioritized the awarding of student visas based on individual universities' record of visa rejections in the past.⁷

The impact of the new caps will vary greatly by university, with some allotted higher and others lower levels of incoming students. The aim is to reduce student concentration in large urban areas facing housing affordability issues and increasing numbers in more regional institutions.

The Group of Eight research-intensive universities with traditionally high levels of international students according to government figures will see larger declines (see Exhibit 6) – 28.2% in 2025 compared to 2024 – but this follows prior rapid growth of 36.5% in 2024 compared to 2023⁸. By contrast, some regional universities are set to benefit from much higher targets, although ultimately achieving these targets will depend upon student choices.

Exhibit 6

New commencements will be lower with proposed caps on overseas students, but impact would mitigated by a large rise in 2024



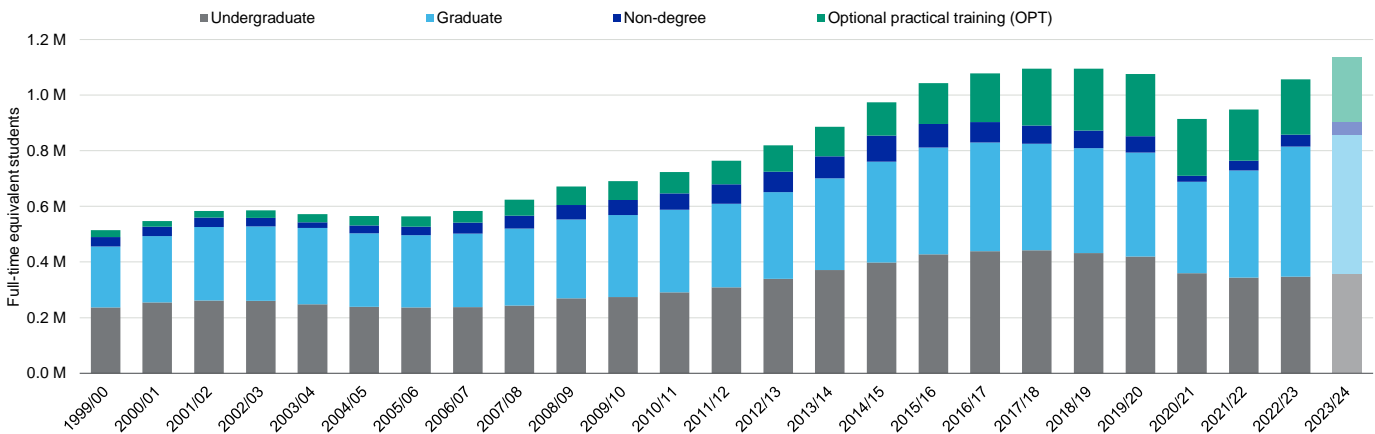
Group of Eight refers to Australia's most prestigious research-intensive universities; rise in 2024 is estimated
 Source: Australian Government, Senate Notice of Motion #622

Election could bring changes to more stable US policy stance

The current US administration has adopted a more welcoming policy stance on overseas students, with universities turning increasingly toward international students (see Exhibit 7). An Open Doors survey [indicated](#) that 92% of universities expect further increases in foreign students over the next five years, and 53% report growth in applications from abroad in fall 2024. However, the upcoming election in November [could lead to policy changes](#), potentially resulting in a more restrictive environment and thus lower international enrollment.

Exhibit 7

The number of international students at US universities has risen from a pandemic-era decline

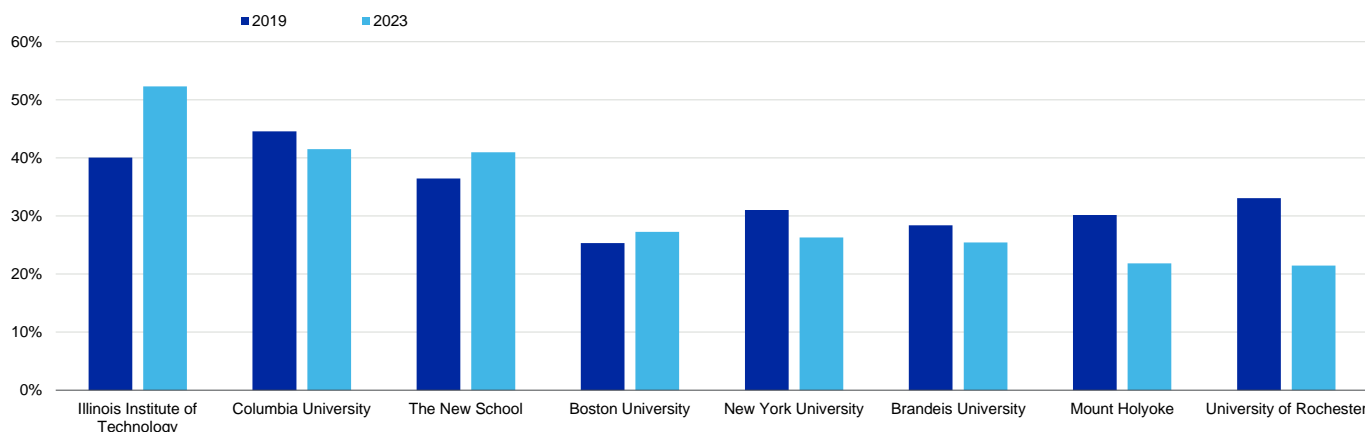


2023-24 data are preliminary
 Source: Institute of International Education, Inc.

While the US is less reliant on foreign students, some universities have large proportions of international students (see Exhibit 8). Universities that would be most exposed to more restrictive policies are those with rapid growth in overseas students in recent years. For example, the [Illinois Institute of Technology](#) (Ba2 stable), where international students rose to over 50% in fall 2023 from 40% in 2019, and [The New School](#) (A3 stable), with around 40% international students, are exposed to less favorable policies. Universities like [Columbia University](#) (Aaa stable) and [New York University](#) (Aa2 stable), which have 42% and 26% respectively, would be less affected because of their exceptional brands and strong domestic draw.

Some US universities have a high percentage of international students

Fall 2023



Source: Moody's Ratings

Endnotes

- 1 Undergraduate fees were set at £9,000 in 2012 and increased to £9,250 in 2017.
- 2 Other restrictions include reduced off-campus work hours and restricted work for spouses of international students.
- 3 The provinces distribute levels of study permits to individual universities based on their allocation from the federal government and their priorities. Ontario maintained permits to each university at the 2023 level except for Algoma, which faces a decline. This was in part due to the rapid growth Algoma experienced in international students.
- 4 This will not apply retrospectively for students in Masters programs that started before 1 Jan 2024. In addition, students on postgraduate research programs, including Ph.D. students, can still bring dependents.
- 5 [Education Services for Overseas Students Amendment \(Quality and Integrity\) Bill 2024](#) and Senate Notice of Motion #622
- 6 Universities Australia reports in its Submission to the Senate Education and Employment Legislation Committee that from December 2023 to June 2024 there was a 32% drop in visas compared to the same period in the prior year.
- 7 Visas for those universities with a record of higher rejection rates were processed more slowly and/or reduced. This was part of Ministerial Direction 107 which will be withdrawn if the proposed cap legislature is passed.
- 8 Australian government, Senate Notice of Motion #622

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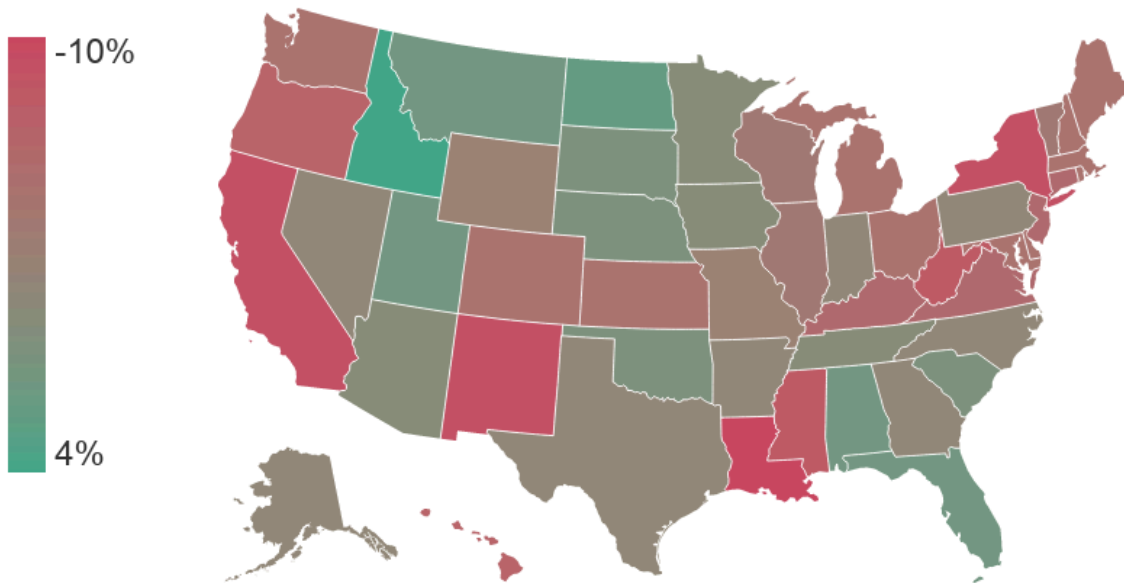
Public K-12 School Districts

As K-12 school districts adjust to shifting demographic trends like lower birthrates, other emerging enrollment patterns will create new governance and financial strains. While contending with fewer students and relatively fixed costs, growing charter school enrollment and a burgeoning school voucher landscape will also chip away at school districts' monopolistic positions.

From the 2017-2018 school year to the 2022-2023 school year, total enrollment in "traditional" public elementary and secondary schools declined by 2.1%. Over the next four years, that decrease will accelerate, with enrollment declining by an additional aggregate 4.0% (see Exhibit 1). Since state aid is generally allocated on a per-pupil basis, declining enrollment can create financial stress for school districts, and ultimately become a notable credit risk.

Exhibit 1

Enrollment in traditional K-12 schools will decline in 41 states over the next three to four years
Percentage change in total elementary and secondary enrollment through the 2026-2027 school year



Sources: National Center for Education Statistics and Moody's Ratings

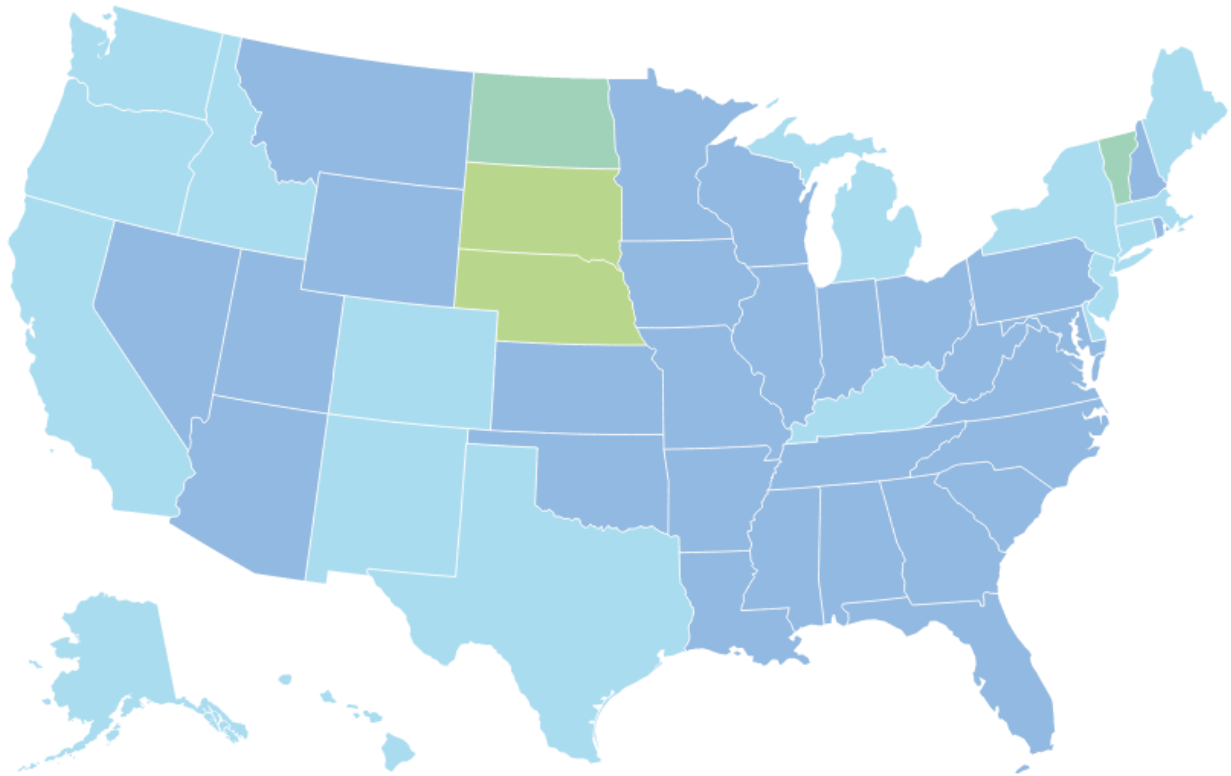
The five states with the fastest declining public school enrollment span the nation. According to projections by the National Center for Education Statistics, enrollment will decline the most in [Louisiana](#) (Aa2 stable), which will lose 10% of all traditional public school students. [California](#) (Aa2 negative), [New Mexico](#) (Aa2 positive) and [New York](#) (Aa1 stable) will each see traditional public school enrollment shrink by 9%, while [Mississippi](#) (Aa2 stable) will see an enrollment loss of 8%. Notably, of those states, only New York's funding formula contains hold-harmless provisions with respect to funding based on enrollment.

While traditional public school districts struggle with enrollment loss, the opposite is true of alternatives like charter and private schools. Enrollment in charter schools has been growing since 1991 when [Minnesota](#) (Aaa stable) became the first state to allow them. Private school voucher programs, a more recent phenomenon, are further eroding what was once a monopoly by traditional public schools. All told, 48 states have some form of alternative K-12 education available (see Exhibit 2).

All but two states offer alternatives to traditional public school instruction

Type of alternative offered by state

■ Both charters and private school voucher options
 ■ Charters-only
 ■ No publicly funded alternative
 ■ Private school vouchers-only



Vouchers include Education Savings Accounts and scholarship tax credit programs.
 Sources: EdChoice, American Federation for Children and Moody's Ratings

The growth of alternative education such as charter schools and private schools diverts funding from traditional public school systems, whose financial stability is largely driven by enrollment and attendance. Coupled with legislatures and homeowners alike seeking to limit the burden of property taxes – another key school funding source – in an increasing cost environment, the financial difficulties become clearer.

Today, every state but [Nebraska](#) (Aa1 positive), [North Dakota](#) (Aa1 stable), [South Dakota](#) (Aaa stable) and [Vermont](#) (Aa1 stable) allows charter schools, which are the largest direct contributor to enrollment and funding loss for traditional schools. That is because they offer open-enrollment, operate independently of the local school system and generally have autonomy over their curriculum.

States are also expanding access to private schools through tax credit programs and Education Savings Accounts (ESAs), collectively dubbed "voucher programs." These programs do not directly divert state funding from traditional public schools, but they do contribute to a decline in enrollment and, by extension, funding.

Several states have enacted tax credit program and ESA legislation in recent years (see Exhibit 3). One such state is [Oklahoma](#) (Aa1 stable), which enacted the Oklahoma Parental Choice Tax Credit in 2023, which allows contributors to offset their state tax liability by contributing a deductible amount to a scholarship granting organization. Meanwhile, the funding of ESAs directly hinders traditional public schools because funding follows each student, who generally attends private school or goes the home-school route. While funding does not always match what a traditional public school would receive, it is still a significant revenue loss. In [Arizona](#) (Aa1 stable) for example, where legislation was enacted in 2011, ESA funding is 90% of school district funding.

Exhibit 3

States enacting voucher program legislation in 2023 and 2024

State	2024	2023
Alabama	The Creating Hope and Opportunity for Our Students' Education (CHOOSE) Act of 2024	
Georgia	The Georgia Promise Scholarship Act	
Nebraska	Nebraska Education Scholarships	
Wyoming	Wyoming Education Savings Account Program	
Arkansas		Arkansas Children's Educational Freedom Account Program
Iowa		Education Savings Account Program
Montana	Montana Special Needs Equal Opportunity Education Savings Account Program	
Oklahoma		Oklahoma Parental Choice Tax Credit
South Carolina		South Carolina Education Scholarship Trust
Utah		Utah Fits All Scholarship Program

Sources: Ed Choice, American Federation for Children, state websites and Moody's Ratings

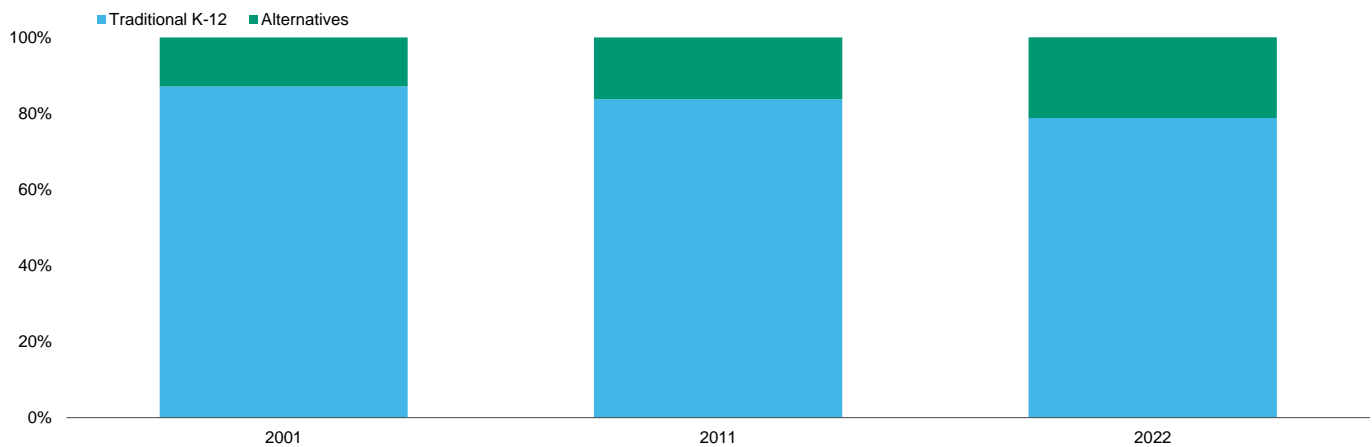
While programs like these can initially face pushback, there is momentum in the current initiatives. In [Texas](#) (Aaa stable), for example, despite multiple failed legislative initiatives, several new pro-ESA legislators were elected in 2024. As a result, school vouchers are poised to be a top priority when the legislative session begins in January 2025.

The growth of these alternative programs has materially impacted the national capture rate for traditional public schools, or the percentage of total school-aged children nationally attending a traditional public school. The capture rate declined to 79% in the 2021-2022 school year from about 87% in the 2000-2001 school year. Simultaneously, the capture rate for alternatives to traditional public schools increased to about 21% (see Exhibit 4).

Exhibit 4

Alternatives are capturing a growing share of K-12 students nationally

Capture rate of traditional K-12 schools and alternatives over 20 years



Sources: National Center for Education Statistics and Moody's Ratings

Compounding the funding concerns associated with their shrinking capture rates, traditional public school districts are also struggling with a growing share of their remaining students receiving special education services. According to an August 2023 University of Arkansas study¹ that evaluated funding disparities between traditional and charter schools, special education enrollment was higher in traditional school districts than in charter schools in every one of the 17² cities evaluated. The 17 cities saw traditional school districts provide special education services to a higher percentage of its student body compared to charter schools. The median difference was 4%; most notable was the difference in [Atlanta](#) (Aa1 stable) (9%) and [New York City](#) (Aa2 stable) (6%). Special education students are often far costlier to educate than general education students, and as such, this trend can become a credit pressure.

While the number of students that receive special education services has increased by 500,000, or 7% from the 2017-2018 school year to the 2022-2023 school year, it is evident that traditional school districts are not only shouldering the cost of the additional staff, facilities and material for these students, but that there is a simultaneous migration of general education students to charter schools. This ultimately leaves traditional schools to grapple with growing costs at a time when growth in state aid is slowing in many states.

Endnotes

[1 Charter School Funding: Little Progress Towards Equity in the City](#), University of Arkansas, August 2023

[2](#) The report discussed 18 cities, but noted that all students in [New Orleans](#) (A2 stable) were technically charter school students.

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Charter Schools

Charter schools continue to see steady enrollment growth, contrasting with an overall decline in traditional public school enrollment. Total charter school enrollment increased 3% in the 2023-24 school year in states where we maintain charter school ratings.¹ That growth continues a longer-term trend since the 2019-2020 school year, which began just before the COVID pandemic. Since the 2019-2020 school year, charter school enrollment increased 13%, while traditional public school enrollment is down 4% across states where we maintain charter school ratings.

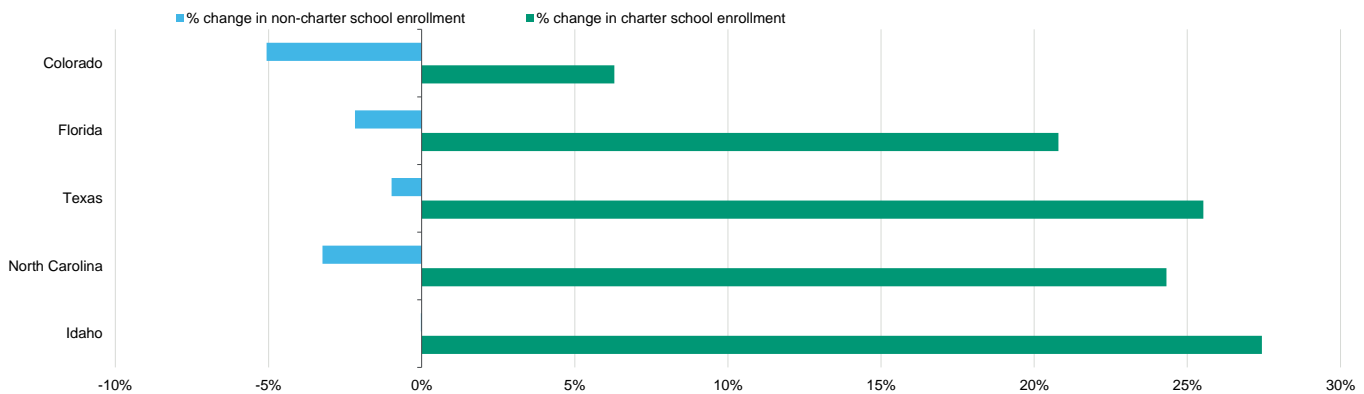
Enrollment trends serve as a barometer for the charter school sector because their revenue largely consists of state per-pupil funding. Therefore, a positive enrollment trend not only signifies a growing demand for charter schools, but boosts the flow of revenue necessary for day-to-day operations and long-term development plans. In contrast, declining enrollment can result in revenue declines, compelling charter schools to reassess their programming to avoid financial strain. This can lead to cuts in programs, staff reduction or, in severe cases, closing schools.

The increase in charter school growth has not been even distributed across states. Idaho, Texas, North Carolina, and Florida have seen the largest increases in charter school enrollment at 27%, 26%, 24%, and 21%, respectively, since the 2019-2020 school year (see Exhibit 1). These states continue to implement policies that are supportive of charter schools, helping to drive enrollment growth. During the same period, traditional public school enrollment was down 3% in North Carolina, 2% in Florida, and 1% in Texas.

Exhibit 1

Charter school enrollment growth continues while traditional public school enrollment declines

Enrollment by state from the 2019-20 to the 2023-24 school year



Moody's maintains at least 10 charter school ratings in the states listed above.

Source: State departments of education, Moody's Ratings

These trends have resulted in a growth in charter school market share in these states. In Florida, charter school enrollment for the 2023-2024 school year accounted for 14% of total public school enrollment, up from 12% in the 2019-2020 school year. Charter school enrollment in Idaho for the 2023-2024 school year accounted for 10% of total public school enrollment, up from 8% in the 2019-2020 school year. In Texas, charter school enrollment accounted for 8% of total public school enrollment, up from 6% in the 2019-2020 school year.

The recent growth in charter school enrollment is attributable to the growing demand for additional educational options that allow parents and students to select schools that best meet their educational needs. Increasing support for charter schools at the state level has also helped to make them more accessible to a broader segment of the population. Enrollment growth can also be attributable to the flexibility of charter schools to manage the remote learning during the COVID-19 pandemic better than traditional public schools.

While the charter school enrollment trends since the 2019-2020 school year have been positive, [demographic pressures primarily from falling birth rates and the resulting decline in the school-age population in certain states will weigh on future K-12 enrollment trends.](#)

However, charter schools are well positioned to adapt to the increasing competitive environment for student enrollment because of their greater autonomy in staffing, curriculum, and budget decisions. This allows them to adapt quickly to the needs of their students and communities, an aspect that increases demand for charter school programs.

Endnotes

¹ States included in the enrollment analysis are Colorado, Florida, Texas, Idaho, North Carolina, Utah, California, Arizona, New York and Pennsylvania, i.e., states where we maintain at least 5 or more charter school ratings.

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