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S&P: After Passing The Test, California's School Districts Can Expect Credit Resilience To Continue.

Broadly measured, California has ranked among the nation's top-performing states throughout the past several years. Despite many difficult decisions–some particularly challenging for the state's school district's–the economic recovery from the Great Recession has helped strengthen the state's finances and correspondingly, made for a more stable fiscal environment for school districts throughout California.

With declining debt ratios, improved alignment between general fund revenues and expenditures, and with a budget reserve in place, the state is adequately positioned to accommodate a modest slowdown. Because state funding is critical to funding education throughout the state, credit quality in the kindergarten to 12th grade (K-12) and community college district sectors should remain stable or perhaps improve somewhat during the next two years, in our opinion. However, while the state's institutional advantages and fiscal condition are both important determinants of credit quality for school districts in the state, each district's individual economy, management, and finances provide essential context for determining creditworthiness.

Overview

- Prudent management encouraged by strong oversight helped California's school districts weather significant funding uncertainty during the Great Recession.
- Institutional advantages within the state help minimize effects of significant distress.
- Despite nascent indications of slowing growth, we believe the state's strong recent economic and budgetary performance will help the districts maintain credit quality.
- While state funding environment is important, key financial, management, and pension metrics are essential determinants of school district credit quality.

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