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Fitch Rtgs: Oakland Teachers Strike Vote Will Not Trigger Downgrade; Highlights Pressures.

Fitch Ratings-San Francisco-07 February 2019: Fitch Ratings does not expect to take rating action on the Oakland Unified School District's 'BBB+' Issuer Default Rating (IDR) based solely on the Oakland Education Association's (OEA) vote to authorize a strike as early as Feb. 15. The IDR, which already incorporates slow revenue growth and pressured budgets, assumes the district will maintain solid expenditure flexibility and adequate financial resilience throughout economic cycles, including at least a 2% reserve for economic uncertainties as required by the state.

The strike vote comes after months of negotiations, mediation and fact finding have failed to settle new agreements for contracts that expired June 30, 2017 and as the district is attempting to reduce ongoing expenditures by about \$30 million in fiscal 2020 (equal to about 7% of estimated fiscal 2020 expenditures). Fitch will incorporate the impact of any eventual agreement and other implications of the labor impasse on the district's ability to balance its fiscal 2020 and 2021 budgets and, more broadly, on its expenditure flexibility and expectations for operating performance over time.

OUSD's planned expenditure reductions would help accommodate cost increases associated with the final agreement. The district had offered a 5% pay increases over three years which OEA rejected. OEA is seeking a 12% pay increase over three years. The district estimates each 1% salary increase costs about \$1.9 million per year for teachers and \$3.5 million per year for all employees.

Based on unaudited information, the district ended fiscal 2018 with a \$17.4 million unreserved fund balance, equal to 3.3% of spending, an improvement from the \$3 million, or 0.6% at the end of fiscal 2017.

Operating pressures do not affect the 'AAA' rating and Stable Outlook that Fitch maintains on the district's unlimited tax general obligation (GO) bonds, which are based on a dedicated tax analysis, without regard to the district's financial operations. The distinction between the 'AAA' ratings on the GO bonds and the 'BBB+' IDR reflects Fitch's assessment that the pledged special revenues for repayment of the GO bonds meet the definition of "pledged special revenues" under the U.S. Bankruptcy Code, and therefore bondholders are legally insulated from any operating risk of the district.

For more information on Fitch's analysis of the OUSD, see "Fitch Affirms Oakland USD, CA's GOs at 'AAA' and IDR at 'BBB+'; Stable Outlook," dated April 18, 2018.

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