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Fitch Ratings: California School Districts Brace for Budget Pressures

Fitch Ratings-San Francisco-01 October 2018: California school districts face a challenging budget environment when the next recession comes, though credit ratings should withstand said challenges according to Fitch Ratings in a new report.

Salaries and benefits make up about three-quarters of school general fund spending and many districts are already feeling the pressure to raise salaries due in part to California's high cost of living. Pension costs are also rising faster than expected revenue growth and will continue to do so at least through fiscal 2021. 'Declining enrollment experienced by some school districts will exacerbate the slowing of revenue growth and is only partially mitigated by the need for fewer teachers,' said Fitch Senior Director Karen Ribble.

How districts respond to current wage and pension pressures will heavily influence their options and ability to absorb revenue declines in future recessions. If districts are in a structural deficit spending position during economic expansion, gap-closing capacity is compromised. Conversely, if districts can maintain structural balance while contributing to reserves now, they will be better able to absorb the impact of revenue declines with less disruption to service levels and financial flexibility.

Consolidating schools is often a good cost-cutting option for districts with budgetary pressures stemming from declining enrollment. However, districts facing competition from charter or private schools make closing neighborhood schools counterproductive and exacerbate the enrollment problem as cutbacks can result in lower enrollment, which further reduces funding. These districts are likely to be particularly challenged during a downturn.

That said, Fitch expects the vast majority of its rated California school districts will keep their ratings intact through a downturn because it has already factored these forward-looking scenarios into its ratings.

'How Will California School Districts Fare During the Next Recession?' is available at 'www.fitchratings.com'

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