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Fitch Ratings: Teacher Labor Actions Hamper Spending Flexibility

Fitch Ratings-New York-24 January 2019: Recent and ongoing labor actions by teachers in California, Colorado and Illinois highlight the challenges facing school districts in maintaining flexibility over their most significant expenditure, says Fitch Ratings. Material erosion of spending flexibility caused by protracted labor disputes can affect a school district's credit profile.

A six-day strike by teachers in the Los Angeles Unified School District (LAUSD) ended on Tuesday with an agreement that appears to be a compromise between the district's offer and the union's demands. The terms of the contract have yet to be clarified but once they are, we will evaluate whether they have a meaningful negative impact on the district's already limited expenditure flexibility. Fitch's Issuer Default Rating (IDR) on LAUSD is 'A' with a Negative Rating Outlook.

Oakland Unified School District's teachers' union has also been gearing up for a potential strike. The district and its teachers are in a fact-finding stage that is expected to conclude at the end of the month. Teachers are then expected to vote on whether to authorize a strike rather than accept the recommendations of a neutral fact-finding panel, as did teachers in Los Angeles.

Recent 'sick outs' by teachers in Oakland highlight a trend for labor, with or without the backing of unions, to challenge management. The sick outs, in which a subset of teachers participated, were not sanctioned by the union. As in Los Angeles, teachers in Oakland are demanding both increased pay and additional personnel to reduce class sizes and increase support services. This is despite the district's announcement that it intends to cut $30 million in the fiscal 2020 budget. The district's 'BBB+'/Stable IDR reflects solid spending flexibility but only adequate gap-closing capacity owing to a lack of control of revenues and limited financial reserves.

Teachers at Denver School District No. 1, known as Denver Public Schools (DPS), have voted to strike after negotiating with the district for over a year. DPS' teachers are seeking pay hikes above the amount the district is offering and changes to the district's incentive compensation system. The district and union leaders are reportedly seeking the state's intervention in resolving the strike. While state intervention could help resolve the impasse, we believe it would reduce the district's control over the outcome. Fitch's IDR of 'AA'/Stable reflects the district's very strong gap-closing capacity, including solid expenditure flexibility and sound reserves.

Unionized teachers at four Chicago charter schools affiliated with Chicago International Charter School and managed by Civitas Education Partners announced last week that they plan to strike on Feb. 5 if no agreement with management is reached. This would follow the first-ever charter school teacher strike, a four-day strike by teachers at the Acero charter school network in December that resulted in increased pay and smaller class sizes. Fitch does not rate any of the schools threatening to strike.

Unionized charter school teachers are unusual. A study by the National Alliance of Public Charter Schools indicates that 11% of charter school teachers were bound by collective bargaining

agreements in the 2016-2017 school year.

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