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Fitch: US Public School Districts Face Heightened Labor Cost Pressures

Fitch Ratings-New York/Chicago-14 June 2022: US public school districts are facing heightened labor cost pressures due to wage inflation, pre-existing staff shortages exacerbated by the pandemic and a tight post-pandemic labor market, Fitch Ratings says. Nationwide teacher and other school staffing challenges will continue to compel districts to make salaries more competitive to attract and retain staff.

K-12 public school funding has trended downward over the past several decades, reflecting limited funding increases during economic expansions and budget cuts during economic downturns. However, the sector's credit quality remains strong given state funding mandates and budgetary flexibility tied to enrollment trends. The CARES Act and American Rescue Plan Act provided approximately $192.5 billion in direct aid to public and private schools, in addition to $350 billion in State and Local Fiscal Relief Funds, which state and local governments can use for a variety of purposes.

Application of federal funds to ongoing expenses, such as salaries, will need to be supported through long-term funding plans and recurring revenues to maintain structural balance. Lower rated districts, which often have weaker revenue growth and lower financial reserves, may be more constrained in managing rising expense pressures. Higher rated districts generally have healthier financial cushions to temporarily absorb increases in costs without meaningfully affecting ratings.

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