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S&P U.S. Local Governments Credit Brief: California School Districts Means And Medians

Overview

S&P Global Ratings believes that California school districts' credit quality will remain relatively stable, supported by a favorable state funding environment and the receipt of one-time stimulus resources as districts mitigate challenges arising from broad school-aged demographic declines that the pandemic has exacerbated. We expect this trend to continue in the medium term, but districts in the state face more-difficult budgetary tradeoffs as they expend their remaining Elementary and Secondary School Emergency Relief (ESSER) funding and begin to experience the financial impact of continued enrollment declines. In fiscal 2023, the state made upward adjustments to its per pupil equalization formula applicable to most districts. Districts can use the average daily attendance (ADA) of the current year, prior year, or the average of the three most recent years, whichever is highest, to determine operating revenue under the state funding formula, but we think that the revenue effects and operational and asset management complexities of declining local student populations will continue to challenge the budgets of many districts for the long term. Accordingly, we also are seeing a surge in compensation increases to an extent that affects districts' bottom lines, as bargaining groups make the case for addressing broad-based inflation, the state's comparatively high housing costs, and a limited pipeline of qualified teachers.

S&P Global Ratings maintains ratings on 688 school districts in California, including school facilities improvement districts. Fifty-five percent of California school districts are in the 'A' category, 44% are in the 'AA' category or above, and fewer than 1% are in the 'BBB' category or lower. In addition, 99% of the ratings have a stable outlook. Four school district ratings have a positive outlook, while two have a negative outlook.

Continue reading.

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