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S&P: Can Washington School Districts Turn The Tide Against Rising Costs And Credit Pressure As Pandemic-Era Funding Ends?

As one-time, pandemic-era stimulus funding rolls off the books, S&P Global Ratings believes Washington school districts face increased rating pressure from rising operating costs, declining enrollment that negatively affects operating revenue, and thinner operating reserves compared to their national peers. If these trends continue without plans to offset them, we expect Washington school districts will exhibit increased rating volatility during the next two years.

Key Takeaways

- Washington school district funding is based on full-time-equivalent enrollment, meaning declining enrollment often translates into increased revenue volatility.
- Operating expenditures have outpaced revenue growth, forcing districts to choose between short-term fiscal stability and service cuts.
- The state recently raised its per-pupil revenue cap for voter-approved local levies, potentially providing relief for districts whose levies were limited under the previous rules.
- Unlike their national peers that used the infusion of one-time stimulus aid to build stronger financial cushions, available reserves for Washington school districts have remained relatively flat, a notable deviation from the national credit trend.
- Given their lower reserves, we view these districts as having less operating flexibility as they face dual budget stressors in the form of rising costs and potentially increased revenue volatility.

Continue reading.

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