THE BOND BUYER

San Francisco school district gets issuer default rating cut by Fitch

By

Keeley Webster

Published

January 25, 2021, 1:57 p.m. EST

San Francisco Unified School District's Fitch Ratings issuer default rating was downgraded to A-plus from AA-minus, because its modest reserves might not be enough to ride out a time of considerable fiscal and economic headwinds.

The school district, which serves 57,000 students, anticipates deficits totaling $169 million over the next two years and reopening costs of $38 million, according to a December school board report.

An aerial view of San Francisco, where the public school district faces budget turbulence. ***Bloomberg News***

The outlook on the IDR is negative, Fitch said, reflecting the district's ongoing challenge of rebalancing the district's budget in the face of pandemic-related re-opening costs. The district expects it will cost $38 million to do the deep cleaning required before students can return to school, according to its fiscal report.

The district retained AAA Fitch ratings for its $180 million Series A general obligation bonds and $53.9 million 2017 refunding bonds sold competitively in 2017, under Fitch's double-barreled rating method it adopted a year earlier.

Fitch began drawing a distinction between issuer ratings and unlimited tax general obligation bond ratings for California school districts in 2016. It issues a rating based on its "special revenues," distinction and another based on operational risks. The funds for GO debt service, paid with a voter-approved property tax, do not flow through the district's operational budget.

"Its current reserves and structural budget deficit suggest that its budgets could become stressed if the district encountered a period of weakness in state funding," Fitch analysts wrote Friday.

Both Moody's Investors Service and S&P Global Ratings revised their outlooks on the school district to negative in August when the school district issued $280 million in new money GOs to fund capital projects and executed a $166 million refunding for interest rate savings.

Moody's rates the school district Aa2, while S&P rates it AA.

The district shares in the city government's rainy day reserves, but has been using that and other one-time monies to fund salary increases as revenues collected under a 2018 parcel tax measure have been locked in a lawsuit, Moody's analysts wrote in an Aug. 11 report.

The negative outlook reflects the expected narrowing of the district's financial position, including its share of the city's Rainy Day Reserve, absent ongoing revenue growth and/or prompt expenditure cuts, Moody's wrote.

While the district has a low debt burden, an extraordinary economic resource base and strong community financial support, Fitch believes that is not enough to support the district at the higher rating.

The school district had $898.7 million in outstanding GO debt, according to its most recent comprehensive annual financial reports for the fiscal year ended June 30, 2019.

"The AAA unlimited tax GO bond rating is based on a dedicated tax analysis as well as a legal structure of the bonds that Fitch views as sufficiently strong to warrant a rating of up to five notches above the district's IDR," Fitch analysts wrote. "Fitch has been provided with legal opinions by district counsel that provide a reasonable basis for concluding that the tax revenues levied to repay the bonds would be considered ‘pledged special revenues’ in the event of a district bankruptcy.”

Keeley Webster