SESSION ONE

Magnitude of the Fiscal Storm: Potential Effects and the Agencies Impacted

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Assembly Bill 218

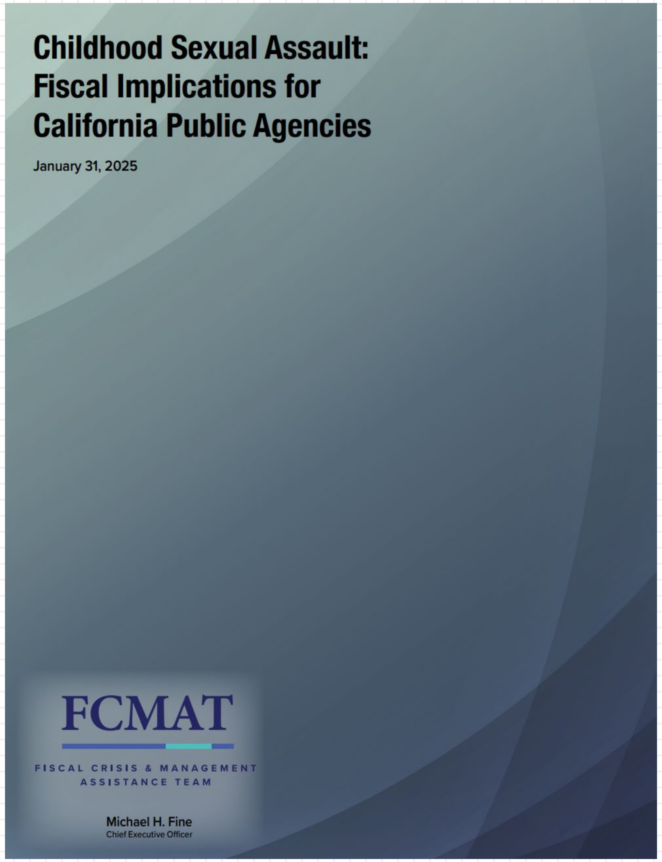
- Assembly Bill 218 (Chapter 861, Statutes of 2019) eliminated many claim prerequisites and increased or effectively eliminated the statute of limitation periods for claims of childhood sexual assault against public entities. It increased public agencies' liability exposure by:
  - Extending the statute of limitation periods for claims of childhood sexual assault.
  - Reviving certain claims for which the statute of limitations period had otherwise expired, if brought by December 31, 2022. The legislation retroactively increased the time limit for beginning an action to recover damages suffered as a result of childhood sexual assault to 22 years from the date the plaintiff attains the age of majority, or within five years of the date the plaintiff discovers or reasonably should have discovered that the psychological injury or illness occurring after the age of majority was caused by sexual assault, whichever is later.

Assembly Bill 452

- Assembly Bill 452 (Chapter 655, Statutes of 2023) eliminated timelines for the commencement of actions for the recovery of damages suffered as a result of childhood sexual assault.
  - Applies to any claim in which the assault occurred on or after January 1, 2024.

FCMAT Report on Fiscal Implications

- Budget Trailer Bill required the Fiscal Crisis and Management Assistance Team (FCMAT) to provide recommendations to the Legislature and the Department of Finance regarding new, existing, or strengthened funding and financing mechanisms to finance judgments or settlements arising from claims of childhood sexual assault against local agencies.
- The best estimate of the dollar value of claims brought to date is $2–$3 billion for local educational agencies. Other local public agencies’ costs will exceed that value by a multiplier.



Local Impact

- Local impacts vary widely depending on whether the claim is insured, underinsured, or not insured.
- Whether faced with a claim or not, all public agencies are being affected by significant increases in liability insurance premiums, availability of insurance, exclusions or aggregates applied to insurance coverage, special assessments, or retroactive premiums.
- Public agencies' programs and services will be affected by the depletion/replenishing of reserves, coverage cost increases, self-insured retentions, and other claim costs that are competing for other funding priorities.

Local Impact (cont. 2 of 2)

- One of the 25 largest school districts had a jury judgment of $135 million for two of six victims; the jury apportioned 90% responsibility to the district. Ultimately, a post-award settlement of $45 million was agreed to in exchange for a lump sum payment. Insurance coverage was limited to $14 million, leaving $31 million plus legal fees to be paid by the district from reserves.
- One 350-student school district had an estimated greater than $20 million risk from three victims, with no effective insurance coverage. The district settled with each victim pre-trial for approximately $9 million in total. The district will pay a lump sum settlement from reserves in their general and capital projects funds, depleting unrestricted reserves by more than 50%.

FCMAT Report Recommendation Themes

- The report contains 22 recommendations across four themes.
  - **Data:** Knowing more about the volume and nature of the claims requires establishing a statewide data repository with common definitions and classifications.
  - **Financing:** Timing within the judicial process is important as it facilitates the mechanics of the funding options. Funding options are identified so that local educational agencies may pay their obligations and continue to instruct students and serve their community.
  - **Victims' Compensation Fund:** Provide an alternative to the time-consuming and complex judicial system for victims to seek redress.
  - **Prevention:** Assaults on children must stop, and we should do everything reasonable within our authority to prevent them.

FCMAT's Report Includes…

- A road map on how to finance indebtedness created by settlements and judgments resulting from uninsured or underinsured causes of action.
- Acknowledgment that public agency indebtedness is nuanced, and the report addresses challenges of time, judicial validation, and constitutional debt limits.
- Reviews the special constitutional protections afforded school districts and community colleges experiencing insolvency.

FCMAT's Report Does Not Include…

- A limit on the rights of childhood sexual assault survivors or their remedies from public agencies.
- Abandoning or otherwise discharging the obligations of those our judicial system holds responsible for injuries to children.
- Suggested amendments to the revival statute.
- Tort limits or recommendations for other far-reaching tort reforms.
- An ask of the state to appropriate funds.
  - Although some enhanced prevention measures could result in mandated cost reimbursement considerations.

Financing Recommendations

- Recommendations number 3 through number 6 are specific to timing within the judicial process:
  - Amend Government Code 970.6 to provide for the determination of unreasonable hardship by the local governing body using established standards.
  - Amend Government Code 970.6 to provide a sliding scale of time for repayment based on the judgment amount, plus interest.
  - Extend the payment due date to 150 days from when a judgment is entered by the court for judgments that are greater than 50% of the local agency’s unrestricted reserves.
  - Clarify that a Code of Civil Procedure 860 validation proceeding may be brought by a public agency before tort action judgments are entered against the public agency.

Financing Recommendations (cont. 2 of 3)

- Recommendations number 7 through number 11 are specific to funding options:
  - Consider a limited exception to the prohibition on the use of lease financing proceeds for general operating purposes in Education Code (EC) 17456 for situations where an otherwise financially stable school district is faced with an extraordinary liability.
  - Extend state and local payment intercept mechanisms to public financings by local public agencies rather than limit the mechanisms to the California School Finance Authority.
  - Expand or direct an appropriate role for the state's Infrastructure and Economic Development Bank in financing childhood sexual assault settlements and judgments.

Financing Recommendations (cont. 3 of 3)

- Adopt an alternative receivership statute for school districts requesting emergency apportionments solely due to childhood sexual assault obligations.
- Extend the maximum repayment term of 20 years for emergency apportionments when the loan amount is significantly higher than the school district's ability to pay and based on analysis performed and disclosed during the process leading to an emergency apportionment.

Initial Legislative Response

- **Senate Bill 848 (Perez):** Addresses all the prevention recommendations. (Signed by the governor on October 7, as Chapter 460 / Statutes of 2025)
  - **Assembly Bill 1233 (Hoover):** Addresses one of the prevention recommendations (expansion of work history reporting and inquiry). (Abandoned)
- **Senate Bill 832 (Allen):** Addresses three of the financing recommendations (validation, repayment terms on emergency apportionments, intercept mechanisms). (Abandoned)
- **Senate Bill 577 (Laird):** Addresses one of the financing recommendations (validation) and two tort-related topics outside of the FCMAT recommendations. (Withdrawn from Assembly Floor, potential two-year bill.)

Initial Legislative Success

- Dramatically increased awareness of the magnitude of the issue facing public agencies.
  - Awareness is further increased as cases are adjudicated and claims paid.
- Senate Bill 848's provisions begin to close gaps in state policy by addressing local education agency safeguards to prevent offenses going forward. This is a moral imperative and also begins to address AB 452's elimination of the statute of limitations.
  - May model improved practices for other public agencies as well.
- Requirement for local education agencies to report AB 218-related claim costs and premiums using a unique identifier within their account structure.

MOODY'S RATINGS

California Debt and Investment Advisory Commission

November 3, 2025

Agenda

1 **Credit impact of AB 218**

2 **Positioning of CA local governments**

3 **Q&A**

MOODY'S RATINGS

Credit impact of AB 218

Potential credit impacts of AB 218

To date, no rating actions have been taken as a direct result of AB 218

→ Local governments are generally highly rated with growing economies and strong management

→ Reserve and liquidity levels are especially strong for CA school districts and cities relative to peers

→ Have the ability to issue judgment obligation bonds to pay settlement amounts over time

AB 218 settlements will remain an ongoing risk

→ AB 218 opened a 14-year window for plaintiffs and AB 452 ensures that future claims will be possible

→ Increased awareness makes childhood sexual assault cases likely to be an ongoing issue

→ Lack of state database and uneven disclosure practices increase uncertainty

May compound financial challenges already facing local governments

→ CA local governments are grappling with incremental population growth and low birthrates

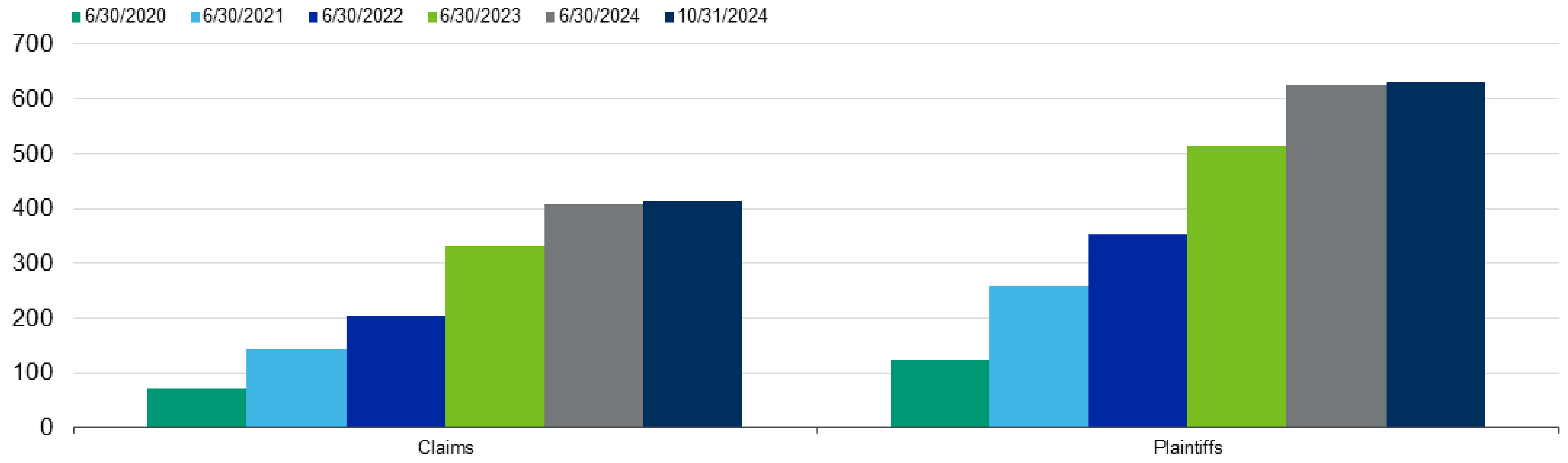
→ State aid and sales tax increases have also diminished

→ Settlements and insurance costs compete with other operating needs. Financings add to fixed costs.

Claims for childhood sexual assault have escalated

Schools Excess Liability Fund data suggest pace of new claims may be slowing

Around half of the 412 claims have been settled



Source: Schools Excess Liability Fund 2024 annual report

Significant Settlements

Los Angeles County (Aa1 stable issuer rating)

→ Faces $4 billion in settlements for more than 6,800 initial claims; will now pay $828 million more

→ Plans to issue judgment obligation bonds to finance a portion of these settlements

Los Angeles Unified School District (Aa2 stable GOULT rating)

→ Issued $308 million in judgment obligation bonds (JOBs)

→ $500 million in authorized JOBs

→ Estimate total exposure around $650 million

City of Santa Monica (Aaa negative issuer rating)

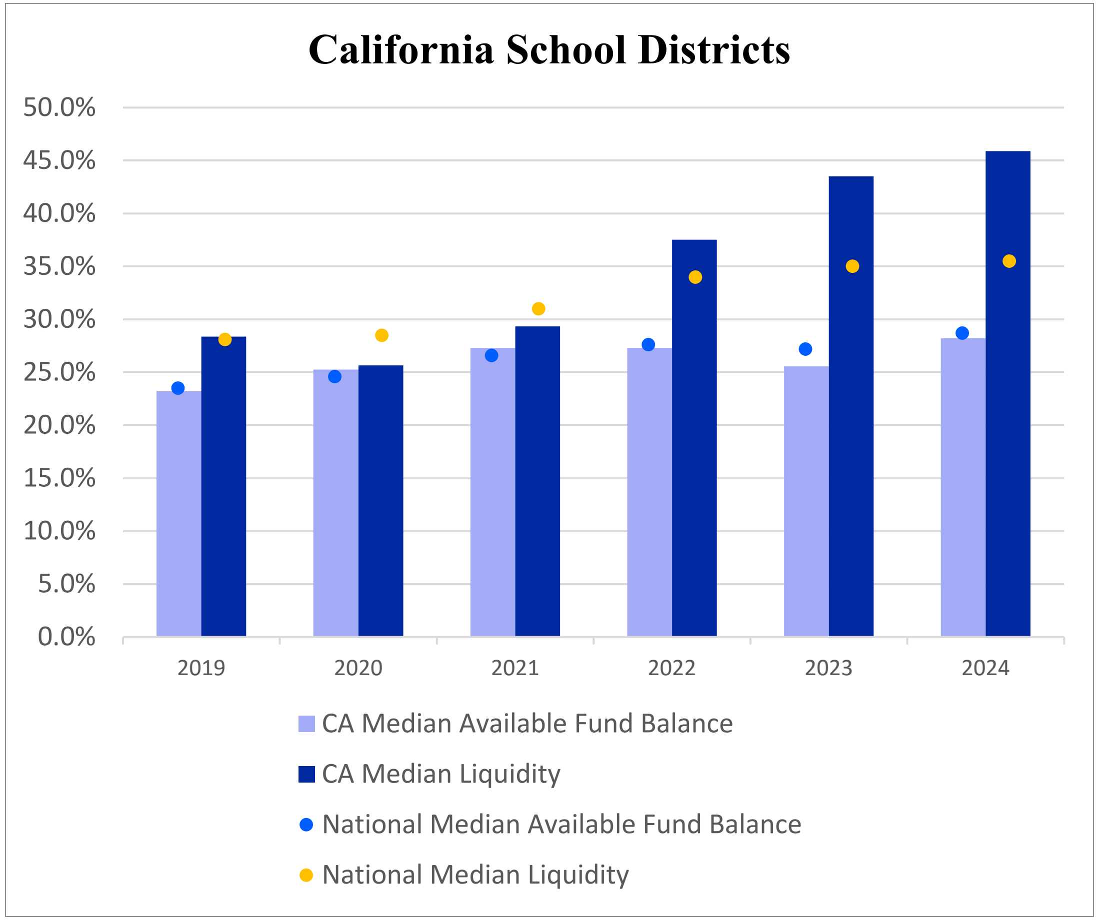
→ Has settled with 229 individuals for approximately $229 million

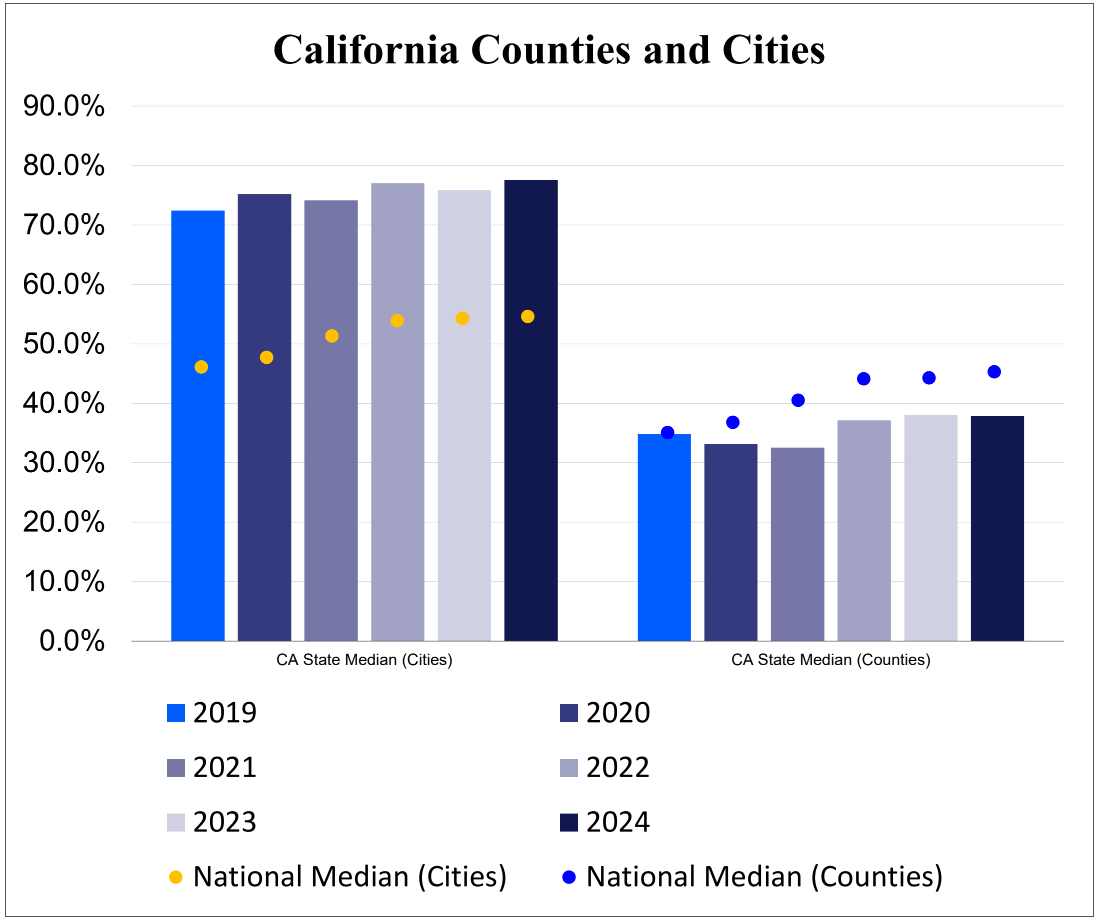
→ Has relied on liability self-insurance funds, general fund savings set aside from prior years, and $52 million in interfund borrowing to pay settlements. Faces around 180 additional claimants

→ Negative outlook incorporates overall budgetary stress; not solely AB 218 liabilities

Positioning of CA Local Governments

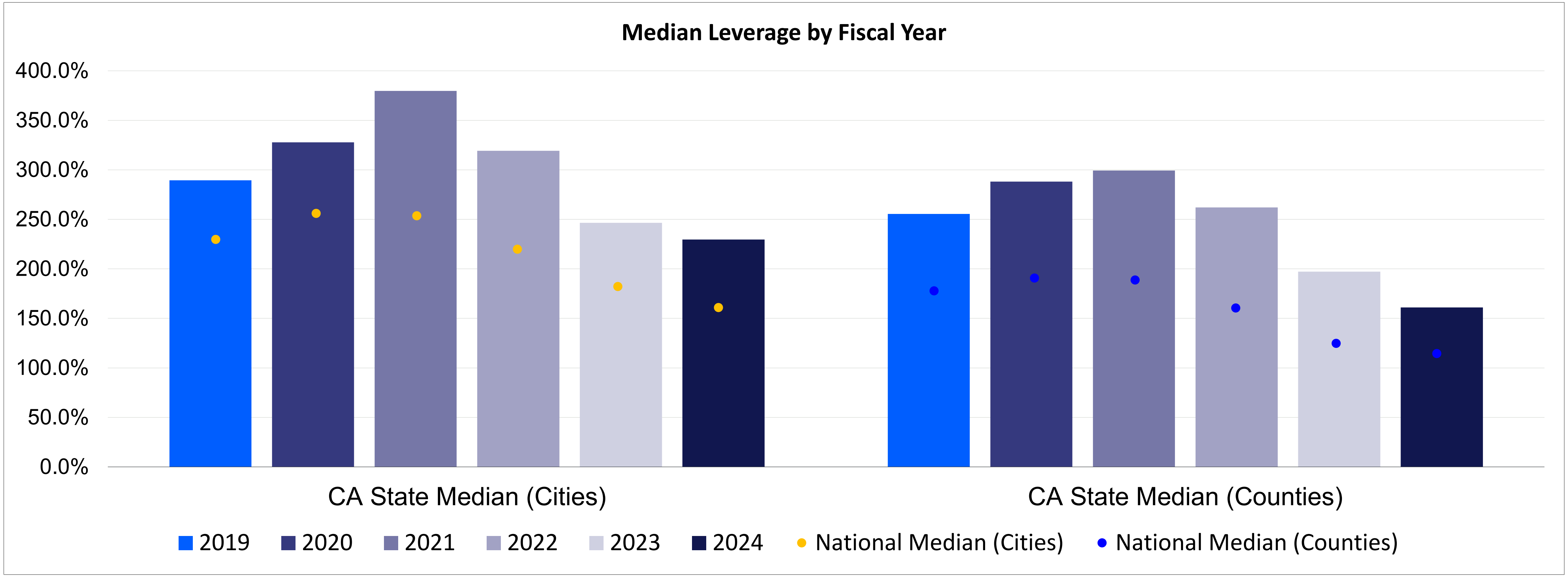
CA local governments will leverage reserves and liquidity to mitigate upcoming challenges





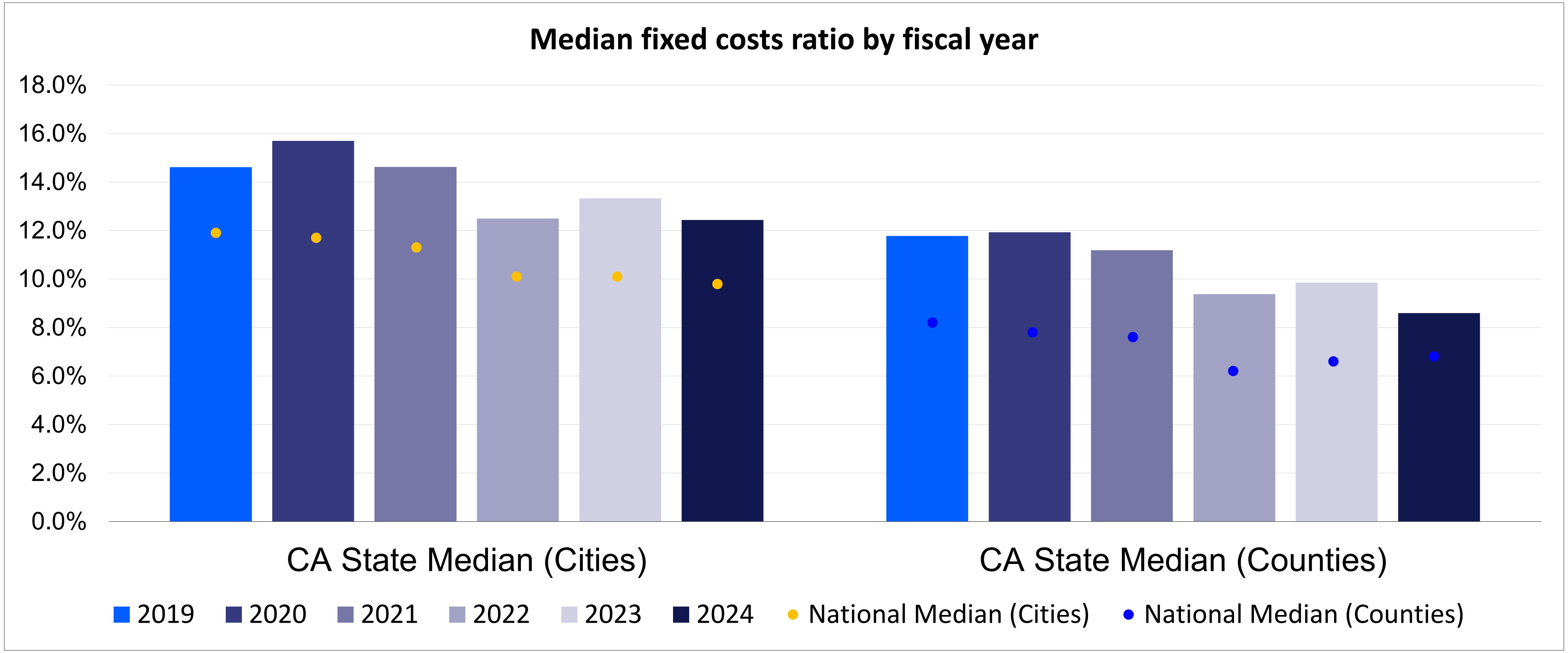
Source: Moody's Ratings and audited financial statements

Leverage ratios in CA exceed medians driven by pensions



Source: Audited financial statements and Moody's Ratings

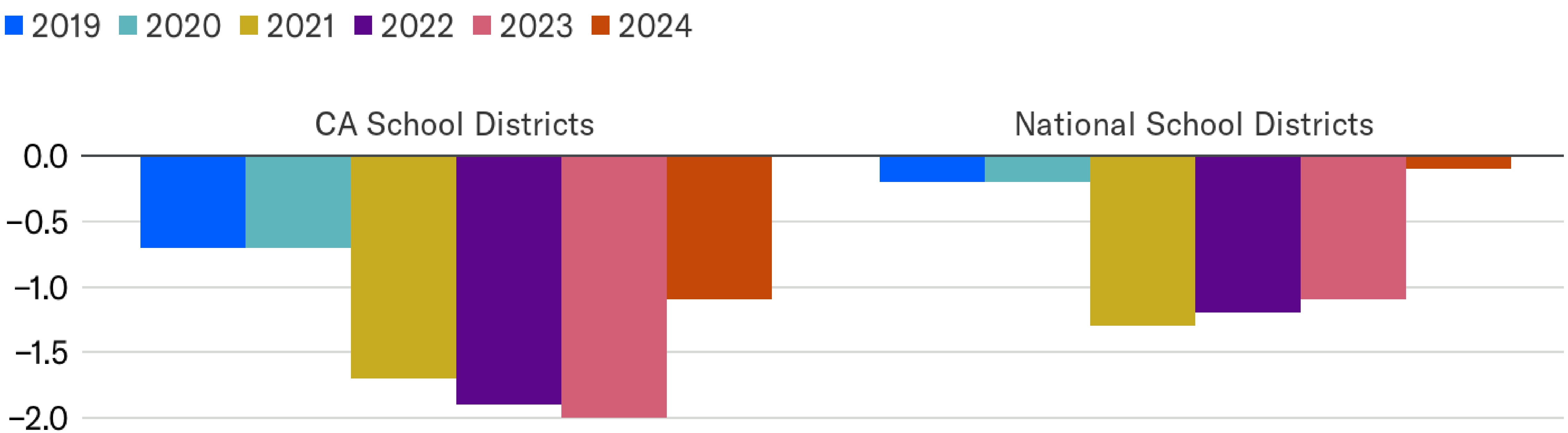
Fixed costs are also higher than peers but remain under 15%



Source: Audited financial statements and Moody's Ratings

Most CA school districts face declining enrollment

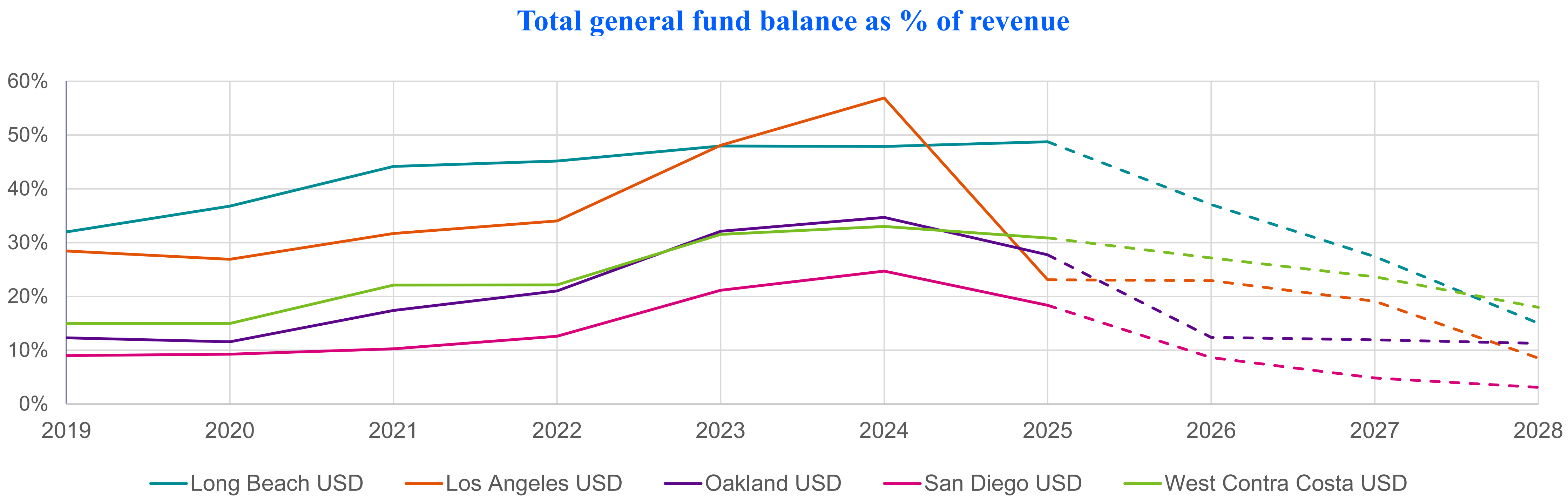
Low birthrates and high housing costs drive losses that exceed national figures



Source: Moody's Ratings and CDE

Large school districts in CA project declining balances

Forward projections allow time for budget adjustments



Source: Fiscal 2026 budgets and Moody's Ratings

MOODY'S
RATINGS

California credits remain very sound

In the second quarter of 2025, downgrades exceeded upgrades nationally for the first time since 2020

- → 128 downgrades compared with 75 upgrades
- → Of the downgrades, 50 were linked to the downgrade of the US sovereign rating to Aa1 stable from Aaa negative
- → Local governments upgrades and downgrades were around a 50/50 split
- → Nationally, 38 school districts were downgraded versus 26 upgrades

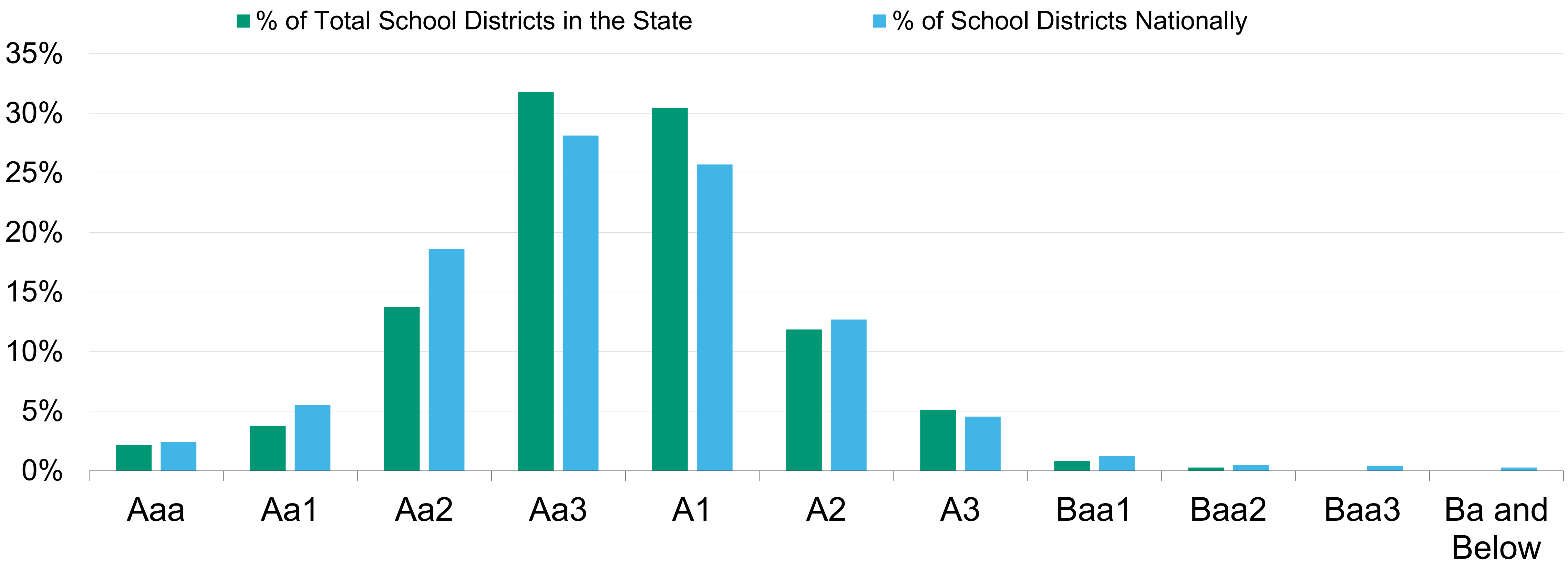
CA followed trend but with greater stability for school districts

- → There were 8 downgrades versus 5 upgrades
- → 4 of the downgrades were school districts
- → All of the 5 upgrades were school districts

Appendix

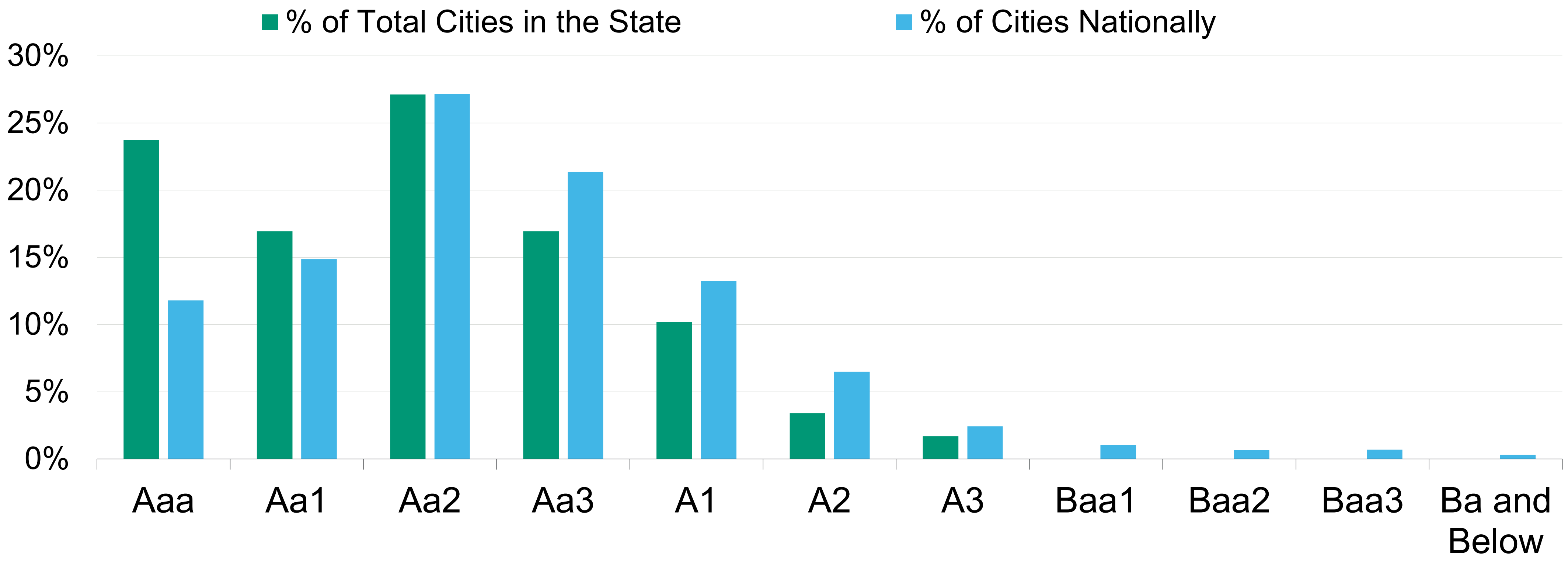
CA school districts remain highly rated

Slightly fewer in the highest rating categories



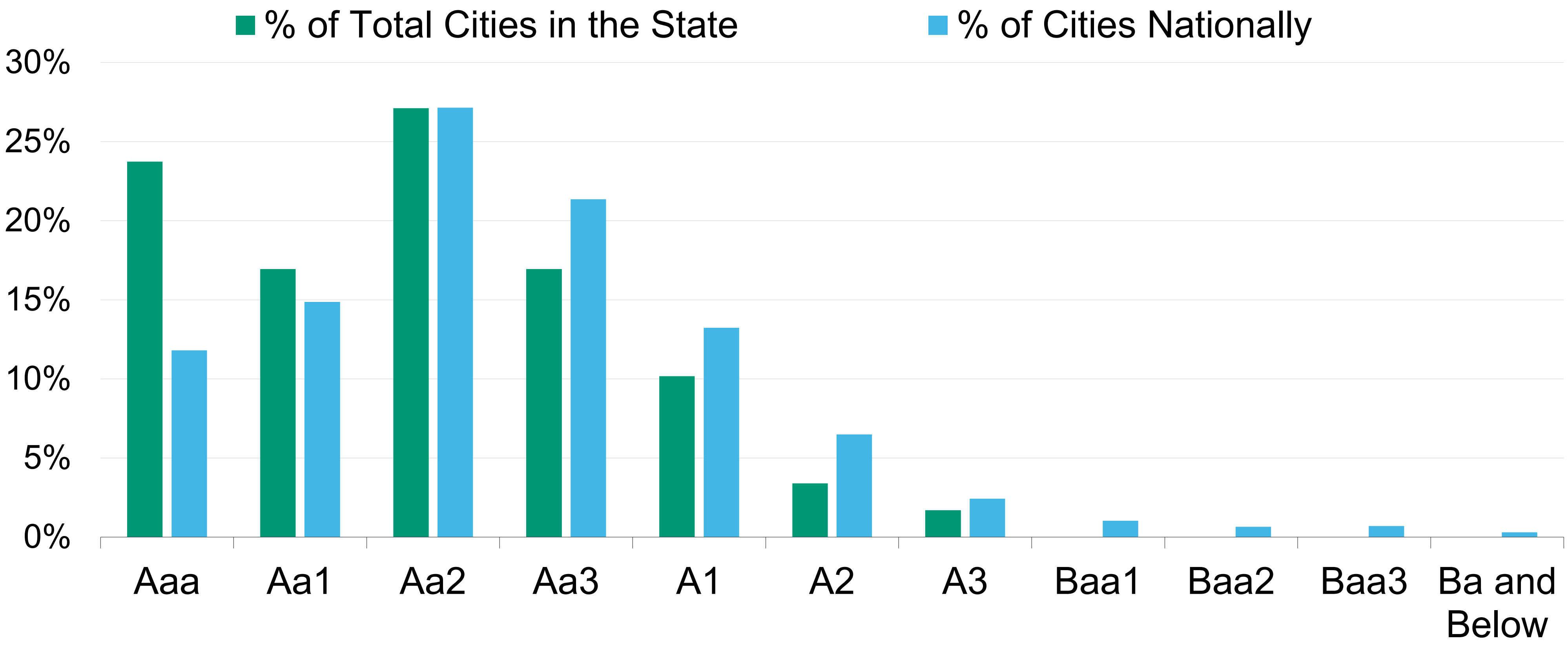
Source: Moody's Ratings

City ratings compare favorably with national distribution



sSource: Moody's Ratings

CA counties are also highly rated compared with national ratings



Source: Moody's Ratings

Thank you

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QUESTIONS

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