S&P Global
Ratings

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Summary:

San Felipe Del Rio Consolidated Independent School District, Texas; School State Program

Primary Credit Analyst:
Joyce Jung, Centennial 303) 721 4189; joyce.jung@spglobal.com

Secondary Contact:
Katelyn A Batesel, Centennial (303) 721-4683; katelyn.batesel@spglobal.com

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Credit Profile		
US$5.21 mil unltd tax rfdg bnds ser 2017 dtd 05/01/2017 due 08/15/2031		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
San Felipe Del Rio Cons Indpt Sch Dist PSF/CRS		
Underlying Rating for Credit Program	A+/Stable	Affirmed
Long Term Rating	AAA/Stable	Current

Rationale

S&P Global Ratings assigned its 'AAA' program rating and 'A+' underlying rating to San Felipe Del Rio Consolidated Independent School District (ISD), Texas' series 2017 unlimited-tax school refunding bonds. At the same time, we affirmed our 'A+' underlying rating on the district's existing unlimited-tax bonds. The outlook is stable.

The 'AAA' enhanced program rating reflects our view of the ISD's eligibility for, and participation in, the Texas Permanent School Fund (PSF) bond guarantee program, which provides the security of a permanent fund of assets the district can use to meet debt service on bonds guaranteed by the program.

The series 2017 bonds are payable from an unlimited ad- valorem tax levied on all taxable property in the district. Bond proceeds will be used to refund a portion of the district's existing debt for interest savings.

The underlying rating reflects our opinion of the district's general creditworthiness, including its:

- Limited but stable tax base centered on the government and retail sectors,
- Maintenance of very strong reserves, and
- Moderate debt per capita with faster-than-average amortization.

The preceding credit factors are partially offset by the district's:

- Adequate median household effective buying income and low wealth per capita, and
- Moderately high overall net debt burden.

Economy

San Felipe Del Rio Consolidated ISD serves an estimated population of 49,068. Median household and per capita effective buying incomes in the district are adequate at 84% and 66% of the national level, respectively. At $34,180 per capita, the fiscal 2017 market value totaling $1.68 billion is, in our opinion, low. Net taxable assessed value (AV) grew by a total of 15.8% since fiscal 2015 to $1.68 billion in fiscal 2017. The 10 largest taxpayers make up an estimated 11.5% of net taxable AV value, which we consider very diverse.

The district is located 150 miles southwest of San Antonio in Val Verde County on the U.S.-Mexico border. The district is primarily a bedroom community, with the residential values representing approximately 53% of fiscal 2017 AV, followed by commercial values at approximately 20% of fiscal 2017 AV. The district's local employment base centers on the government sector; Laughlin Air Force Base, which employs an estimated 3,420 people, is the district's leading employer, followed by a number of federal agencies (2,063) and the school district (1,394). A significant part of the local economy is the "maquiladora," or twin plant, industry, in which manufacturing operations on each side of a border take advantage of free trade allowed between the two countries. Del Rio and Acuna, Mexico, are home to 40 twin plants, including plants for companies such as Oster, Firestone, General Electric Co., and Johnson & Johnson.

The district's tax base has been relatively stable, but increased by a larger-than-average percentage in fiscal 2017. Officials attribute the 6.7% tax base increase to property reappraisals. While district officials expect a stable tax base for fiscal 2018, they expect a material tax base increase ($200 million, or approximately 12% increase) in fiscal 2019 due to a new wind farm, Rocksprings Val Verde Wind Project. The district does not have a chapter 313 agreement with the wind farm; therefore, the district is able to levy full valuation for operations and maintenance tax.

Finances

A wealth equalization formula, based on property values and average daily attendance (ADA; property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in ADA (enrollment) can lead to increases or decreases, respectively, in the amount of state revenue a district receives.

The district operates 12 facilities: eight elementary schools, two middle schools, and two high schools. Enrollment has been stable over the past several years, and officials expect the enrollment to remain stable, with small annual growth of 0.5% to 1.0% the next two years.

Including the committed fund balance, which could be unassigned with the board approval, the district's available fund balance of $42.4 million is very strong in our view, at 43.7% of general fund expenditures at fiscal year-end (Aug. 31) 2016. The district reported a deficit operating result of 9.3% of expenditures in fiscal 2016. For fiscal 2016, the district's main source of revenue was state revenues (73%), followed by local revenues (19%).

Through continuous operating surpluses, the district in fiscal 2014 increased the available reserves to $53.7 million, or 73% of operating expenditures: $27.4 million committed fund balance for construction and $26.3 million unassigned fund balance. Given the high reserve level, the board approved multiyear capital projects to renovate existing facilities. As such, the district reported two consecutive deficits in fiscals 2015 and 2016. For fiscal 2016, the district's one-time capital expenditure accounted for 14% of operating expenditure, or $13.7 million, and other expenditures remained relatively stable. Officials plan to fund the capital projects with available reserves through fiscal 2018 and anticipate drawing down approximately $8.5 million in fiscal 2017 and $8.0 million in fiscal 2018. Despite these planned drawdowns, we expect the district's available reserves to remain very strong, at approximately $25.9 million, or 25% of operating expenditures.

Due to the unsuccessful bond election in May 2017, the district is currently formulating a plan to fund additional capital projects. The district approached the voters with a $60 million bond authorization for two elementary school constructions and various renovations of existing facilities. While the district intends to issue maintenance tax notes and qualified zone academy bonds (QZABs) to fund most of the projects, it may further draw down the available reserves. However, the district intends to maintain very strong reserves and meet its informal reserve target of maintaining at least three months of operating expenditures.

The current total property tax rate of $1.16 per $100 of AV includes a $1.04 maintenance and operations levy and 12 cents for debt service. The district intends to maintain the current tax rate for the next two years.

We consider the district's management practices standard under our Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Management uses three to four years of historical data to formulate revenue and expenditure projections and also uses a demographic study to estimate future enrollment trends. The district amends the budget as needed and provides monthly budget-to-actual reports to the board. The district also has a formal investment policy and provides earnings and holdings reports to the board on a quarterly basis. The district has an informal reserve target to maintain three months of operating expenditure. The district currently lacks a formalized long-term financial plan, a long-term capital plan, and a debt management policy.

Debt

Overall net debt is moderately high, in our opinion, as a percentage of market value at 8.2%, but moderate on a per capita basis at $2,796. Amortization is fairly rapid, with 75% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 3.9% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider low.

The district's total debt comprises $40.2 million in direct debt and $115.8 million in overlapping debt. Overlapping debt accounts for 85% of the district's total debt, and most of the overlapping debt is issued by the city of Del Rio. The district's direct debt accounts for 1.3% of fiscal 2017 AV, and the district's overall debt burden is inflated by the overlapping debt. Although the district does not have authorized bonds, it intends to issue maintenance tax notes and QZABs within the next two years. Depending on the tax base growth and the additional issuance amount, the district's debt burden could potentially increase to level we consider high. The district does not have privately placed debt or variable-rate debt at this time.

Pension and other postemployment benefit (OPEB) liabilities

In fiscal 2016, the district contributed its annual required contribution of $1.98 million, or 1.6% of total governmental expenditures, toward its pension obligations. The district also contributed $327,000, or 0.3% of total governmental expenditures, toward its OPEB obligations in fiscal 2016. Combined pension and OPEB carrying charges totaled 1.9% of total governmental fund expenditures in fiscal 2016.

The district provides pension and retiree health care benefits to eligible employees by participating in the Texas Teachers' Retirement System (TRS) and TRS-Care, respectively. A combination of state aid, private grants, and employee contributions covers the district's required contribution in its entirety. As per Government Accounting Standards Board (GASB) 68 standards, employers with benefits administered through cost-sharing, multiemployer pension plans such as TRS must report their its proportionate share of the net pension liability. The district's proportion of the net TRS liability as of the most recent actuarial valuation (Aug. 31, 2015) was $22.8 million. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 78.43%.

Given the low pension and OPEB carrying charges, largely attributed to the special funding situation whereby the state picks up the majority of annual benefit costs, we do not expect postemployment benefit expenses to pressure the district's finances.

Outlook

The stable outlook on the long term rating reflects our opinion of the Texas PSF's strength and liquidity.

The stable outlook on the underlying rating reflects our opinion that the district will maintain very strong reserves and manage its future debt issuance to maintain the moderately high debt burden as a percentage of market value. We do not anticipate changing the rating within the two-year outlook horizon.

Downside scenario

We could lower the rating if the district's debt outpaces the tax base growth or if the district's finances materially weaken to a level we no longer consider very strong.

Upside scenario

We could raise the rating if the district's local economy significantly expands, increasing the wealth and income metrics to levels comparable to those of its higher-rated peers, and if the district's overall debt burden decreases.