FITCH RATES COLLEGE STATION ISD, TX ULT'S 'AAA' PSF/'AA+' UNDERLYING; OUTLOOK STABLE

Fitch Ratings-New York-20 December 2016: Fitch Ratings has assigned a 'AAA' rating to the following College Station Independent School District, Texas (the district) bonds:

$67.95 million unlimited tax school building bonds, series 2017.

The bonds are scheduled for competitive sale on Jan. 18, 2017. Proceeds will be used to construct, acquire and equip school buildings in the district, purchase necessary sites for school buildings, and purchase school buses. Proceeds will also be used for the costs of issuance of the bonds.

The 'AAA' long-term rating for the bonds is based on a guaranty provided by the Texas Permanent School Fund (PSF), whose bond guaranty program is rated 'AAA' by Fitch.

In addition, Fitch has assigned an underlying rating of 'AA+' to the bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are payable from an unlimited ad valorem tax levied against all taxable property within the district. The series 2007, 2010, 2011, 2014, 2016 and 2017 bonds are further backed by the PSF bond guaranty program, rated 'AAA' by Fitch. (For more information on the Texas Permanent School Fund, see 'Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable', dated Aug. 5, 2015).

KEY RATING DRIVERS

The 'AA+' IDR reflects the district's strong operating profile, supported by solid expenditure flexibility, expectations for robust revenue growth, and exceptionally strong gap-closing capacity. Fitch expects the long-term liability burden to climb given plans for additional debt issuance, but remain within the moderate range in the medium-term.

Economic Resource Base
The district is located in east-central Texas approximately 90 miles equidistant from Houston and Austin, serving a 2014 population of approximately 109,000. District enrollment of approximately 12,970 in fiscal 2016 has steadily increased over the past four years, with annual growth rates ranging from approximately 4% to7%. The primarily residential tax base has reflected similarly steady growth, increasing 6% and 7% in fiscal years 2016 and 2015, respectively. The district serves the city of College Station, which is home to Texas A&M University, the flagship campus of the Texas A&M University System (system revenue bonds rated 'AAA'/Stable Outlook).

Revenue Framework: 'a' factor assessment
Fitch expects the district to realize strong revenue growth going forward, consistent with trends of the past 10 years (through fiscal 2014). The district's legal ability to raise revenues is limited.

Expenditure Framework: 'aa' factor assessment
The natural pace of spending growth is expected to exceed revenue gains over the immediate term given the district's current mode of fast growth. Solid expenditure flexibility incorporates

management's control over headcount and salaries within the annual budget cycle, as well as moderate carrying costs.

Long-Term Liability Burden: 'aa' factor assessment
Fitch expects the district's moderate long-term liability burden to increase slightly based on future debt issuance plans to accommodate enrollment growth and related capital needs.

Operating Performance: 'aaa' factor assessment
Fitch expects the district's financial profile to remain strong through an economic downturn based on sizeable reserves and sound expenditure flexibility.

RATING SENSITIVITIES

Maintenance of Financial Flexibility: The rating is sensitive to material changes in the district's solid expenditure flexibility and ample reserve levels, which Fitch expects it to maintain through a typical economic cycle.

Long-term Liabilities: A material increase in the long-term liability burden could pressure the rating.

CREDIT PROFILE

The area economy benefits significantly from the presence of Texas A&M University, whose fall 2015 enrollment surpassed 58,900. The university's growth continues to drive area economic expansion and housing development. The district's tax base has exhibited strong growth over the past four years, increasing by approximately 22% from fiscal 2014 through fiscal 2017 to reach $8.4 billion. Projections for annual enrollment growth over the next 4 years average a solid 3.7%.

Revenue Framework
Funding for public schools in Texas is provided by a combination of local (property tax), state and federal resources. The state budgets the majority of instructional activity through the Foundation School Program (FSP), which uses a statutory formula to allocate school aid taking into account each district's property taxes, projected enrollment, and amounts appropriated by the legislature in the biennial budget process. The majority of districts are funded using a target revenue approach, whereby the combination of local and state funding for operations meets a predetermined per pupil amount (which varies from district to district).

Approximately 82% of district revenues come from property taxes, with the remainder made up of state aid. The small level of state support is a function of the district's high property wealth levels.

District revenues have grown at a compound annual growth rate of 4% over the last decade, performing just above U.S. GDP growth. Fitch expects the natural pace of district revenue growth in future years to be similar to historical performance, given current enrollment trends and expectations for continued enrollment growth in future years.

The district's independent legal ability to raise revenues is limited, as the current maintenance and operations (M&O) tax rate of $1.04 per $100 TAV would need voter authorization to be increased to the statutory limit of $1.17. Management reports no current plans to do so. The district levies a separate, unlimited debt service tax rate of $0.3229 per $100 TAV, well below the statutory cap of $0.50 per $100 TAV that cannot be exceeded for new debt issuances.

Expenditure Framework
Similar to other school districts, instructional costs are the district's largest spending responsibility.

Fitch expects the natural pace of spending growth will likely exceed revenue gains over the near to medium term, as the district brings on new facilities and personnel to meet projected student growth.

The district's workforce costs are quite manageable given the lack of group/collective bargaining and short employment contracts. Additionally, carrying costs for debt service, pension and other post-employment benefits (OPEB) are a moderate 17% of fiscal 2015 governmental spending. Carrying costs benefit from state support for the vast majority of school district pension and OPEB costs. Fitch expects carrying costs to increase slightly with anticipated new debt issuance in the coming years.

Long-Term Liability Burden
The district's long-term liability burden is moderate at 18% of personal income, with most of the burden comprised of the district's direct debt load. Capital needs to accommodate future student growth indicate that debt levels will likely climb in future years; the pace of amortization is average at 42% in 10 years.

The district participates in the Texas Teachers Retirement System (TRS), a cost-sharing multiple employer pension system. Under GASB 67 and 68, TRS' assets covered 83.3% of liabilities (using an 8% return assumption) as of fiscal 2015, a ratio that falls to 75% using a more conservative 7% return assumption. The state assumes the majority of TRS' employer contributions and net pension liability on behalf of school districts, except for small amounts which state statute requires districts to assume. Like all Texas school district's, the district is vulnerable to future policy changes that shift more of the contributions and liabilities onto districts as evidenced by a relatively modest 1.5% salary contribution requirement, effective in fiscal year 2015. The proportionate share of the system's net pension liability paid by the district is minimal.

Operating Performance
Fitch expects the district to retain a high level of financial flexibility during an economic downturn given its sound expenditure flexibility and healthy reserves.

The district's fiscal cushion has remained very strong over a period of several years of somewhat uneven operating performance. Unrestricted general fund reserves oscillated between 33% and 50% of spending from fiscal years 2009 to 2015. During this period, budgets were pressured by increased operating costs associated with the opening of new schools, as well as state funding cuts. Unaudited results for fiscal 2016 indicate a modest general fund operating surplus of approximately $2.4 million or 2.4% of spending due to positive variances on both the revenue and expenditure side. The unrestricted fund balance of approximately $33 million is equivalent to about 34% of spending. The district maintains reserves in excess of its 20% of spending minimum fund balance policy, which is well above Fitch's expectation for a reserve safety margin at the 'aaa' assessment level.

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Date of Relevant Rating Committee: Aug. 10, 2016

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478