S&P Global
Ratings

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Summary:

College Station Independent School District, Texas'; General Obligation; School State Program

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Summary:

College Station Independent School District, Texas'; General Obligation; School State Program

Credit Profile		
US$67.95 mil unltd tax sch bldg bnds ser 2017 dtd 02/01/2017 due 08/15/2042		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
College Station Indpt Sch Dist PSF/CRS		
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Long Term Rating	AAA/Stable	Current

Rationale

S&P Global Ratings assigned its 'AA-' underlying rating and 'AAA' long-term rating to College Station Independent School District (ISD), Texas' series 2017 unlimited-tax school building bonds. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the district's outstanding general obligation debt. The outlook on all ratings is stable.

The long-term rating reflects our view of the district'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 that the district can use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, please see our article on the Texas PSF, published July 7, 2015, on RatingsDirect.)

The bonds are payable from an unlimited ad valorem tax levied on all taxable property within the district. Bond proceeds will be used to fund construction of three new schools, facilities renovations, technology upgrades, and various deferred maintenance items.

The 'AA-' rating reflects our view of the district's:

- Large and diverse economic base, anchored by Texas A&M University;
- Moderate enrollment growth, which generates revenue under the state's funding formula; and
- Historical maintenance of strong fund balance reserves.

Partially offsetting the above strengths, in our opinion, are the district's moderately high overall net debt as a percentage of market value, elevated debt service carrying charge, and additional capital needs related to increasing enrollment.

Economy

College Station ISD serves an estimated population of 41.109. At 73% and 85% of national averages, respectively, the district's median household and per capita effective buying incomes are adequate in our view. Market value totaled $8.4 billion in 2017, which we consider strong at $59,302 per capita. Net taxable assessed value (AV) grew by a total of

13.4% to $8.4 billion from fiscal years 2015 to 2017. The 10 largest taxpayers make up an estimated 6.3% of net taxable AV, which we consider very diverse.

The district is located in the city of College Station, approximately 90 miles north of Houston. The district is a primarily a bedroom community, and residential values account for 71% of 2016 AV. The city is home to Texas A&M University, which anchors the city's economy. The university, which has an enrollment of approximately 58,000 and more than 22,000 employees, is one of the nation's 10-largest higher education institutions. The district's tax base is very diverse, with the majority of the leading taxpayers in real estate. The district's tax base has experienced strong growth, with AV increasing by a cumulative 25% since 2014, mainly due to rising residential and commercial property values and new residential and commercial developments. The recent developments are driven by increasing population and student enrollment at Texas A&M University and Blinn College. The district anticipates adding numerous commercial developments and apartment complexes to support the population growth; therefore, it anticipates AV to increase by 3% to 5% annually for the next two years.

Finances

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

The district operates 16 educational facilities: nine elementary schools, two intermediate schools, two middle schools, two high schools and an alternative school. Student enrollment for 2017 totaled 13,203. The district's enrollment has been on an upward trend in the last several years, with annual growth rate of approximately 4%. Enrollment growth historically has been in the elementary school levels; however, the district is seeing enrollment growth in all grade levels. Officials attribute the growth to the longer tenure of the instructors and the overall increase in population. Therefore, officials anticipate 3% annual enrollment growth for the next two years.

The district authorized $136 million in November 2015 in order to address growing capacity needs. The district plans to use the funds to purchase land, construct three new schools (an elementary school, an intermediate school, and a middle school), renovate facilities, add new bus routes, purchase new buses, upgrade technology, and replace the HVAC systems and a roof. The district plans to open the new schools by fall of 2017 and fall of 2018. The district anticipates completing all projects by 2019.

Including committed fund balance, which could be made available with board approval, the district's available fund balance of $32.9 million is very strong in our view, at 34% of general fund expenditures at fiscal year-end (Aug. 31) 2016. The district reported a surplus operating result of 2.4% of expenditures in 2016. The district depends primarily on property taxes for general fund revenue (82.1%), with state aid accounting for only 16.5% of revenue.

The district historically maintained very strong reserves. The district, however, drew down on its reserves in fiscals 2012 through 2014 to pay for the opening of three new schools, the hiring of new teachers, and salary increases. In addition, the district remitted sizable recapture payments during these years ($4.4 million, or 5.6% of expenditures, in fiscal 2013 and $2.7 million, or 3% of expenditures, in fiscal 2014), due to its property wealthy status. However, due to strong enrollment growth, the district has not remitted recapture payments since fiscal 2014. Following three consecutive deficits, the district posted a slight surplus of 0.4% of operating expenditures in fiscal 2015, due to better-than-budgeted enrollment figures, which resulted in additional state revenues and less-than-budgeted instructional and capital outlay expenditures.

For fiscal 2016, the district finished the year with a $2.37 million general fund surplus, or 2.4% of expenditures, due increased local revenues and state aid stemming from enrollment growth. For fiscal 2017, the district's budget reflects a 2.7% increase in state and local funding. The district assumed 3% enrollment growth and a 4% increase in instructional costs. While the instructional costs continue to rise, officials do not anticipate budgetary pressure because increases in the tax base and state aid will continue to support the growth. The district adopted a deficit budget of $474,000, or 0.05%, but anticipates break-even results. The district plans to maintain very strong reserves for the next two years, as it does not plan to support the bond package with available reserves.

The district's total tax rate is $1.40, with $1.04 for the maintenance and operations levy and 36 the cents for debt service levy. The district recently increased the interest and sinking (I&S) tax rate by three cents to support the bond package. The district anticipates increasing the I&S rate to 40 cents in 2017, but plans to decrease the rates to 39 cents in 2018. While the district can increase the operations levy by an additional 13 cents with electorate approval, for a state-authorized maximum operations rate of $1.17 per $100 of AV, officials do not plan to adjust the rate at this time.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In conjunction with an annual budget process, the district forecasts forward-looking operating revenue and expenditure assumptions to maintain a healthy fund balance. Projections are conservative and look out three to four years in connection with the state biennium. Management also maintains an informal general fund reserve policy that maintains two to three months' operations in reserve, or about 20% of expenditures. Officials maintain long-term capital plans that are based primarily on demographic needs and are not updated annually. Management uses historical data, along with demographic information, to formulate revenue and expenditure projections. The board amends the budget as needed, based on staff recommendations and monthly year-to-date budget-to-actual reports. Management maintains a formal investment policy and provides the board with monthly financial and investment updates. The district currently lacks a formal long-term capital plan and a debt management policy.

Debt

At 8.1% of market value, we consider overall net debt moderately high, but at $4,808 on a per capita basis, we view it as moderate. With 45% of the district's direct debt scheduled to be retired within 10 years, amortization is average. Debt service carrying charges were 18% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider elevated.

The district's total debt consists of $380.6 million of direct debt and $297.8 million of overlapping debt. The district's overlapping debt is attributed largely to the city of College Station. The district does not have additional new-money debt plans within the next two years, and it plans to maintain the current tax rate.

Pension and other postemployment benefit (OPEB) liabilities

The district paid its full required contribution of $2.2 million toward its pension obligations in fiscal 2016, or 1.2% of total governmental expenditures. Also, the district paid $390,000, or 0.2% of total governmental expenditures, toward its OPEB obligations in fiscal 2016. Combined pension and OPEB carrying charges were 1.4% 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 cover 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 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, 2016) was $24.7 million. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 78.43%.

Outlook

The stable outlook on the long-term rating reflects the outlook on the Texas Permanent School Fund guarantee.

The stable outlook on the underlying rating reflects our expectation that the district will maintain its very strong reserves. The stable outlook also reflects our opinion that the district will be able to manage its rising expenditures with its enrollment and tax base growth, resulting in increased local and state revenues. We do not anticipate changing the rating over the two-year outlook horizon.

Upside scenario

All else equal, we could raise the rating if the district's wealth and income levels increase to levels we view as commensurate with those of higher-rated peers, and if the debt burden decreases to levels we consider low.

Downside scenario

We could lower the rating if the district's finances deteriorate significantly, reducing its reserves below very strong levels, and if the district's debt burden rises due to additional debt issuance. In addition, if the district is unable to manage its growth, resulting in structural imbalance, we could lower the rating.

Ratings Detail (As Of December 23, 2016)		
College Station Indpt Sch Dist unltd tax sch bldg bnds ser 2017 dtd 02/01/2017 due 08/15/2042		
Long Term Rating	AAA/Stable	Rating Assigned
Underlying Rating for Credit Program	AA-/Stable	Rating Assigned
College Station Indpt Sch Dist GO		
Long Term Rating	AA-/Stable	Affirmed
College Station Indpt Sch Dist PSF/CRS		
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Long Term Rating	AAA/Stable	Current

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.