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Ratings

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Summary:

East Central Independent School District, Texas; School State Program

Primary Credit Analyst:
Calix Sholander, Centennial (1) 303.721.4255; calix.sholander@spglobal.com

Secondary Contact:
Jennifer K Garza (Mann), Dallas (1) 214-871-1422; jennifer.garza@spglobal.com

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Summary:

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Credit Profile		
US$43.05 mil unltd tax sch bldg bnds ser 2017 dtd 07/01/2017 due 08/15/2042		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
East Cent Indpt Sch Dist PSF		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
East Central Indpt Sch Dist unltd tax rfdg bnds ser 2016 dtd 03/15/2016 due 08/15/2031		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Rationale

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

The 'AAA' program rating reflects our view of East Central 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 'AA-' underlying rating is based on our assessment of the district's:

- Access to the broad and diverse economy of the San Antonio metropolitan statistical area (MSA);
- Large, growing, and very diverse tax base; and
- Very strong financial position.

Partly offsetting the above credit strengths, in our opinion, is the district's moderately high debt burden as a percentage of market value.

The bonds are secured by an unlimited ad valorem tax levied on all taxable property within the district. Bond proceeds will be used for capital projects related to a new performance arts center and addressing capacity constraints.

Economy

East Central ISD serves an estimated population of 50,023 in southeastern San Antonio, near the Bexar County line. In our opinion, median household effective buying income (EBI) is good at 103% of the national level, but per capita EBI is adequate at 83%. At $67,376 per capita, the 2017 market value totaling $3.4 billion is, in our opinion, strong. Net taxable assessed value (TAV) grew by a total of 30.0% since 2015 to $3.4 billion in 2017. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 14.7% of net TAV.

The district's inclusion in the San Antonio MSA provides residents with diverse employment opportunities in a broad range of industries. Although the ISD's tax base is approximately 46% residential, recent tax base growth has occurred in virtually all valuation categories. Management reports continued residential and commercial development, particularly on the north side of the district. As such, we expect the tax base will likely continue to exhibit growth in the near future.

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. Enrollment totaled 10,071 in 2017, increasing overall from 2013 to 2017. District officials expect it to grow by 2% over the next year, but note that with series 2017 bonds completing the district's bond program, the district will have the capacity for additional enrollment growth. Given its enrollment trend and management's expectations, we expect the district's state aid revenues to remain stable.

The district's available fund balance of $28.9 million is very strong, in our view, at 37% of general fund expenditures at fiscal year-end (Aug. 31) 2016. The district reported a surplus operating result of 6.7% of expenditures in 2016. It depends primarily on state aid for general fund revenue (59.8%), followed by property taxes (37.3%).

The district has exhibited strong financial performance with operating surpluses in each of the last seven audited fiscal years. Management attributes the positive performance to the growing tax base, higher state aid, and conservative budgeting. For fiscal 2017, the district approved a balanced budget, but expects to continue the trend of outperforming its conservative budget assumptions. It expects to pass another balanced budget for fiscal 2018. Given the district's historical performance and management's expectations, we expect the district's financial position will remain very strong.

The district currently levies a $1.28 per $100 of AV property tax, with $1.04 devoted to operations and the remainder used for debt service. With voter approval, the ISD could increase its operations tax rate to $1.17 per $100 of AV.

Management

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

Current practices include the use of five years of historical data when making revenue/expenditure assumptions, monthly reporting of budget performance to elected officials, and a formalized investment management policy. The district also has a formal reserve policy that requires at least 2.5 months of expenditures to be held in reserve. While it has a capital plan associated with the current bond program, it does not exceed the completion of those projects in 2019. The district does not currently have an adopted debt management policy or a formal long-term financial plan.

Debt

Overall net debt is moderately high, in our opinion, as a percentage of market value at 6.9%, but moderate on a per capita basis at $3,384. With 42% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 8.3% of total governmental fund expenditures (excluding capital outlay) in fiscal 2016, which we consider moderate.

The district does not currently have any plans to issue additional debt over the next two years.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $1.9 million toward its pension obligations in fiscal 2016, or 1.9% of total governmental expenditures. In fiscal 2016, it also paid $314,000, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 2.2% of total governmental fund expenditures in 2016.

East Central ISD participates in the Texas Teachers' Retirement System (TRS). According to its 2016 audit, which adhered to Governmental Accounting Standards Board Statement No. 68 reporting standards, its proportionate share of the plan's net pension liability was $21.7 million. The plan's fiduciary net position was 78.4% of the total pension liability. The district also contributes to TRS Care, a cost-sharing, multiemployer, defined-benefit OPEB health care plan. Given the small size of the district's pension and OPEB contributions as a percent of its budget, we view the resulting financial burden as minimal.

Outlook

The stable outlook on the program rating is based on our assessment of the strength and liquidity of the Texas PSF bond guarantee program.

The stable outlook on the underlying rating reflects our view of the district's access to the San Antonio MSA, its large and growing tax base, and its very strong financial position. As such, we do not anticipate changing the rating over the two-year outlook horizon.

Upside scenario

If the district's wealth and income indicators were to improve to levels commensurate with higher rated peers, and its overall debt burden were to moderate, we could consider raising the rating.

Downside scenario

If enrollment growth were to lead to a substantial increase in the debt burden, or if increases in operational costs were to lead to significant reductions in the district's available reserves, we could consider lowering the rating.

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.