S&P Global Ratings

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Summary:

Lubbock-Cooper Independent School District, Texas; School State Program

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Credit Profile		
US$48.33 mil unltd tax sch bldg bnds ser 2020 dtd 08/01/2020 due 02/15/2050		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating and 'A+' underlying rating to Lubbock-Cooper Independent School District (ISD), Texas' $48.3 million series 2020 unlimited-tax school building bonds. The outlook is stable.

Revenue from unlimited ad valorem taxes on all taxable property within the district secures the GO bonds. Officials will use bond proceeds for various capital projects throughout the district.

The 'AAA' program rating reflects our view of the district's eligibility for the Texas Permanent School Fund (PSF) bond guarantee program. The program provides the security of a permanent fund of assets that the district could use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, see our report on the Texas PSF, published June 25, 2020, on RatingsDirect.)

Credit overview

Lubbock-Cooper ISD is located south of the City of Lubbock in an area of Lubbock County that is experiencing rapid residential development and associated enrollment growth. While residential home construction has resulted in a material expansion of the district's tax base, enrollment growth has led to the need for additional staffing and facility expansions to accommodate the growing student population. In an effort to ensure that its facilities are sufficient to meet the current and future needs of the community, the district has issued voter-authorized debt over the past decade that has resulted in a debt burden that we view as elevated. Although officials report no appreciable slowdown in construction activity, the COVID-19-driven economic recession has arrived. (See "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020.) However, with property taxes substantially collected for the year and no indication of state funding disruption, we believe that the district has sufficient financial flexibility to weather any near-term pressures. While we continue to monitor events related to COVID-19, we do not expect them to affect the district's ability to pay debt service or maintain its financial position through our outlook horizon.

The 'A+' underlying rating reflects our view of the district's:

- Strong economic base, as reflected in above-average wealth and income indicators;
- Participation in the broad and diverse Lubbock metropolitan statistical area (MSA) economy;
- Expanding tax base and enrollment growth, which support the district's primary revenue streams; and

- Very strong financial position.

Partly offsetting the above strengths, in our view, are the district's high overall net debt burden, elevated debt service carrying charges, and slow and extended amortization schedule.

The stable outlook on the program rating reflects our assessment of the Texas PSF's strength and liquidity.

The stable outlook on the underlying rating reflects our assumption that, despite the COVID-19-driven recession, the district will maintain its very strong financial position while the tax base remains stable.

Environmental, social, and governance factors

Our rating and analysis incorporate our view of the health and safety risk posed by the COVID-19 pandemic, which we believe could pressure budgets in the short term. Overall, we consider the district's social risks in line with that of the sector. We also analyzed the district's environmental and governance risks relative to its credit factors, and we determined that both are in line with our view of the sector standard.

Stable Outlook

Downside scenario

If the district's financial position were to significantly deteriorate as a result of sustained operating deficits, or if its debt burden were to significantly increase and pressure its budget, we could consider lowering the rating.

Upside scenario

Although we are unlikely to do so within the next two years, we could raise the underlying rating if the district's tax base continues to expand and its debt burden moderates while its very strong financial position persists.

Credit Opinion

Economy

Lubbock-Cooper ISD serves an estimated population of 45,268. In our opinion, median household effective buying income is very strong at 138% of the national level, but per capita effective buying income is strong at 123%. At $78,534 per capita, the 2020 market value totaling $3.6 billion is, in our opinion, strong. Net taxable assessed value (AV) has grown by 19.4% since 2018 to $3.6 billion. The 10 largest taxpayers make up an estimated 3.6% of net taxable AV, which we consider very diverse.

The district, located in south central Lubbock County, services the southern part of the City of Lubbock and a portion of unincorporated Woodrow. Given the growth patterns of the Lubbock MSA, the district has experienced rapid growth trends as a result of strong residential construction. While the local property tax base is primarily residential, management reports that commercial developments are also beginning to contribute to the growth. Officials report that an H-E-B grocery store is under construction, slated to open this fall. While the coronavirus-induced economic shutdown affected businesses throughout the MSA, as did the closure of Texas Tech University (a major component of the Lubbock economy), the district reported no appreciable slowdown in construction activity given the sector's status as an essential industry. With preliminary AV for fiscal 2021 at approximately $3.8 billion, the district anticipates that growth will remain in line with historical trends. While the recession may result in depreciating home values and lower demand for housing stock, we believe that the district's tax base and local economy will largely remain stable.

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 corresponding movements in the amount of state revenue a district receives. Student enrollment totaled 6,975 for 2020, having increased overall since 2016. While growth has been averaging 350 to 400 new students annually, the district is budgeting for 300 new students for fiscal 2021 to account for a possible slowdown in growth as a result of the virus-induced recession.

The district's available fund balance of $11.9 million is very strong, in our view, at 22% of general fund expenditures at fiscal year-end (June 30) 2019. The district reported a surplus operating result of 1% of expenditures.

The district has consistently reported strong operating results over the past four fiscal years. Despite growth in the underlying expenditure budget tied to enrollment increases, the district has been able to maintain fiscal balance through strong growth in local tax revenue. The district's general fund revenue mix is primarily locally derived, namely from property taxes and investment earnings (66%), with state aid providing an additional 32% of general fund revenue in fiscal 2019.

While the district began fiscal 2019 anticipating a $1.8 million deficit as a result of the opening of a new school, final results showed a $517,000 increase to the fund balance. The positive results were due to conservative budgeting of revenue combined with close monitoring of expenses. For fiscal 2020, the district received additional state funding as a result of the passage of House Bill 3, which was signed into law in early June 2019. (For more information, see "Texas Funds Public Schools, Staving Off Expenditure Growth For Now," published June 13, 2019.) While the bill provided additional funding, it also mandated pay raises for staff. Given these mandated cost increases, the district took a conservative approach to hiring new teachers. When the governor closed schools to in-person learning in March, the district was able to seamlessly move to a virtual learning environment. The district will bear some additional costs, but officials expect the savings from personnel, utilities, and other expenses to more than offset those costs. The district anticipates ending the year with a $3.5 million surplus.

Entering into the fiscal 2021 budget process, the district is assuming a lower rate of growth and a lower collection rate, but does not expect state funding to change. Preliminary AV growth near 10% should enable the district to increase its revenue, while new staff hires will be required to deal with the enrollment growth. However, the district anticipates that it will be able to pass a balanced budget. Given the district's historically strong operating performance, resulting in a very strong financial position, we believe it is well positioned to manage any near-term pressures presented by the recession.

Management

We consider the district's management practices standard under our financial management assessment methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

Lubbock-Cooper ISD is conservative in its revenue and expenditure assumptions, and can amend the budget throughout the year as needed. It has a formally adopted investment management policy, and the board receives a monthly report on holdings and earnings. Although the district lacks a formal reserve policy, management aims to maintain the fund balance at three to six months of expenditures, and has been steadily working toward that goal over the past four years. Officials plan to formally adopt a reserve policy within the next year. The district does not have formal long-term capital or financial plans or a formal debt management policy.

Debt

Overall net debt is 12% of market value and $10,020 per capita, which we believe to be high. Amortization is slow, with 24% of the district's direct debt scheduled to be retired within 10 years. The debt service carrying charge was 20.4% of total governmental fund expenditures excluding capital outlay, which we consider elevated, in fiscal 2019.

Following this issuance, the district has approximately $336.5 million of tax-backed bonds outstanding. Furthermore, the district will have approximately $18.7 million in authorized but unissued debt from a May 2016 election in which 65% of voters approved the measure. Officials plan to issue the remaining authorization next year. Officials anticipate approaching voters for additional authorization in November 2021 to provide funding for capital projects to accommodate the continued enrollment growth. Given additional debt plans and an extended amortization schedule, we anticipate that the district's debt burden will remain elevated over the next several years. The district's debt service levy is at the 50-cent limit imposed by Texas. Officials expect the interest and sinking levy to remain high as they complete bond projects.

Pension and other postemployment benefits (OPEB) liabilities

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Lubbock-Cooper ISD, as required contributions account for a small portion of total governmental expenditures and are not expected to materially increase over the next few years.
- Under a special funding situation, the state contributes a sizable share of the employer contribution and carries responsibility for its proportionate share of the unfunded liability.

Lubbock-Cooper ISD participated in the following plans as of Aug. 31, 2019:

- Teacher Retirement System (TRS), 75% funded with a proportional share of the net pension liability equal to $14.8 million
- Texas Public School Retired Employees Group Insurance Program (TRS-Care), which provides health insurance coverage to members of the TRS pension plan. TRS-Care is 3% funded and the district has a proportionate share of the net OPEB liability of $20.1 million.

In fiscal 2019, the district paid its full required contribution of $905,000, or 0.8% of total governmental expenditures, toward its pension obligations. The district also paid $296,000, or 0.3% of total governmental expenditures, toward its OPEB obligations. Pension and OPEB carrying charges totaled 1% of total governmental fund expenditures.

Given that TRS contributions are done on a statutory basis and are typically lower than the actuarially determined contribution, last year's TRS contributions were materially lower than both static funding and minimum funding progress. However, legislative changes increasing contribution rates will likely improve both funding metrics, though some assumptions remain a credit concern. For more information, see "Pension Spotlight: Texas," published Feb. 25,

2020. Likewise, contributions to TRS-Care have not met actuarial recommendations and we believe that the liability and contributions will continue to grow. However, given the special funding situation, we believe that the district's postemployment benefit costs will remain manageable.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of August 5, 2020)		
Lubbock-Cooper Indpt Sch Dist unltd tax sch bldg bnds ser 2020 dtd 08/01/2020 due 02/15/2050		
Long Term Rating	AAA/Stable	Rating Assigned
Underlying Rating for Credit Program	A+/Stable	Rating Assigned