

RatingsDirect®

Summary:

Ingleside Independent School District, Texas; School State Program

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Credit Profile

US\$28.8 mil unlted tax sch bldg bnds ser 2021 dtd 08/01/2021 due 08/15/2041

<i>Long Term Rating</i>	AAA/Stable	New
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
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Ingleside Indpt Sch Dist GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating and 'AA-' underlying rating to Ingleside Independent School District (ISD), Texas' \$28.8 million series 2021 unlimited-tax school building bonds. At the same time, S&P Global Ratings affirmed its 'AA-' underlying rating on the district's general obligation (GO) debt outstanding. The outlook is stable.

The 'AAA' long-term rating reflects our view of Ingleside 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 the bonds that are guaranteed by the program. (For more information on the Texas Permanent School Fund, see our report published June 25, 2021, on RatingsDirect.)

The bonds and the district's GO debt outstanding are secured by revenue from ad valorem taxes levied annually against all taxable property in the district, without limitation as to rate or amount. The district will use proceeds to make renovations to existing facilities, which include air conditioning, lighting, and technology upgrades.

Credit overview

The district serves the relatively small community of Ingleside, located about 17 miles northeast of Corpus Christi in San Patricio County. Given its waterfront location and access to the Port of Corpus Christi, the district's economy remains heavily concentrated in petrochemical manufacturing. In the past few years, the tax base increased significantly due to growth in the petrochemical sector, which has spurred increases in both property taxes and Chapter 41 (recapture) payments to the state. Financial performance has been very strong in the recent past and we expect that it will continue going forward. Because of the large industrial presence, the district's overall net debt as a percentage of market value are low compared to peers, while compared to per capita are high. With no

The rating reflects our view of the district's:

- Extremely strong property wealth tied to a large industrial presence;

- Concentrated oil and gas tax base with very strong reserves to offset volatility;
- Very strong financial position, as indicated by consistent positive operating performance; and
- Debt burden that we consider low as a percentage of market value but high on a per capita basis.

Environmental, social, and governance factors

Given the district's location in the Houston metropolitan statistical area, the district, similar to other districts in the area, could be vulnerable to extreme weather events that we believe expose it to environmental risks that are above the sector standard. With the district's very strong reserve levels we believe the district's management is prepared to navigate through fiscal challenges related to extreme weather events in the future. We also analyzed the district's social and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the district's financial position deteriorates to a level no longer comparable with that of peers due to either consistent revenue and expenditure mismatches or one-time capital spending.

Upside scenario

We could raise the rating if the taxpayer and sector concentration diversifies materially and if the local economy expands, increasing wealth and income levels and moderating high debt per capita to a level comparable with that of higher-rated peers.

Credit Opinion

Concentrated local economy based in oil/gas sector

The district serves the City of Ingleside, which is northeast of Corpus Christi. The local economy is largely industrial, with a concentration in the petrochemical manufacturing sector. The significant growth in the local tax base (93% since 2015) has been primarily caused by industrial expansions, some of which have been abated by Chapter 313 agreements. The ISD has agreements with two companies, Ingleside Ethylene LLC and Occidental Chemical Corp., which limit the value of their properties to \$30 million for maintenance and operations (M&O) tax purposes during the contract period. By comparison, the taxable value for interest and sinking purposes is not subject to the limitation. In tax year 2020, approximately 66% of the district's total appraised value was subject to abatements and therefore, not available for M&O purposes. Based on preliminary values for tax year 2021, the tax base will increase modestly.

The tax base is concentrated, in our view, with the 10 largest taxpayers accounting for approximately 55% of M&O net taxable assessed value. The leading taxpayers include petrochemical manufacturing plants, an electric utility plan, oil and gas storage and distribution facilities, and an offshore rig manufacturer. Despite the energy sector concentration, we believe that the district's principal taxpayers are less exposed to the near-term risks of low energy commodity prices compared with upstream exploration and drilling activities. The leading taxpayers primarily operate in the midstream and downstream sectors of the oil and gas industry where activity is less tied to commodity prices.

Despite the significant tax base growth, the district has experienced a declining enrollment trend for a few years due to the limited and costly supply of housing in the community. Management notes that workers often share housing with other workers to reduce costs, thus limiting supply for families with children. In the near to medium term, the ISD does not expect any material increases in enrollment due to a lack of available housing. To maintain stable enrollment, district officials plan to focus on improving academic offerings while also renovating and updating facilities to attract students from nearby districts.

Property wealthy district with very strong reserves

Historically, the district has maintained very strong finances, realizing general fund surpluses in the last three audited years (fiscal years 2017-2019). In fiscal 2020, the district recorded a \$2.4 million deficit after planned drawdowns; however, it still ended the fiscal year with very strong reserves--drawing down reserves that were over 100% of expenditures at fiscal year-end 2019. The district does not have any additional plans to spend down reserves in the near future. The district anticipates ending fiscal 2021 with a general fund balance of \$31.3 million.

The district primarily depends on property taxes for general fund revenue (89%), with state aid accounting for only 9% of budgeted revenue. Due to the high market value of local industrial sites, the state characterizes the district as a property-wealthy, or Chapter 49, district. Ingleside ISD makes recapture payments from locally sourced revenues to the state for the redistribution to property-poor districts. For fiscal 2021, it budgeted to pay approximately \$4.1 million in recapture payments. The district estimates that recapture payments will be in the \$3 million range going forward.

The tax rate is \$1.0775 per \$100 of AV of which 97 cents is dedicated for M&O and the remaining 10.75 cents dedicated for debt service. Following the changes to House Bill 3, the district will further compress its M&O tax rate; however, state funding will increase to offset the tax rate decrease. Given the strength of the district's finances as well as management's consistent ability to outperform original budget estimates, we believe that the ISD will likely maintain very strong reserves in the near future and has sufficient financial flexibility to mitigate any short-term challenges caused by enrollment declines.

Standard management with adequate policies in some but not all key areas

In our assessment of the district's financial management policies and practices, we highlight the district's history of conservative budgeting, which is built on largely known inputs including property taxes, state aid, and staffing costs. Of note, the ISD has consistently budgeted for full staffing, which often results in expenditure savings. In addition, it uses two to three years of historical data in developing the budget. Officials amend the budget as needed and provide monthly budget-to-actual reports to the school board. The district has a formalized investment management policy. Investment holdings and performance are included in the monthly financial update provided to the board. The ISD also has an informal reserve target of maintaining four to five months of expenditures, and it is currently exceeding its goal. It lacks a long-term financial plan, a long-term capital plan, and a debt management policy.

High debt compared to peers with no plans to issue additional debt

The district went to voters in May and was authorized to issue \$28.8 million for academic facility upgrades, of which it is issuing the full amount. The district has no plans to issue additional debt in the short to medium term, as this issuance will address all facility and capacity concerns. Compared to peers, the district's debt on a per capita basis is high but at 2.3% of market value, overall net debt is low, in our view. The district has no privately placed or direct

purchase debt that we are aware of.

Pension and other postemployment benefit liabilities

We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate source of credit pressure for Ingleside ISD, as required contributions currently make up 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 the proportionate share of the unfunded liability.

The district participates in the following plans:

- Teacher Retirement System (TRS), 75.5% funded with a proportional share of the net pension liability equal to \$6.5 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 5% funded and the district has a proportionate share of the net OPEB liability of \$6.16 million.

(For more information on pensions, see our report "Pension Spotlight: Texas," published Feb. 25, 2020)

Ingleside ISD, Texas--Key Credit Metrics					
	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population			10,338	10,098	10,181
Median household EBI % of U.S.	Good		99.0	104.0	116.0
Per capita EBI % of U.S.	Adequate		83.0	82.0	100.0
Market value (\$000)		3,612,659	3,459,694	3,034,980	2,885,803
Market value per capita (\$)	Extremely strong	349,454	334,658	300,553	283,450
Top 10 taxpayers % of taxable value	Moderately concentrated	36.6	33.3	37.3	37
Financial indicators					
Total available reserves (\$000)			24,913	27,349	17,186
Available reserves % of operating expenditures	Very strong		84.7	121.0	59.4
Total government cash % of governmental fund expenditures			75.3	53.7	49.6
Operating fund result % of expenditures			(8.3)	45.0	11.0
Financial Management Assessment	Standard				
Enrollment		1,973	2,137	2,155	2,235
Debt and long-term liabilities					
Overall net debt % of market value	Low	2.7	2.2	2.5	2.6
Overall net debt per capita (\$)	High	9,343	7,291	7,570	7,278
Debt service % of governmental fund noncapital expenditures	Moderate		12.7	12.5	12.5
Direct debt 10-year amortization (%)	Slower than average	47	56	53	49

Ingleside ISD, Texas--Key Credit Metrics (cont.)					
	Characterization	Most recent	Historical information		
			2020	2019	2018
Required pension contribution % of governmental fund expenditures			1.3	1.1	0.8
OPEB actual contribution % of governmental fund expenditures			0.6	0.5	0.4
Minimum funding progress, largest pension plan (%)			68.7	63.4	71.6
EBI--Effective buying income. OPEB--Other postemployment benefits.					

Related Research

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

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