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Research Update:

Tyler Junior College District, TX Series 2026 Maintenance Tax Notes Rated 'AA+'; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to Tyler Junior College (TJC) District, Texas' anticipated $27.5 million series 2026 maintenance tax notes.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating and underlying rating (SPUR) on TJC's existing combined fee revenue bonds.
- Finally, we affirmed our 'AA+' long-term rating on the district's general obligation (GO) bonds outstanding.
- The outlook is stable.

Rationale

Security

Total pro forma debt, inclusive of capital and operating leases, is approximately $111.5 million as of fiscal year-end 2025: $24.3 million of combined revenue fee bonds, $85.5 million of GO bonds and maintenance tax notes (including the series 2026 issuance), and $1.6 million in leases for various buildings and equipment. Officials will use the bulk of the series 2026 proceeds to complete phase II facility enhancements at their skills training center and energy center, which houses their first responder program, including law enforcement and the fire academy. in addition, workforce programs such as welding, automotive, HVAC and electronics will be included.

The maintenance notes (including the proposed series 2026 tax notes) and GO bonds outstanding are direct obligations of the district, secured by revenues from an annual ad valorem tax levied within the limits prescribed by state law on all taxable property within the district. The ad valorem tax is not levied on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service. Section

130.122 of the Texas Education Code limits a community college district's tax rate to $1 per $100 of taxable assessed value (AV), of which a maximum of 50 cents can be pledged for bond debt service, but a local referendum that limits the tax rate for local maintenance to 28 cents per $100 of taxable AV further restricts the district. Consequently, the district is limited to a total tax rate (operations and maintenance, or O&M, and debt service) of 78 cents per $100 of taxable AV. In our opinion, TJC has flexibility beneath the statutory and voted tax rate limit/cap with a fiscal 2025 total combined tax rate of 18.6 cents (15.0 cents for O&M and 3.5 cents for debt service) per $100 of taxable AV.

The district's existing combined fee revenue bonds are a first lien on specific pledged revenue, which includes allowable pledged tuition (25% of tuition revenue), general education fees, gross auxiliary revenue, and out-of-district fees, and which we view as a broad revenue pledge. Property taxes and state operating appropriations are excluded from pledged revenue, as is typical for Texas community colleges.

Credit highlights

The rating reflects our view of TJC's strong enterprise risk profile and very strong financial risk profile. The enterprise profile reflects our view of TJC's diversified and broad service area population, relatively steady enrollment trends with stable-to-growing, enrollment expected in the near term, and experienced and sound leadership team. The financial risk profile reflects our view of the district's recent trend of full-accrual surpluses and acceptable balance-sheet metrics for the rating, offset by an elevated maximum pro forma debt burden, although we note this weakness is partially mitigated by front-loaded amortization. The rating also reflects our view of the depth and breadth of the district's steady property tax base, which provides meaningful support for operations and some debt obligations, along with sufficient wealth metrics.

The 'AA+' rating reflects our view of TJC's:

- Strong and growing economic base that includes the City of Tyler, which serves as a regional trade, service, and health care center;
- Stable-to-growing enrollment base, with annualized full-time equivalent enrollment being at least 20,000 students the past three years;
- Steady full-accrual operating results, with TJC producing a surplus in each of the past five fiscal years; and
- Good revenue diversity and significant revenue-raising flexibility given an O&M tax rate that remains below the voted maximum.

Partially offsetting these strengths, in our view, are the college's:

- Acceptable-but-below-average incomes; and
- Slightly elevated debt profile for the current rating, with pro forma maximum annual debt service (MADS) that was 12.8% of total adjusted operating expenses in fiscal 2025, and our expectations for additional debt to be issued within the outlook period.

Environmental, social, and governance

We analyzed TJC's environmental, social, and governance factors and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that during our two-year outlook period, the district will maintain stable enrollment, generate positive full-accrual operating margins, and sustain financial resource ratios sufficient for the rating level. Despite the district's additional debt plans, we expect its debt burden will remain manageable.

Downside scenario

We could consider a negative rating action should the district's additional debt plans substantially weaken financial resource ratios to levels that we no longer consider consistent with the rating. While unlikely, we could also consider a negative rating action if the district experiences significant full-time-equivalent (FTE) enrollment decreases, causing financial operations to decrease materially.

Upside scenario

Although unlikely given the district's additional debt plans during the outlook period, we could consider a positive rating action if the district improves and sustains full-accrual operating results, translating to significant growth in financial resources, coupled with continued improvement in local economic indicators.

Credit Opinion

Enterprise Risk Profile

Participation in a growing and increasingly diverse regional economy, and stabilizing enrollment

TJC, created in 1926, is a comprehensive, public two-year college that primarily serves a majority of Smith County and parts of Van Zandt County, and has an estimated service area population in its taxing district of more than 245,000. The main campus is in Tyler, which is about 100 miles east of Dallas and serves as a regional trade, service, and health care center for East Texas. In addition to the main campus, the district has a West Campus technical education center (also in Tyler) and three education centers in Lindale, Jacksonville, and Rusk. Tyler's median household and per capita effective buying incomes are adequate, in our view, at 88% and 91%, respectively. The district's taxable AV has increased by about 52% over the past five years, and the AV was just under $25 billion in fiscal 2025. The tax base is very diverse, in our view, with the top 10 taxpayers accounting for approximately 6% of AV. Market value, an indication of wealth, is sufficient at about $59,000 per capita as of fiscal 2025 valuations. Based on conversations with management, we believe market value will continue to grow at a stable rate given new construction and stability within the region. Furthermore, approximately 40% of the student enrollment comes from out of district (six surrounding counties that stretch as far west as the Dallas-Fort Worth metroplex), making the total service area population from which the district draws approximately 428,000.

Following a period of modest pandemic-induced reduction in demand, enrollment has recovered and stabilized near pre-pandemic levels, with annualized FTE enrollment increasing each year since 2021 through the fall 2025 semester. School officials report that additional year-over-year growth is projected in fiscal 2026 based on initial headcount from the first day of class for the spring 2026 semester, and once the final count for the semester occurs in February, fiscal 2026's FTE enrollment will be approximately 21,000 students. Management attributes this rebound to its increased technical program offerings and high school recruitment efforts. Management expects enrollment will continue to grow modestly in the next three years because of population growth and increased partnerships with local area high schools and four-year universities in the state. In addition, the district benefits from serving as a residential junior college, with extensive student life programming that, in our opinion, has led to a steadier enrollment base as well as more fundraising than is typical at the community college level. We expect TJC will maintain stable-to-growing demand trends over the outlook.

Conservative budgeting practices, solid financial management practices, and an experienced and stable management team

We consider management seasoned and stable, with expertise in multiple business lines. The president has been in his position since 2018, with numerous other senior members having served for more than two decades; we view this continuity favorably. In our view, TJC follows generally conservative budgeting, and financial management practices and tends to outperform budgeted expectations.

Management prepares monthly finance and investment reporting to the board. The district also maintains a 10-year master plan for physical plant improvements. In addition, the debt management policy limits the issuance of bonds to 25% of the larger of authorized-but-unissued bonds or debt outstanding. Despite a lack of a formally adopted reserve policy, management has an internal goal to maintain at least $9 million of unrestricted reserves for cash flow purposes and tries to increase that targeted floor by about $400,000 annually.

A nine-member board of trustees governs TJC operations, with each member elected by members of the public and serving a staggered six-year term. Supervision over district operations and policymaking responsibilities are vested in the board, which includes setting tuition and fees, approving annual operating and capital budgets, and approving debt issuances. Key members of the senior management team remain stable with minimal turnover, and we view this favorably.

Financial Risk Profile

History of positive financial operations, with healthy financial resources, and a moderate debt burden

TJC’s financial position has historically been stable, typically producing nominal full-accrual surpluses that are acceptable at the rating level. This track record has continued based on the district’s recent audited results from fiscal years 2024 and 2025, where TJC’s operations resulted in surpluses of 1.7% and 2.4%, respectively. The district attributed its steady financial performance in recent years to healthier enrollment trends and management’s conservative budgeting practices.

For fiscal 2026, management anticipates an operating surplus relatively in line with that of fiscal 2025. We also understand the college district is expected to benefit from the changes in the state funding formula passed through House Bill 8, given the district anticipates receiving outcome-based funding in 2026, which could lead to more favorable audit results relative to the adopted budget. We will continue to monitor the effect these changes have on TJC's financial performance as adjustments are made through the budgeting process to maximize the resources it receives under the new funding formula, but we anticipate the changes in the state funding will likely support our expectations of relatively stable operations continuing over the near term.

Adjusted operating revenue is diverse, in our view, with approximately 29% derived from tuition, fees, and auxiliary revenue; 25% from property taxes, 4% from grants, and 19% from state operating appropriations for fiscal 2025.

TJC's financial resources metrics have remained relatively consistent in recent years given steady operating surpluses and conservative budgeting, somewhat offset by increasing operational expenditures. Absent remaining restricted bond proceeds, cash and investments relative to operations were 84% for fiscal 2025 and, relative to pro forma debt, were 116%, which are sound for the rating level, while noting our view of TJC's financial resources is partially hindered due to a significant proportion of the districts unrestricted cash being held on the balance sheet of their foundation. We expect financial resource ratios will remain consistent, with at least balanced full-accrual operations over the near term, with no planned spenddown of reserves, other than bond proceeds.

We view the pro forma MADS burden as a constraining credit factor at 12.8% of fiscal 2025 adjusted operating expenses. At current levels, pro forma debt metrics are elevated, but manageable, in our view. However, our view of TJC's leverage, could be further impaired by additional debt issuances that could materialize over the next four years. Therefore, we will continue to monitor what impact additional debt would have on our view of the TJC's financial risk profile, while noting the risks associated with higher leverage are partially mitigated by TJC's rapid amortization, with 85% of pro forma debt to be retired within 10 years, which we view as favorable.

The district's series 2015 maintenance tax notes issued in March 2015 were sold to a bank and financed construction of a residence hall. These bonds had $1.4 million outstanding as of Aug. 31, 2025, and are on parity with existing district revenue debt with the same covenants as existing revenue bonds (1.1x average annual debt service, and a surety-funded debt service reserve funded at one-half of annual debt service for parity debt). No special covenants or remedies are available to the bank, and no acceleration or cross-default provisions are associated with these bonds. We therefore view the contingent liability risks of these bank bonds as manageable and expect the district will comply with debt covenants.

We consider the college district's pension and other postemployment benefits (OPEB) liabilities a minimal credit pressure. Pension costs remain manageable, in our view, with pension and OPEB costs accounting for less than 2% of total operational expenditures. Recent contribution increases improved the outlook for Texas pension plans. Despite the improved funded ratios, attributes that introduce contribution volatility risk remain.

The college participates in the following defined benefit plans:

- Teacher Retirement System, a cost-sharing, multiple-employer plan measured as of Aug. 31, 2024: 77.80% funded using a 7.25% discount rate, with the college's share of net pension liability of $17.8 million
- Employees Retirement System, a cost-sharing, multiple-employer OPEB plan funded on a pay-as-you-go basis with the college's share of net OPEB liability of about $47.4 million

For more information on our view of Texas pensions, see our report "Pension Spotlight: Texas," April 4, 2023.

Tyler Junior College District, Texas--enterprise and financial statistics

	--Fiscal year ended Aug. 31--					Medians reported for 'AA+' rated community colleges
	2026	2025	2024	2023	2022	2024
Enrollment and demand						
FTE enrollment	21,073*	20,508	20,356	22,031	9,690	14,953
Annual full-time-equivalent change (%)	(10.55)	0.75	(7.60)	127.36	1.98	MNR
Tax base						
Service area population	427,937	422,137	416,360	237,186	235,806	846,542
Total AV ($000s)	24,995,178	21,053,635	18,384,733	16,450,090	15,944,496	MNR
Top 10 taxpayers as % of total AV	6.3	7.2	7.9	8.9	8.5	MNR
Market value per capita ($)	58,409	49,874	44,156	69,355	67,617	MNR
Per capita EBI as % of U.S.	N.A.	N.A.	91	83	87	MNR
Median household EBI as % of U.S.	N.A.	N.A.	88	81	86	MNR
Annual unemployment rate (%)	N.A.	4.2	3.8	3.7	3.7	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	156,849	143,891	133,599	150,669	MNR
Adjusted operating expense ($000s)	N.A.	153,195	141,452	132,796	145,476	MNR
Net adjusted operating income ($000s)	N.A.	3,654	2,439	803	5,193	MNR
Net adjusted operating margin (%)	N.A.	2.39	1.72	0.60	3.57	5.00
State appropriation dependence (%)	N.A.	19.0	19.8	18.7	16.6	22.5
Student dependence (%)	N.A.	29.7	31.6	32.7	28.1	15.3
Taxes and other local support dependence (%)	N.A.	25.5	26.0	24.5	20.2	33.6
Financial resources						
Cash and investments ($000s)	N.A.	139,971	139,359	110,467	106,966	MNR
Cash and investments to operations (%)	N.A.	91.4	98.5	83.2	73.5	98.8
Cash and investments to total debt outstanding (%)	N.A.	166.9	148.5	122.0	105.3	145.3
Debt						
Total debt outstanding ($000s)	N.A.	83,854	93,840	90,554	101,550	MNR
MADS ($000s)	N.A.	12,037	12,073	12,487	12,037	MNR
MADS burden (%)	N.A.	7.9	8.5	9.4	8.3	9.5
Pro forma metrics						
Total pro forma debt ($000s)	N.A.	111,409	93,840	108,479	119,475	MNR
Cash and investments to total pro forma debt (%)	N.A.	125.64	148.51	101.83	89.53	MNR
Pro forma MADS ($000s)	N.A.	19,669	15,443	15,443	15,489	MNR
Pro forma MADS burden (%)	N.A.	12.8	10.9	11.6	10.6	MNR

Tyler Junior College District, Texas--enterprise and financial statistics

	--Fiscal year ended Aug. 31--					Medians reported for 'AA+' rated community colleges
	2026	2025	2024	2023	2022	2024

Total adjusted operating revenue = total operating revenues + institutionally funded financial aid + government appropriations + government grants + endowment spending + tax revenues - realized and unrealized gains/losses. Total adjusted operating expense = operating expenses + institutionally funded financial aid + interest expense – noncash pension and other postemployment benefits expenses. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. MADS burden = 100*(MADS/adjusted operating expenses). Cash and investments = cash + unrestricted and restricted financial investments + foundation cash and investments. Total outstanding debt = tax supported debt + revenue/ enterprise-secured debt + foundation debt + other debt. All debt metrics include revenue/enterprise-secured and foundation debt if applicable. FTE--Full-time-equivalent. AV--Assessed value. EBI--Effective buying income. MADS--Maximum annual debt service. N.A.--Not available. MNR--Median not reported. *Fiscal 2026 FTE enrollment includes headcount from the first day of the spring semester. The official reporting date occurs on Feb. 3, 2026.

Ratings List
Not all ratings are available yet, please try again in a few minutes