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Summary:

Harlingen Consolidated Independent School District, Texas; Appropriations; General Obligation; School State Program

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Credit Profile		
US\$18.0 mil maintenance tax nts ser 2025 dtd 02/15/2025 due 02/15/2040		
<i>Long Term Rating</i>	A-/Negative	New
Harlingen Cons Indpt Sch Dist PSF		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A-/Negative	Downgraded
Harlingen Consolidated Independent School District Public Facility Corp., Texas		
Harlingen Consolidated Independent School District, Texas		
Harlingen Cons Indpt Sch Dist Pub Fac Corp (Harlingen Cons Indpt Sch Dist)		
<i>Long Term Rating</i>	BBB+/Negative	Downgraded

Credit Highlights

- S&P Global Ratings lowered its rating on Harlingen Consolidated Independent School District (CISD), Texas' general obligation (GO) debt outstanding by three notches to 'A-' from 'AA-'.
- At the same time, we assigned our 'A-' underlying rating to Harlingen CISD's anticipated \$18 million series 2025 maintenance tax notes, series 2025, reflecting the application of our "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- We also lowered our rating on the district's lease revenue qualified school construction bonds (QSCBs) outstanding, issued for the district, to 'BBB+' from 'A+'.
- The outlook is negative.
- The downgrade reflects the accelerated depletion of reserves due to a sizable deficit in 2024 resulting from the district's use of general fund reserves to cover cost overruns. It further reflects our expectation that the district's financial profile will remain constrained in the near term as the new management team implements adjustments to right-size the budget and restore reserve levels to its formal target.
- The negative outlook reflects a one-in-three chance that we could lower the rating in the year if the district is not able to demonstrate material progress in achieving budgetary balance by 2026.

Security

The bonds are secured by a maintenance and operations tax levied, within the limitations prescribed by law, on all taxable property within Harlingen CISD.

The district's 2013 lease revenue bonds are secured by a pledge of lease payments from the district, which will be

annually appropriated out of its general fund. We rate these obligations one notch lower than the district's general creditworthiness to account for the appropriation risk associated with the lease payments.

Proceeds from the series 2025 issuance will fund various improvements and renovations associated with school facilities, as well as equipping district facilities.

Credit overview

The rating reflects our view of persistent structural budgetary imbalances that resulted in a sizable draw on reserves for fiscal 2024. A new management team has implemented cost-saving measures; however, the district continues to experience enrollment declines and limited revenue-raising flexibility.

In fiscal 2024, the district experienced a sizable \$23 million (12.8% of revenue) deficit, attributable to financial mismanagement, resulting in a significant draw on reserves. Although the district's funding formula is based on enrollment, which has been declining, state aid revenue increased due to the state's hold-harmless provision, which offsets the impact of these declines. The fiscal 2023 operating deficit was primarily driven by inflationary pressures, rising personnel costs, and declining enrollment. For fiscal 2025, officials adopted a balanced budget. We note that the district has implemented various cost-containment strategies, including right-sizing through attrition, offering an early exit program for potential retirees, instituting a hiring freeze, and transitioning to a zero-based budgeting process.

The district is in southeast Texas, approximately 30 miles north of the U.S.-Mexico border, and encompasses the cities of Harlingen and Primera, and the township of Combes within Cameron County.

Credit fundamentals supporting the underlying rating include the district's:

- Primarily residential tax base, as per capita GCP for Harlingen CISD is 43.9% of the U.S. level and per capita personal income is 56.9%, with both lower than those of similarly rated peers. The district's tax base, however, is comparable with those of higher-rated peers.
- Fairly negative general fund results in the last five fiscal years, with a realized operating deficit of \$23.2 million for fiscal 2024. Management has adopted a balanced budget for fiscal 2025.
- Rapidly deteriorating reserve position, following recent deficits. As of fiscal 2024, available reserves are at \$10.1 million, or 5.6% of general fund revenue, which is below the district's formal policy of maintaining two months, or 60 days, of operating expenditures.
- Financial management policies and practices, including the use of historical data for revenue and expenditure trends to develop projections; regular monitoring of budget-to-actual performance, with monthly reports to the board; an investment policy, with investment holdings provided to the board monthly; an informal reserve target to maintain two months, or 16.67%, of operating expenditures in the fund balance. However, the district lacks policies for debt management and for long-term financial and long-term capital planning.
- Manageable debt burden, inclusive of net direct debt per capita figures that have fluctuated over the last few years. We expect current costs for debt and liabilities to remain stable over the next few years, as the district has no plans to issue additional debt.
- For more information on our institutional framework assessment for Texas school districts, see "Institutional Framework Assessment: Texas Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

Given its location near the Gulf of Mexico, the district is vulnerable to severe weather events that expose it to elevated physical risks. We view the district's social and governance factors as neutral within our credit rating analysis.

Outlook

The negative outlook reflects a one-in-three chance that we could lower the rating in the next year if the district is not able to demonstrate material progress by 2026.

Downside scenario

We could lower the rating further if the district continues to experience financial deterioration resulting in a diminished reserve-and-liquidity position, continuing its declining trend.

Return to stable scenario

We could revise the outlook to stable if the district makes the necessary changes to achieve structural balance and demonstrate positive financial performance, enabling it to maintain an adequate reserve position.

Table 1

Harlingen Consolidated Independent School District, Texas--Credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	3.90
Economy	6.0
Financial performance	4
Reserves and liquidity	3
Management	4.00
Debt and liabilities	2.50

Table 2

Harlingen Consolidated Independent School District, Texas--Key credit metrics				
	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	44	--	--	44
County PCPI % of U.S.	57	--	--	57
Market value (\$000s)	4,951,701	4,894,905	5,179,007	4,278,470
Market value per capita (\$)	54,223	53,601	56,712	49,835
Top 10 taxpayers % of taxable value	7.0	7.0	6.3	7.2
County unemployment rate (%)	5.3	5.3	5.4	5.7
Local median household EBI % of U.S.	71	--	71	72
Local per capita EBI % of U.S.	63	--	63	60
Local population	91,321	--	91,321	85,853
Financial performance				
Operating fund revenues (\$000s)	--	181,177	181,515	185,406
Operating fund expenditures (\$000s)	--	209,284	189,236	181,802

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Table 2

Harlingen Consolidated Independent School District, Texas--Key credit metrics (cont.)				
	Most recent	2024	2023	2022
Net transfers and other adjustments (\$000s)	--	4,898	345	99
Operating result (\$000s)	--	(23,209)	(7,376)	3,703
Operating result % of revenues	--	(12.8)	(4.1)	2.0
Operating result three-year average %	--	(5)	(1.2)	(0.2)
Enrollment	--	15,134.0	16,404.0	17,037.0
Reserves and liquidity				
Available reserves % of operating revenues	--	5.6	18.1	22.1
Available reserves (\$000s)	--	10,108	32,935	41,048
Debt and liabilities				
Debt service cost % of revenues	--	4.8	4.8	5.0
Net direct debt per capita (\$)	1,140	698	880	987
Net direct debt (\$000s)	104,098	63,786	80,397	84,737
Direct debt 10-year amortization (%)	67	99	77	76
Pension and OPEB cost % of revenues	--	3.0	3.0	2.0
NPLs per capita (\$)	--	865	718	334
Combined NPLs (\$000s)	--	78,992	65,557	28,655

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

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