Research Update:

North Central Texas College District, TX Series 2025 Combined-Fee Revenue Bonds Assigned 'AA-' Long-Term Rating

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Primary contact

David Holmes
Austin
214-871-1427
david.holmes
@spglobal.com

Secondary contact

Ryan Miller
Dallas
214-871-1408
ryan.miller
@spglobal.com

Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to North Central Texas College District (NCTC), Texas' $25.155 million series 2025 combined-fee revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating to the college’s limited-tax general obligation (GO) refunding bonds and tax notes.
- S&P Global Ratings also affirmed its 'A+' long-term and underlying ratings on the district’s combined lease fee revenue and refunding bonds outstanding.
- The outlook is stable.

Rationale

Security

The series 2025 combined-fee revenue bonds are special obligations of NCTC and are secured by a lien on and pledge of revenues of the college, which constitutes 25% of tuition revenues plus 100% of fee revenues. The bond proceeds will be used primarily to finance construction of a new campus dormitory.

Total pro forma debt, inclusive of capital and operating leases, is approximately $70.3 million: $25.155 million of combined-fee revenue bonds (series 2025), $19.0 million of GO debt, $5.5 million of lease appropriation combined revenue fee bonds (series 2018), and $24.0 million in long-term leases for various buildings and equipment.

The series 2018 combined revenue fee bonds are secured by a lease agreement between the respective LLC and the district, under which the district agrees to appropriate funds in its operating budget each year for annual rental payments in amounts that are at least equal to the annual debt service requirements on the bonds. The rating on the lease revenue bonds is based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019. We consider the appropriation risk associated with the lease payment along with the affordability and likelihood of the lease payment, as well as our view of the district's general creditworthiness. We notch the long-term and underlying ratings on the district's combined-fee revenue and refunding bonds outstanding one notch below the series 2024 bond rating, based on the lease appropriation risk of the series 2018 debt.

Credit highlights

The rating reflects our view of NCTC's strong enterprise risk and financial risk profiles. The enterprise risk profile reflects our view of stabilizing enrollment, following significant decreases in previous years, and a stable and tenured management team. The financial risk profile reflects our view of generally positive margins in recent years (with the exception of fiscal 2023), along with good cash reserves and manageable debt levels. The rating also reflects our view of NCTC's good and stable tax base, which provides some support for operations.

The rating reflects our view of NCTC's:

- Diverse property tax base, with significant flexibility in the operating tax rate, which remains well below the state's maximum rate;
- Good adjusted operating revenue diversity; and
- Ample cash reserves for the rating level and compared with those of peers.

We believe the preceding credit strengths are partially offset by:

- Materially declining enrollment levels since 2019, though with a degree of stabilization shown in most recent years; and
- Moderate operating performance, including a full-accrual deficit in fiscal 2023, with expectations of break-even to slightly positive performance through fiscal 2025.

Environmental, social, and governance

We analyzed NCTC's environmental, social, and governance (ESG) factors and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that NCTC will maintain balanced full-accrual financial operations and that current financial resource ratios will hold or improve. The outlook also reflects our expectation that the college will continue to stabilize enrollment levels and maintain a steady demand profile.

Downside scenario

We could consider a negative rating action if NCTC experiences significant enrollment decreases, causing financial operations and financial resources to decrease to levels that we consider no longer consistent with the rating, or if it issues a material amount of new debt that weakens leverage ratios.

Upside scenario

We could take a positive rating action over the longer term if NCTC experiences continued growth in its property tax base, leading to increased revenue diversity, while maintaining financial resource ratios commensurate with those of higher-rated peers, coupled with consistent enrollment trends and surplus operations.

Credit Opinion

NCTC, established in 1924, is the oldest continuously operating public two-year college in Texas. The district's tax base is Cooke County, approximately 65 miles northwest of Dallas and directly south of the Oklahoma border. NCTC's service area includes Denton, Montague, and Young counties, and about 80% of its students live in those counties, paying out-of-district tuition while attending the college. NCTC's tax base is diverse and likely to continue to grow over the near term, in line with the greater Dallas-Fort Worth metroplex.

Although relatively small, in our view, the college's tax base (in terms of assessed value [AV]) has shown growth overall in recent years, to $6.3 billion in fiscal 2024 from $5.4 billion in fiscal 2021. The district levies taxes for operations and maintenance, but also has the ability to levy taxes for debt service. The top 10 leading taxpayers accounted for over 12% of fiscal 2024 AV, which we consider diverse.

Enrollment has stabilized in recent years, with about 5,868 full-time equivalents for fall 2024, compared with 5,516 in the previous year; however, enrollment remains lower than fall 2020 levels. Management reports that it has been focused on creating additional academic pathways to align curriculum with student interests and four-year college transfer capabilities. Moreover, management anticipates fall 2025 enrollment to remain at least steady. While in-district tuition is low compared with that of peer institutions, the majority of students are out-of-district and pay a rate about 85% higher, which we believe provides the college with some advantages.

In our view, NCTC follows good budgeting and financial management practices, as demonstrated by positive full-accrual operations in most years. Balanced operating budgets are adopted by the board each year in August. The district maintains strong unrestricted cash and investment balances, and follows state investment and financial reporting guidelines. Management prepares budgets and interim financial statements on a cash basis, which is fairly typical for the community college districts we rate.

We consider management stable and experienced, with expertise in members’ respective business lines. The chancellor, Dr. G. Brent Wallace, has served in the role since August 2014, with numerous other senior members having served for almost a decade, including the chief financial officer, who has an extensive experience in higher education management.

NCTC is a separate unit of government and is governed by a seven-member board of regents (BOR) that is elected by members of the public. Each member serves a six-year term, with elections staggered every two years. Supervision over district operations and policymaking responsibilities are vested in the BOR, which includes the setting of tuition and fees, approving annual operating and capital budgets, and approving debt issuances. Senior management at the district remains stable and seasoned, in our view, which is a credit strength.

Financial Risk Profile

We view financial performance as generally positive, supported by stabilizing enrollment, a good tax base, and in part by operational savings related to the pandemic and Higher Education Emergency Relief Fund stimulus for one-time related expenditures. However, the expiration of federal stimulus, coupled with enrollment loss in fiscal 2023, led to budgeting shortfalls that pressured operations, resulting in a full-accrual deficit of 4.7%. Fiscal 2024 saw a return to break-even operations, supported by conservative budgeting practices and additional state funding from HB8. For fiscal 2025, management anticipates and has budgeted for a modest operating surplus, supported by flat enrollment growth projections and good budgeting practices, though tempered by somewhat softer additional state appropriation projections due to lower-than-anticipated enrollment levels over the last few years.

Adjusted operating revenue is relatively diverse, in our view, with 35.3% derived from tuition, fees, and auxiliary revenue; 24.5% from state operating appropriations; 7.6% from property taxes; and 9.4% from grants in fiscal 2024.

NCTC's financial resources have remained relatively steady over the last few years and are in line with those of similarly rated peers. Cash and investments relative to operations were 60% in fiscal 2024, and have been above 60% for four consecutive fiscal years. Relative to pro forma debt, adjusted cash and investments were 65%, which we consider slightly weaker, though still sufficient for the rating. The district maintains approximately $29 million of its overall $45.5 million at the college, with a smaller portion at the foundation level. We expect financial resource ratios will remain consistent, with at least balanced full-accrual operations over the near term and no planned spenddown of reserves other than bond proceeds.

We view the overall pro forma maximum annual debt service (MADS) burden as moderately high, at 7.8%. Amortization is considered average, following the series 2025 issuance, with 40% of debt to be retired within 10 years.

We consider the college'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 2% of total operational expenditures.

The college participates in the following defined-benefit plans:

- Teacher Retirement System, a cost-sharing, multiple-employer plan measured as of Aug. 31, 2024: 88.80% funded, using a 7.25% discount rate, with the college's share of net pension liability of $11.3 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 $22.8 million for fiscal 2024.

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

North Central Texas College, Texas--enterprise and financial statistics

	--Fiscal year ended Aug. 31--				Medians for 'AA-' rated community colleges
	2025	2024	2023	2022	2023
Enrollment and demand					
Full-time-equivalent enrollment	5,868	5,516	5,281	5,454	3,061
Annual full-time-equivalent change (%)	6.38	4.45	(3.17)	(8.21)	MNR
Tax base					
Service area population	62,653	62,653	62,653	62,653	168,442
Total AV ($000s)	N.A.	6,297,095	7,389,949	6,696,046	MNR
Top 10 taxpayers as % of total AV	N.A.	12.6	10.7	9.0	MNR
Market value per capita ($)	N.A.	N.A.	N.A.	N.A.	MNR
Per capita EBI as % of U.S.	N.A.	N.A.	95	90	MNR
Median household EBI as % of U.S.	N.A.	N.A.	100	95	MNR
Annual unemployment rate (%)	3.4	3.1	3.3	3.4	MNR
Income statement					
Total adjusted operating revenue ($000s)	N.A.	75,442	67,702	80,152	MNR
Total adjusted operating expense ($000s)	N.A.	75,282	71,047	77,961	MNR
Net adjusted operating income ($000s)	N.A.	160	(3,345)	2,191	MNR
Net adjusted operating margin (%)	N.A.	0.21	(4.71)	2.81	5.70
State appropriations dependence (%)	N.A.	24.5	21.2	17.5	22.2
Student dependence (%)	N.A.	35.3	37.7	34.6	19.3
Taxes and other local support dependence (%)	N.A.	7.6	7.1	5.6	28.5

North Central Texas College, Texas--enterprise and financial statistics

	--Fiscal year ended Aug. 31--				Medians for 'AA-' rated community colleges
	2025	2024	2023	2022	2023
Enrollment and demand					
Financial resources					
Cash and investments, including foundation ($000s)	N.A.	45,480	47,116	47,177	MNR
Cash and investments to operations (%)	N.A.	60.4	66.3	60.5	93.2
Total cash and investments to total debt (%)	N.A.	113.7	110.5	121.6	117.3
Debt					
Total debt ($000s)	N.A.	39,999	42,654	38,808	MNR
MADS ($000s)	N.A.	4,842	3,742	3,742	MNR
MADS Burden (%)	N.A.	6.4	5.3	4.8	9.4
Pro forma metrics					
Total pro forma debt ($000s)	N.A.	70,314	72,969	38,811	MNR
Total cash and investments to total pro forma debt (%)	N.A.	64.68	64.57	121.56	MNR
Pro forma MADS ($000s)	N.A.	5,858	4,698	N.A.	MNR
Pro forma MADS burden (%)	N.A.	7.8	6.6	N.A.	MNR

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. N.A.--Not available. MNR--Median not reported. N.M.--Not Meaningful.

Ratings List	
New Issue Ratings	
US$25,155,000North Central Texas Community College District, Texas, Combined Fee Revenue Bonds, Series 2025, dated: May 01, 2025, due: June 01, 2050	
Long Term Rating	AA-/Stable
Ratings Affirmed	
Education	
North Cent Texas Coll, TX Lease Appropriation	A+/Stable
North Cent Texas Coll, TX Unlimited Student Fees	AA-/Stable
North Central Texas College, TX Limited Tax General Obligation	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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