

RatingsDirect®

Summary:

Tatum Independent School District, Texas; General Obligation; School State Program

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Table Of Contents

Rationale

Outlook

Summary:

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Credit Profile

US\$8.79 mil unlted tax rfdg bnds ser 2019 dtd 01/01/2019 due 02/15/2032

<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	A+/Stable	New
Tatum ISD Texas PSF		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating and 'A+' underlying rating to Tatum Independent School District, Texas' series 2019 unlimited-tax refunding bonds. At the same time, we affirmed our 'A+' rating on the district's general obligation (GO) debt. The outlook is stable.

The long-term rating reflects our view of the district'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 that the district can use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, see our article on the Texas Permanent School Fund, published June 8, 2018, on RatingsDirect.)

The bonds are payable from an unlimited-ad valorem tax levied on all taxable property within the district. Bond proceeds will be used to refund outstanding debt for savings.

Despite assessed value decreasing 53.5% since 2009, the district has managed to maintain very strong reserves. The decrease is mostly due to assessed value loss from Luminant Generation, which has lost over \$1 billion in assessed valuation over the past eight years from a high of \$1.4 billion in 2009. Officials have incorporated a conservative forecast of AV into the budget, assuming zero AV from Luminant over the next three years. Despite this significant loss in AV, the district has managed to maintain very strong reserves, and received a significant amount of back taxes when Luminant settled a tax protest in 2017. Combined with a low overall debt burden, we view the district's finances as stable. However, we note that continued uncertainty with Luminant and a declining enrollment trend places pressure on the district's finances, although officials have been able to navigate these challenges to date.

The 'A+' rating reflects our opinion of the district's general creditworthiness, including its:

- Good median household income and extremely strong wealth levels,
- Very strong reserves, and
- Low overall debt burden as percentage of market value.

In our view, these credit strengths are offset in part by the district's:

- Concentrated tax base, with its leading taxpayer accounting for 43% of 2018 assessed value (AV),
- Substantial AV declines, and
- Declining enrollment trend.

Economy

Tatum Independent School District serves an estimated population of 6,181. At 96% and 95% of national averages, respectively, the district's median household and per capita effective buying incomes are good in our view. The district's total \$809.8 million market value in 2019 is extremely strong, in our view, at \$131,017 per capita. Net taxable assessed value declined by a total of 24.4% since 2017 to \$809.8 million in 2019. The tax base is concentrated, in our view, with the 10 largest taxpayers accounting for approximately 60.7% of net taxable assessed value.

Tatum ISD is located in east Texas, approximately 20 miles southeast of Longview and 61 miles west of Shreveport, La. The district is located in the northeastern portion of Rusk County extending into Panola County and encompasses the city of Tatum as well as a state park and the Martin Lake Power Project. The district's local economy is based on utilities, mineral production, forestry, agriculture, and tourism. The district's tax base is concentrated, with its leading taxpayer, Luminant Generation Co. L.P., accounting for 43% of 2017 AV.

The district's tax base has deteriorated significantly since 2009, dropping by a cumulative 53% to \$809 million in 2019 from \$2.1 billion in 2009. Officials attribute the decrease to declining AV of its leading taxpayer and decreasing natural gas prices. Luminant Generation's AV has fallen over \$1 billion since 2009 in the district. Luminant has faced economic headwinds with its coal-fired plants across Texas, closing facilities such as its Monticello power Plant in Titus County, Big Brown southeast of Corsicana, and Sandow northeast of Austin. In the past Luminant has paused operations at the Martin Lake plant, which is located in Tatum ISD, but has not shut down the plant at this time. Officials at the district state that they are not aware of any imminent job cuts at this time. However, given the plentiful supply of natural gas, we believe that the district's plans to zero out the Martin Lake plant AV in budgetary planning is prudent at this time.

Aside from Luminant, officials report that Sabing mining is beginning operations in the district's property, which should add AV to the district's tax base. In addition, the district noted residential development with higher-end homes that are currently under construction. Besides the budgetary assumptions related to Luminant, officials expect AV to be relatively stable in the future.

We view the economy as a risk to the district's finances given the uncertainty regarding Luminant and whether it will continue operations at the Martin Lake plant in the long term. Given that the district has assumed a continued decline in AV, we believe it is prepared to deal with a potential closure at Martin Lake.

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 increases or decreases, respectively, in the amount of state revenue a district receives.

The district operates four educational facilities: a primary school, an elementary school, a middle school, and a high

school. Enrollment totaled 1,515 students in 2019, a significant decline from 2015 (1,716). Officials at the district believe that enrollment will stabilize in the near future, but given four years of declining enrollment, we believe that enrollment declines could factor into the district's finances in the near future.

The district's available fund balance of \$4.6 million is very strong in our view, at 32% of general fund expenditures at fiscal year-end (Aug. 31) 2017. The district reported a deficit operating result of 7.5% of expenditures in 2017.

In fiscal 2018, the district is anticipating a large surplus of \$5.2 million after Luminant resolved a tax protest with local authorities. The tax protest contributed to a significant loss of revenue in fiscal 2017, which was partially made up by the state. However, even with the additional state aid, the district reported a deficit of approximately \$1 million fiscal 2017. In fiscal 2018, the resulting settlement will increase overall fund balances to over \$12 million. According to fiscal 2017 financials, \$2.43 million are committed for capital needs, and assuming that these funds are not available, the district will have over \$9.5 million in available fund balances, or approximately 65% of expenditures.

For fiscal 2019, the district has adopted a deficit budget of \$2.34 million. Officials at the district attributed the deficit to the loss in ASATR (Additional State Aid for Tax Reduction) funding when the Texas State Legislature declined to renew the program and raises for teachers.

Aside from yearly operations, the district has other options to increase revenue and also will not have to make Chapter 41 payments due to a decrease in AV. The district is closely monitoring the next Texas legislature session to determine whether or not the district will ask voters to increase its maintenance and operations level from \$1.04. The district has the flexibility to ask voters to increase the levy up to 13 cents to \$1.17. Officials at the district are confident that voters will allow the levy increase.

The potential TRE election and associated flexibility with the district's M&O tax rate, and the settlement with Luminant provides the district financial flexibility and enables the district to potentially weather future AV decreases. However, volatility related to local property tax revenues and uncertainty with regard to a potential tax ratification election adds substantial pressure to the district's finances. The district's very strong fund balances should allow the district to sustain operations in the event of further AV declines in the near term.

Management

We consider the district's management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

The district utilizes three years of historical data as well as the latest economic information from the appraisal office and the leading taxpayers when developing the budget. The district budgets conservatively and historically reports better-than-budgeted results. The district also has an informal, long-term financial plan that projects out to 2020 and is reviewed annually. The district provides monthly financial reports to the board and amends the budget as needed. The district has a formal investment policy that reflects state guidelines. The district provides monthly investment reports to the board and reviews the policy annually. The district has \$5 million as its informal reserve target to avoid cash flow issues. The district currently lacks formalized policies in the areas of long-term capital plan and debt management.

Debt

At 2.3% of market value, we consider overall net debt as low, and at \$3,232 on a per capita basis, we view it as moderate. With 52% of the district's direct debt scheduled to be retired within 10 years, amortization is average. Debt service carrying charges were 10.0% of total governmental fund expenditures excluding capital outlay in fiscal 2017, which we consider moderate.

The district does not have any authorized but unissued debt outstanding and is not expecting to approach taxpayers in the near term for additional debt authorization. Officials at the district stated that the district is not party to any privately placed debt.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of \$334,000 toward its pension obligations in fiscal 2017, or 1.7% of total governmental expenditures. The district also contributed \$53,000, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2017. Combined pension and OPEB carrying charges totaled 2% of total governmental fund expenditures in 2017.

The district provides pension benefits for all full-time employees through the statewide Texas Teachers' Retirement System (TRS), a cost-sharing, multiple-employer, defined-benefit, public-employee retirement system. Under state law governing TRS, the Texas Legislature determines the benefits and contribution rates annually. The district contributes to TRS at the contractually determined rate. As of Aug. 31, 2017, the most recent valuation, the district's proportionate share of TRS' net pension liability was approximately \$4 million. At the same time, the TRS plan's fiduciary net position was 82% of the total pension liability, which we consider adequately funded. In keeping with historical practices, the district paid 100% of its contractually required contribution in fiscal 2017.

The district provides OPEBs in the form of health care insurance through the state-administered Texas Public School Retired Employees' Group Insurance program (TRS-Care). Given the low pension carrying charges, largely attributed to the special funding situation whereby the state picks up the majority of annual benefit costs, we do not expect postemployment benefit expenses to pressure the district's finances.

Outlook

The stable outlook reflects the district's large reserves, which provide stability even with declining enrollment and assessed values for at least the next two years. In addition, the district's low overall debt burden and limited long-term pension liabilities provide additional stability. Given the above, we do not expect to change the rating in the next two years.

Downside scenario

We may lower the rating if the district's financials deteriorate markedly due to rapid tax base deterioration, or structurally imbalanced operations.

Upside scenario

If the district's economic metrics stabilize and increase to levels commensurate with those of higher rated peers, while the district maintains its very strong reserves, we may raise the rating.

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