S&P Global Ratings

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Summary:

Simms Independent School District, Texas; School State Program

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Credit Profile		
US$1.085 mil unltd tax rfdg bnds ser 2018 dtd 11/01/2018 due 02/15/2031		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Simms Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term program rating and its 'A+' underlying rating to Simms Independent School District, Texas' series 2018 bonds. At the same time, we affirmed our 'A+' underlying rating on the district's outstanding general obligation (GO) debt. The outlook on all ratings is stable.

The program 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 the district can use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, please see our full analysis on the Texas PSF, published June 8, 2018 on RatingsDirect.)

Our rating on the bonds is supported by the district's stable financial operations and very low debt burden, despite economic metrics that are not commensurate with those of similarly rated peers. Enrollment as measured by adjusted daily attendance, which is a significant portion of the state aid funding formula in Texas, has been stable. The district has a low debt burden relative to similarly rated peers since it prefers to make capital improvements out of existing fund balances as opposed to GO debt obligations. We note that the district is planning on taking additional debt from a local bank, although terms have not been finalized. Finally, although the district's lacks certain long- term planning according to our methodology, we believe that the district's management has contributed to the stable financial results, due mostly to a historically conservative approach to budgeting and issuing debt.

The bonds are secured by an unlimited-ad valorem tax, applicable to all taxable property within the district's boundaries. The bonds will refund the series 2010 bonds.

The rating reflects our view of the district's:

- Very strong reserves,
- Very low overall net debt per capita, and
- Recently passed tax ratification election, which will increase revenue.

Partially offsetting the above factors are:

- A low per capita effective buying income as a percentage of the national median, and
- Low market value per capita.

Economy

Simms Independent School District serves an estimated population of 4,307. In our opinion, median household effective buying income (EBI) is adequate at 84% of the national level, but per capita EBI is low at 37%. The district's total $119.8 million market value in 2019 is low, in our view, at $27,808 per capita. Net taxable assessed value grew by a total of 9.2% since 2017 to $119.8 million in 2019. The tax base is diverse, in our view, with the 10 largest taxpayers accounting for approximately 15.6% of net taxable assessed value.

The district is located in Bowie County, approximately 150 miles east of Dallas and is near the Texas-Louisiana and Texas-Arkansas border. The district is primarily a residential community, with residents working in surrounding areas including the Red River Army Depot, which is 15 miles away.

Developments in the area are residential focused, with officials at the district stating that growth has been steady in the past three years. They also state that residential growth continues with new properties under construction given the significant amount of available land. In the next couple of years, the district believes that assessed values will continue to increase between 2%-5%.

The 10 taxpayers are not expected to change in the near term. The top taxpayer is Union Pacific, with nearly 9% of the overall property tax base. The next two taxpayers are electric utilities, with the majority of the remaining top 10 taxpayers in residential.

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. Enrollment totaled 513 students in 2018, and increased by seven students overall from 2014 to 2018. Officials report stable average daily attendance, although there have been small fluctuations in overall attendance figures.

The district's available fund balance of $1.2 million is very strong in our view, at 25% of general fund expenditures at fiscal year-end (Aug. 31) 2017. The district reported a deficit operating result of 3.3% of expenditures in 2017.

In three of the past four fiscal years, the district has reported deficits. Most recently, in fiscal 2017, the district reported a $160,000 deficit on $4.9 million expenditures. In fiscal 2016, the district reported a small surplus, and in fiscal 2015 and fiscal 2014, the district reported deficits of $113,000 and $52,000, respectively. The district attributes the deficits to one-time expenditures, but noted its facilities are overall in good condition and that it does not expect significant capital investments in the future. We note that the district has not added significant amounts of GO debt, as officials tend to make capital expenditures out of fund balances rather than issuing debt. Officials reported that renovations to the elementary school campus came mostly out of fund balances in early 2010.

For fiscal 2018, the district is expecting to add $100,000 to fund balances, which is an improvement from the 2018 budget, which initially projected a surplus of 20,000. Officials attribute the increase to conservative budgeting. The adopted fiscal 2019 budget is essentially flat, with the district projecting a small $9,000 surplus. In fiscal 2017, the district passed a tax ratification election (TRE) to increase the district's M&O rate to $1.17 from $1.125 million, which should provide an estimated $460,000 in additional revenue each year, without out adjusting for future tax base growth. We expect the financial position of the district to remain stable, given steady enrollment, limited capital needs in the future, and the additional revenue from the TRE.

In addition to $1.24 million in fund balances, the district has an additional $700,000 in its construction fund and another$ 200,000 set aside for capital expenditures for equipment. These funds are not available for operations, but the extra fund balances will be used by the district for future capital expenditures if needed.

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.

When formulating the budget, the district has no formal historical data process neither consults with outside sources, but uses a conservative approach to budgeting for revenues and expenditures based on the administrative team's experience at the district. The district provides budget to actual reports monthly to the board, and amends the budget three to four times a year. Although it is our understanding that the district has no long-term financial or capital planning, officials at the district consult routinely with the board on future capital expenditures. The district has a formal investment policy that follows Texas state guidelines and provides an annual report on investments. The district does not maintain a formal debt management policy, but maintains an informal three month target for fund balances, based on recommendations from the state and auditors.

Debt

At 1.4% of market value, we consider overall net debt as low, and at $394 on a per capita basis, we view it as very low. With 77% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. Although amortization is rapid, debt service carrying charges were only 3.7% of total governmental fund expenditures excluding capital outlay in fiscal 2017, which we consider low.

The district does anticipate securing a privately placed loan with a local bank, with approximate payouts of 100,000 a year for 10 years. The district will use proceeds for capital improvements, but beyond this issue, the district does not expect to issue any additional debt, and has no authorized but unissued debt outstanding.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $84,000 toward its pension obligations in fiscal 2017, or 1.5% of total governmental expenditures. In fiscal 2017, the district also paid $18,000, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 1.8% of total governmental fund expenditures in 2017.

The district participates in the Texas Teachers' Retirement System (TRS), a state-managed, cost-sharing, defined-benefit pension plan. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the district's net pension liability (as of the August 2016 actuarial valuation) was $7.3 million. For fiscal 2017, the plan maintained a funded level of 82.2%, using the plan's fiduciary net position as a percentage of the total pension liability. The district made its full required contribution, which is statutorily determined. The district also provides retiree health insurance through TRS-Care, a cost-sharing, multiple-employer, defined-benefit, postemployment, health care plan administered by TRS. Given the low pension and OPEB 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 on the 'AAA' rating reflects our view of the strength of the Texas PSF guarantee, based on the fund's assets and performance.

The stable outlook on the underlying rating reflects our view of the district's very strong reserves and very low debt burden as measured on a per capita basis. Given the district's limited capital needs after the next round of renovations, and the increased revenue from the recent tax ratification election, we expect the district to maintain very strong reserves in the near future. We do not expect to change the rating during our two-year outlook.

Downside scenario

We may lower the rating if the district develops a structural imbalance, forcing the district to significantly draw down on fund balances.

Upside scenario

We may raise the rating if the district's economic metrics increase to levels commensurate with those of its higher-rated peers and the district formalizes some of its financial management practices.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.