

RatingsDirect®

Summary:

Dawson Independent School District, Texas; School State Program

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Credit Profile

US\$5.855 mil unlted tax sch bldg bnds ser 2018 dtd 09/01/2018 due 02/15/2048

<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	A+/Stable	New
Dawson Indpt Sch Dist unlted tax rfdg bnds		
<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 'A+' underlying rating and 'AAA' program rating to Dawson Independent School District (ISD), Texas' series 2018 unlimited-tax school building bonds. At the same time, we affirmed our underlying rating on the district's outstanding GO bonds. The outlook is stable.

The 'AAA' program rating reflects our view of Dawson ISD's eligibility for, and participation in, the Texas Permanent School Fund 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.

An unlimited-tax levied on all taxable property within the district secures the bonds. Bond proceeds will be used for the construction, acquisition, renovation, and equipment of school buildings in the district.

The underlying rating reflects our opinion of the district's:

- Historically strong fiscal performance;
- Very strong fund balance; and
- Limited-additional capital needs requiring the issuance of additional debt.

We believe these credit strengths are somewhat offset by what we consider the district's:

- Limited and moderately concentrated economy, with below-average income levels; and
- Moderate-to-moderately high overall net debt, albeit with a low carrying charge.

Economy

Dawson ISD, based in the city of Dawson in Navarro County with a small portion extending into Hill County, serves an estimated population of 3,036. At 75% and 71% of national averages, respectively, the district's median household and per capita effective buying incomes are adequate in our view. At \$50,545 per capita, the 2018 market value totaling

\$153.5 million is, in our opinion, adequate. Net taxable assessed value (AV) increased by a total of 28% overall from 2014 to 2018. The district expects an additional 4% growth in AV in fiscal 2019 based on preliminary AV estimates, and officials expect this growth rate to remain steady going forward.

Roughly 37% of net taxable AV comes from the 10 largest taxpayers, representing a concentrated tax base in our opinion. The district's top two taxpayers, Lone Star Transmission (electric utility) and Energy Transfer Fuel L.P. (oil and gas), account for 15.8% and 7.1% of taxable value, respectively. Despite eight of the top 10 taxpayers being in the oil and gas industry, we do not expect much volatility in taxable value as a result of the concentrated tax base, in part due to the top oil and gas taxpayers being pipeline operators who should be less affected by fluctuations in oil prices and drilling activity.

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. Student enrollment for 2018 totaled 499. Enrollment increased overall from 2014 to 2018. Management expects moderate enrollment growth in the future, in part due to its participation in the transfer program, which allows the district to better control enrollment on an annual basis. Therefore, we expect state aid, which accounted for 64% of general fund revenue in fiscal 2017, to remain stable.

The district's available fund balance of \$1.7 million is very strong in our view, at 36% of general fund expenditures at fiscal year-end (Aug. 31) 2017. The district reported a surplus operating result of 5.8% of expenditures in 2017.

Historically, the district has had strong fiscal performance with operating surpluses in each of the past five audited fiscal years. For fiscal 2018, management expects a similar general fund surplus of approximately \$170,000, which would increase reserves close to 40% of expenditures. District officials expect to adopt a surplus budget in fiscal 2019 as well. Given the district's history of strong fiscal performance, and management's expectations for positive results in fiscal years 2018 and 2019, we expect the district's fiscal performance and reserves to continue to be very strong.

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.

Highlights include the district's conservative revenue and expenditure assumptions based on the trend in enrollment and using four to five years of historical data, monthly budget-to-actual reports, and cash flow reports, as well as an adopted investment policy that adheres to state guidelines. The district has an informal policy of targeting a minimum of 25% of expenditures in reserves and 60% of debt service in the debt service reserve fund. The district currently lacks a long-term capital plan and long-term financial plan. In addition, the district has not adopted a formal debt management policy but adheres to state guidelines.

Debt

Overall net debt, in our opinion, is high at 6.4% of market value and moderate at \$3,220 per capita. Amortization is slower than average, with 29% of the district's direct debt scheduled to be retired within 10 years. Debt service

carrying charges were 6.8% of total governmental fund expenditures, excluding capital outlay in fiscal 2017, which we consider low. The district does not have plans to issue additional debt over the next two years.

While the district's overall net debt increased significantly with the issuance of the series 2018 bonds, we believe the district's tax base growth, amortization schedule, and limited-additional capital needs will allow the district to maintain this additional level of debt going forward without pressuring finances.

Pension and other postemployment benefit liabilities

In fiscal 2017, the district paid its full required contribution totaling 1.3% of total governmental expenditures toward its pension obligations. Also, the district paid approximately 0.3% of total governmental expenditures toward its other postemployment benefit (OPEB) obligations in fiscal 2017. Combined pension and OPEB carrying charges totaled 1.6% of total governmental fund expenditures in 2017.

The district provides pension and retiree health care benefits to eligible employees by participating in the Texas Teachers' Retirement System (TRS) and TRS-Care, respectively. The state of Texas has historically made the bulk of required contributions on the district's behalf. The district's proportion of the net TRS liability as of the most recent actuarial valuation (Aug. 31, 2017) was approximately \$879,000. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 82.2%.

Outlook

The stable outlook on the program rating reflects our view of the Texas Permanent School Fund's strength and liquidity.

The stable outlook on the underlying rating reflects our expectation that the district's finances and reserves will remain very strong. Additionally, we believe the district's overall net debt levels will moderate as the tax base continues to experience steady growth.

Downside scenario

All else remaining equal, we could lower the rating if the district's overall net debt does not moderate as expected, either due to additional overall or direct debt issuance or a declining tax base. Additionally, we could lower the rating if the district were to draw on reserves to a level no longer comparable to those of peers at the current rating level.

Upside scenario

Conversely, we could raise the rating if debt levels improved significantly combined with substantial expansion and diversification of the tax base.

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