

RatingsDirect®

Summary:

Community Independent School District, Texas; School State Program

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Credit Profile

US\$33.195 mil unlt'd tax sch bldg bnds ser 2019 dtd 09/01/2019 due 02/15/2049

<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	A+/Stable	New
Community Indpt Sch Dist Texas PSF		
<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 Community Independent School District (ISD), Texas' series 2019 unlimited-tax school building bonds (\$33.2 million). At the same time, S&P Global Ratings affirmed its 'A+' rating on the district's existing general obligation (GO) bonds. The outlook is stable.

Security and use of proceeds

The program rating reflects our assessment of the district's qualification for, and the guarantee provided by, the Texas Permanent School Fund (PSF) bond guarantee program. The program 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, see our report published June 7, 2019, on RatingsDirect.)

An unlimited annual ad valorem tax on all taxable property located within the district secures the 2019 bonds. The bond proceeds will go toward expanding an elementary school, constructing a new high school, and relocating a middle school to support the enrollment growth. After this issuance, the district's direct debt is about \$90 million.

Credit overview

Community ISD is 35 miles northeast of Dallas in Collin County. Reflective of strong residential development, the district's enrollment increased by a cumulative 28%, or 469 students, in the past three years. The district is a fast growing school and is reliant on state funding for its operating revenues. Based on strong enrollment-growth projections for the next few years, combined with recent increases in the per-pupil state funding formula for fiscal years 2020 and 2021 and local revenue growth, we expect revenue increases to offset rising expenditures. However, constraining the rating is the district's moderately high debt, with additional debt needs to support the enrollment growth.

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

- Access to deeper economic and employment bases in the Dallas-Fort Worth metropolitan statistical area (MSA),
- Growing tax base and enrollment trends; and

- Maintenance of a very strong financial position, reflecting very strong reserve levels.

Partially offsetting these strengths, in our view, are the district's moderately high debt burden on a market value basis, which is likely to increase further within the next two years, and its below-average debt amortization schedule and additional debt plans in the near term.

Economy

Community ISD encompasses approximately 89 square miles. The district serves an estimated population of 12,065. In our opinion, median household effective buying income (EBI) is very strong at 131% of the national level, but per capita EBI is good at 97%. At \$70,433 per capita, the 2018 market value totaling \$953.7 million is strong, in our opinion. The 10-largest taxpayers make up an estimated 5.4% of net taxable assessed value (AV), which we consider very diverse.

The local economy is mainly agricultural, but most residents commute to the Dallas metropolitan area, leading to an increase in residential development in recent years. The district has several residential developments in place, and officials anticipate that construction will continue for the next several years. Given its proximity to Dallas, the district has experienced healthy AV growth over the past three years--taxable AV has increased 36% to \$953.7 million in fiscal 2019, with a nearly 16% increase in 2018 alone. Management anticipates AV growth of close to 10% annually for the next two years. District officials anticipate continued tax-base growth for the next several years, with planned residential, and commercial developments all identified as avenues for tax-base expansion. We believe management's projections are reasonable given both the historical trend as well as the substantial list of planned developments scheduled to occur over the next few years.

Finances

A wealth equalization formula, based on property values and average daily attendance (ADA, or property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in ADA (enrollment) can lead to corresponding increases or decreases in the amount of state revenue a district receives. The district is very reliant on state funding, which accounted for more than half (55%) of its general fund revenue in fiscal 2018.

Community ISD operates four educational facilities: two elementary schools, a middle school, and a high school. Reflecting strong residential development, enrollment increased by 28% from fiscal years 2017-2019. For fiscal 2019, enrollment came in at 2,395 students, and the demographic study indicates 8% annual growth to continue for the next three years, reaching 2,993 students by fiscal 2022. Officials indicate that the actual enrollment growth is higher than the 8% projection and expect this trend to continue for the next two years.

The district's available fund balance of \$12.71 million is very strong, in our view, at 63% of general fund expenditures at fiscal year-end (June 30) 2018, as a result of consecutive operating surpluses. Management reported a surplus of 13% of expenditures in fiscal 2018.

Officials attribute the recent surpluses in fiscals 2017 and 2018 to growth in local revenues and higher-than-budgeted state revenue driven by strong enrollment growth. In addition, the district reported a higher-than-average surplus in fiscal 2018, due to \$725,000 transfer in from the capital project to reimburse the general fund for the land purchase for high school construction. For fiscal 2019, officials expect to another operating surplus, further boosting its available

reserves to \$14 million or 64.5% of operating expenditures.

For fiscal 2020, the district adopted a balanced budget. The budget reflects the recent legislative change that will provide more funding per student and will offset the compressed tax rate, along with salary increases and conservative estimates for enrollment and local property values (for more information on state funding change, see our report "Texas Funds Public Schools, Staving Off Expenditure Growth For Now," published June 13, 2019 on RatingsDirect). Officials expect the additional state revenue to cover the district's operating needs for the next two years. Community ISD has no plans to materially reduce its general fund reserves, but we anticipate that the district could experience growth-related challenges in the next several years, which could likely lead to some deterioration in financial performance based on future enrollment and taxable value growth trends.

The fiscal 2019 ad valorem tax rate is \$1.67 per \$100 of taxable value and is made up of the maintenance and operations (M&O) rate of \$1.17 and the interest and sinking (I&S) rate of 50 cents. However, with the recent legislative change, the district intends to reduce the M&O rate to \$1.07, and it will adjust the I&S levy as needed for fiscal 2020.

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.

Management uses historical actual revenue and expenditure figures, along with current and projected demographic information and current state distribution lists, to formulate revenue and expenditure projections. The district amends the budget as needed and provides detailed financial report monthly. These reports include revenue and expenditures comparison to the previous year, as well as budget-to-actual results and year-end forecasts for all funds. The district adheres to the state investment policy and provides earnings and holdings reports quarterly to the board. It has an informal reserve policy to maintain three months of expenditures in reserve, which it has historically exceeded. In addition, the district has a five-year long-term financial plan that it reviews annually. At this time, the district lacks formal long-term capital planning and debt management policies.

Debt

We consider overall net debt moderately high as a percent of market value at 9.9%, and moderate on a per capita basis at \$6,990. Amortization is slow, with 23% of the district's direct debt scheduled to be retired within 10 years. The debt service carrying charge is moderate at 8.7 % of total governmental fund expenditures excluding capital outlay in fiscal 2018.

After this issuance, the district intends to issue remaining authorized bonds (\$34 million) in 2020 from the 2017 bond election. Given the projected growth, the district anticipates to hold another bond election in the near term to add two elementary schools and a middle school and renovate the existing middle school. Considering future debt, we expect the debt burden to remain moderately high in the near term. At this time, the district has no privately placed debt.

Pension and other postemployment benefits liabilities

In fiscal 2018, the district paid its full required contribution of \$398,000 or 1.6% of total governmental expenditures, toward its pension obligations. Also, the district paid \$99,000 or 0.9% of total governmental expenditures, toward its other postemployment benefits (OPEB) obligations in fiscal 2018. Combined pension and OPEB carrying charges

totaled 2.0% of total governmental fund expenditures in 2018.

The district provides pension and retiree health care benefits to eligible employees by participating in the Teacher Retirement System (TRS) and TRS-Care, respectively. A combination of state aid, private grants, and employee contributions cover the district's required contribution in its entirety. As per Government Accounting Standards Board Statement No. 68 standards, employers with benefits administered through cost-sharing, multiple-employer pension plans such as TRS must report their proportionate share of the net pension liability. The district's proportion of the net TRS liability as of the most recent actuarial measurement date (Aug. 31, 2017) was about \$3.9 million. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 74%. Furthermore, the district's proportion of the net OPEB liability as of the most recent actuarial measurement date (Aug. 31, 2017) was \$7.14 million. 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 will impair the district's finances.

Outlook

The stable outlook on the program rating reflects our assessment of the Texas PSF's strength and liquidity.

The stable outlook on the underlying rating reflects our opinion that the district's finances will remain structurally sound and reserves will remain very strong based on the anticipated growth in state and local revenues. As a result, we do not expect to change the rating within the two-year outlook period.

Upside scenario

All else equal, we could raise the rating if the district's additional debt needs decrease overtime, leading us to believe that the overall net burden will moderate to a level comparable with that of its higher-rated peers.

Downside scenario

We could lower the rating if the district's finances deteriorate significantly to a level that is no longer comparable with those of its peers.

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