

RatingsDirect®

Summary:

Huckabay Independent School District, Texas; School State Program

Primary Credit Analyst:

Misty L Newland, San Francisco (1) 415-371-5073; misty.newland@spglobal.com

Secondary Contact:

Kristin Button, Farmers Branch (1) 214-765-5862; kristin.button@spglobal.com

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| US\$8.345 mil unlt'd tax sch bldg bn'ds ser 2019 dtd 07/15/2019 due 08/31/2049 | | |
| Long Term Rating | AAA/Stable | New |
| Underlying Rating for Credit Program | A/Stable | New |

Rationale

S&P Global Ratings assigned its 'AAA' long-term program rating and 'A' underlying rating to Huckabay Independent School District, Texas' unlimited-tax school building bonds, series 2019. The outlook is stable.

Revenue from ad valorem taxes, without legal limitation as to the rate or amount, levied annually against all taxable property in the district secures the series 2019 bonds. The bonds will be issued in the full amount of the May 2019 voter authorization of \$8.4 million for construction of an additional classroom, a gymnasium, and a cafeteria at existing school facilities.

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.

Located in Huckabay and Stephenville, Texas, the district's local economy features average income indicators and is anchored in rodeo, agriculture, and ranching. The addition of a wind farm added significant value to the tax base for fiscal 2019, with the wind farm representing 43% of assessed value (AV). However, the district has also experienced growth in the commercial and residential sectors, resulting in an AV increase of 36% in fiscal years 2015 to 2018. In our opinion, the district's financial position is very strong at about 37% available general fund balance, which management expects to sustain.

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

- Adequate-to-good incomes,
- Very strong financial position, and
- Lack of additional debt plans.

Partly offsetting the above strengths, in our view, are the district's:

- Reliance on a concentrated tax base for debt service, and
- High debt burden per capita.

The district is in Erath and Eastland counties, roughly 80 miles southwest of Fort Worth. The local economy centers on agriculture, primarily ranching activity. Stephenville is also a rodeo capital, according to management. The district serves an estimated population of 1,553. In our opinion, median household and per capita effective buying income are adequate to good at 90% and 97%, respectively, of national levels. Market value totals \$286.1 million for fiscal 2020, which we consider very strong at \$114,404 per capita. Taxable assessed value (AV) grew 36% in fiscal years 2015 to 2018 on turnover of large tracts of farm and ranchland resulting from in-migration. The addition of the top taxpayer, Buckthorn Wind (windmills), in fiscal 2019 added \$121.7 million to AV. However, as a result of Chapter 313, only \$10 million of value is included in the operations-and-maintenance taxable value annually. The taxable value for fiscal 2019 was \$169.5 million, an increase of 10% (or 4% if excluding the \$10 million attributable to the wind farm). Fiscal 2020 taxable value grew 3%. However, the full value of the wind farm for fiscal 2020 declined by 9% to \$110.7 million. For fiscal 2019, the most recent year for which data are available, the top 10 taxpayers account for a concentrated 56% of AV (including the full value of the wind farm).

The leading taxpayer, a wind farm, represents roughly 43% of total AV. In accordance with Chapter 313 of the Texas tax code, known as Texas Economic Development Act, the district has entered into a Chapter 313 agreement with the wind farm. Under the agreement, the project's full value is not subject to full-value taxation during the agreement's first 10 years. During this initial period, the district cannot levy its operations-and-maintenance tax against the project's value; it can levy only against a capped project value. However, Chapter 313 agreements do not limit tax value with respect to debt service tax rates during any year. After the 10-year tax abatements or limitations expire, the full tax value is subject to operations and debt service taxation. However, the district has entered into an agreement with Buckthorn whereby the district will receive a one-time \$1.2 million payment followed by \$50,000 annually for the first 10 years. We understand the district has no immediate plans to spend the one-time payment and may use it for future capital outlay.

In our view, the district's financial position is very strong at 36.5% available general fund balance for fiscal 2018, supported by consistent operating surpluses. Management anticipates an additional surplus for fiscal years 2019 and 2020. Under the legislative changes to the state funding formula, management expects the local operating and maintenance tax rate to fall to 97 cents from \$1.04 per \$100 of AV. However, an increase in state funding will offset this. As part of the state funding increase, a portion is required to be spent on salary increases, which management expects to adhere to while still balancing the budget. Enrollment historically has been steady but has experienced a recent uptick in growth. Management will be adding two new elementary class teachers and expects about 16 new students a year. The district reports an enrollment of 244 students for fiscal 2019.

We consider the district's management practices standard under our financial management assessment methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas. Key practices include monthly budget-to-actual reports to the school board, which updates the budget as needed. Formal policies include investment policy that follows state guidelines with annual investment reports to the board and a debt management policy that outlines the type of debt that can be issued. Long-term planning includes a list of building and equipment replacement assessment and cost. The district lacks written reserve and liquidity policy but targets six months.

The district's debt burden is a high \$7,146 per capita and moderate 3.9% of market value. Including the bonds to be issued, amortization of the district's debt portfolio will be slower than average at 27% in 10 years. The district has no plans to issue additional bonds.

In fiscal 2018, the district paid its full required contribution equal to 1.2% of total governmental expenditures, toward its pension obligations. Also, the district paid less than 1% of total governmental expenditures, toward its other postemployment benefits (OPEB) obligations.

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. A combination of state aid, private grants, and employee contributions covers the district's required contribution in its entirety. 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 funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 74%. 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 program rating reflects our assessment of the Texas PSF's strength and liquidity.

The stable outlook on the underlying rating reflects our view of the district's stable and very strong financial position and lack of additional debt plans for the next two years. As a result, we do not expect to change the rating within the two-year outlook.

Upside scenario

We could raise the rating if the district's economic base expands and diversifies, including reduced reliance on the top taxpayer. We could also raise the rating if we see moderation of its debt burden to levels comparable with those of higher-rated peers.

Downside scenario

We could lower the rating if the district's available reserves deteriorate materially to levels that we no longer consider in line with those of similarly rated peers.

Ratings Detail (As Of August 14, 2019)

Huckabay Independent School District unlt'd tax sch bldg bnds ser 2019 dtd 07/15/2019 due 08/31/2049

| | | |
|--------------------------------------|------------|-----------------|
| Long Term Rating | AAA/Stable | Rating Assigned |
| Underlying Rating for Credit Program | A/Stable | Rating Assigned |

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