S&P Global
Ratings

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Summary:

Denison Independent School District, Texas; School State Program

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Summary:

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Credit Profile		
US$58.645 mil unltd tax sch rfdg bnds ser 2020 dtd 02/01/2020 due 08/01/2041		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
US$18.655 mil unltd tax sch bldg bnds ser 2020 dtd 02/01/2020 due 08/01/2041		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Denison 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 rating and 'A+' underlying rating to Denison Independent School District (ISD), Texas' series 2020 unlimited tax school building bonds, and series 2020 unlimited tax school refunding bonds. At the same time, S&P Global Ratings affirmed its 'A+' rating on the district's general obligation (GO) debt outstanding. The outlook is stable.

An unlimited ad valorem property tax pledge secures the bonds. The series 2020 school building bonds will fund various capital projects, whereas the proceeds from the series 2020 school refunding bonds will refund the district's series 2011 and 2013 GO bonds.

The 'AAA' long-term rating reflects our view of the district's eligibility for 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, see our report, published June 7, 2019, on RatingsDirect.)

The district has continued to bolster its very strong available fund balance, with operating surpluses in each of the past four audited fiscal years, driven by increasing state aid and enrollment, as well as robust tax base growth. Apart from an anticipated $2.5 million-$3 million drawdown of reserves in fiscal 2020 for capital expenditures, we expect the district will continue to maintain a very strong available fund balance over the next two-to-three years. District officials expect the tax base to continue to grow at a robust rate over the next two years, having increased on average by 10.4% over the past four years, driven by residential growth, which in turn is spurring retail and food-service growth. While continued tax base growth may help to reduce the district's debt burden, we expect that its debt burden will remain moderate-to-moderately high over the two-year outlook period due to the slower-than-average amortization rate. We also note that we do not expect pension and other postemployment benefits (OPEB) liabilities as an immediate source of credit pressure, as required contributions currently make up a small portion of total governmental expenditures, and are not expected to materially increase over the next few years.

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

- Growing tax base, with strong market value per capita;
- Adequate income indicators; and
- Very strong available fund balance.

Offsetting these credit strengths are the district's moderately high-to-high overall net debt burden and slow amortization rate.

Economy

Denison ISD serves an estimated population of 28,380, and encompasses 99.7 square miles in Grayson County, and includes the city of Denison. The city serves as the tourist retail center for nearby Lake Texoma, and is approximately 75 miles north of Dallas and four miles south of the state's border with Oklahoma. The area is largely agricultural and industrial, and the local economy is primarily based on agribusiness, manufacturing, and distribution. Tourism and mineral production also play key roles in the local economy. The district's median household effective buying income (EBI)is 80% of the national average, and its per capita EBI is 85% of the national average, both of which we consider adequate. The district's total $2.2 billion market value in 2020 is strong, in our view, at $77,191 per capita. Net taxable assessed value (AV) grew 26.8% since 2018 to $2.2 billion in 2020. District officials expect current growth trends to continue over the next two years, primarily as a result of residential growth, which in turn is spurring retail and food-service growth. Approximately 15.4% of net taxable AV comes from the 10-largest taxpayers, representing a diverse tax base, in our opinion.

Finances

A wealth equalization formula, based on the local revenue level in excess of entitlements appropriated by the state, determines state funding for all school districts. Therefore, increases or decreases in average daily attendance (enrollment) can lead to corresponding increases or decreases in the amount of state revenue a district receives. Student enrollment for 2020 totaled 4,750. Enrollment increased slightly in each year from 2018-2020, and management expects enrollment to increase 25-50 students annually over the next two-to-three years.

The district's available fund balance of $19.8 million is very strong, in our view, at 46% of general fund expenditures at fiscal year-end (Aug. 31) 2019. The district reported a surplus operating result of 7.4% of expenditures in 2019, its fourth-consecutive operating surplus. For general fund revenue, the district depends primarily on property taxes (45.9%) and state aid (49.2%). In fiscal 2020, the district adopted a budget with a general fund deficit of 1% of expenditures, which is in line with the district's historical practices, and which the district typically outperforms. However, in December of 2019, the district adopted a $3.3 million budget amendment to fund one-time capital improvements. As a result, management expects year-end results to show a general fund balance decline between $2.5 million-$3 million. The district does not intend to spend down current reserves over the next two years, and therefore we expect the district's available fund balance will remain what we consider 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.

The district strives to budget conservatively, typically adopting deficit operating budgets that it then outperforms. In developing budget assumptions, management indicates they converse with the county appraiser for AV trends, and also look at historical enrollment growth. Amendments can be made to the district's budget throughout the year, if needed, and the school board is updated on budget-to-actual performance on a monthly basis. The district has a formal investment management policy that is in line with state guidelines, and the board is updated on investment holdings and earnings monthly. While the district does not have a formal fund balance policy, management has a goal to maintain at least three months of expenditures in reserves. At this time, the district does not have formal long-term financial or capital plans, nor does it have a formal debt management policy outside of adhering to state statutes and guidelines governing debt issuance.

Debt

As a percent of market value, we consider overall net debt to be moderately high, at 7.5%, but moderate on a per capita basis at $4,806. Amortization is slow, with 32.0% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 9.4% of total governmental fund expenditures excluding capital outlay in fiscal 2019, which we consider moderate. After this issuance, the district will not have any remaining authorized, but unissued debt remaining, and it does not have plans to issue additional debt over the next two years.

Pension and OPEB liabilities

We do not view pension and OPEB liabilities as an immediate source of credit pressure for Denison ISD, as required contributions currently make up a small portion of total governmental expenditures, and are not expected to materially increase over the next few years. Under a special funding situation, the state contributes a sizable share of the employer contribution and carries responsibility for the proportionate share of the unfunded liability.

The district participates in the following plans as of Aug. 31, 2018:

- Teacher Retirement System (TRS), 73.7% funded with a proportional share of the net pension liability equal to $12.7 million.
- Texas Public School Retired Employees Group Insurance Program (TRS-Care), which provides health insurance coverage to members of the TRS pension plan. TRS-Care is 1.6% funded and the district has a proportionate share of the net OPEB liability of $16.9 million.

In fiscal 2019, the district paid its full required contribution of $816,000, or 1.5% of total governmental expenditures, toward its pension obligations. In fiscal 2019, the district also paid $250,000, or 0.4% of total governmental expenditures, toward its OPEB obligations. Combined pension and OPEB carrying charges totaled 1.9% of total governmental fund expenditures in 2019.

Given that contributions are done on a statutory basis that is typically lower than the actuarially determined contribution (ADC), fiscal 2019 contributions were materially below both static funding and minimal funding progress. Furthermore, the plans' 30-year, level dollar, open amortization schedule will result in slow funding progress even if actual contributions meet the ADC. For more information on recent reforms to improve TRS funding, see "Texas Funds Public Schools, Staving Off Expenditure Growth For Now," published June 13, 2019.

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 available fund balance and growing tax base, as well as our expectation that its debt burden will remain moderately high-to-high for the foreseeable future. Therefore, we do not expect to change the rating during the two-year outlook period.

Upside scenario

If wealth and income indicators increase significantly, and if the district's debt burden moderates, we could raise the rating.

Downside scenario

If reserves fall below levels that we consider very strong due to sustained operating deficits, or if debt increases significantly beyond current levels, causing budgetary pressure, we could lower the rating.

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019