Moody's INVESTORS SERVICE

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# Navasota Independent School District, TX

Update to credit analysis

## Summary


Navasota Independent School District (ISD), TX's credit profile is stable, benefitting from positive financial trends in which the district has doubled its General Fund balance in six years, with an expectation to remain stable over the near term. Despite exposure to the energy sector, the moderately-sized tax base has exhibited only modest declines over the past few years, and will appreciate as housing construction continues. The district's debt burden is elevated, though there are no plans to borrow over the long-term, and the pension burden remains low and manageable.


## Credit strengths

» Healthy financial position

» Manageable pension burden

» Relatively stable tax base despite exposure to the energy sector

## Credit challenges

» Moderate taxpayer concentration

» Above-average debt burden

» Below average income indices

## Rating outlook

Moody's generally does not assign outlooks to local government credits with this amount of debt outstanding.

## Factors that could lead to an upgrade

» Significant tax base expansion and diversification

» Trend of surplus operations increasing reserves

» Material reductions in the debt burden

## Factors that could lead to a downgrade

» Sustained tax base contraction

» Material decline of fund balance or liquidity

» Significant increase in the debt burden

## Key indicators

Exhibit 1

| Navasota Independent School District, TX | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Economy/Tax Base | | | | | |
| Total Full Value ($000) | $1,364,824 | $1,537,729 | $1,654,071 | $1,680,035 | $1,667,256 |
| Population | 18,079 | 18,835 | 19,767 | 19,767 | 19,486 |
| Full Value Per Capita | $75,492 | $81,642 | $83,678 | $84,992 | $85,562 |
| Median Family Income (% of US Median) | 78.4% | 82.9% | 87.4% | 87.4% | 87.4% |
| Finances | | | | | |
| Operating Revenue ($000) | $25,240 | $27,538 | $26,136 | $26,802 | $25,823 |
| Fund Balance ($000) | $4,084 | $5,479 | $8,093 | $9,153 | $8,988 |
| Cash Balance ($000) | $3,951 | $6,701 | $7,802 | $9,519 | $9,393 |
| Fund Balance as a % of Revenues | 16.2% | 19.9% | 31.0% | 34.2% | 34.8% |
| Cash Balance as a % of Revenues | 15.7% | 24.3% | 29.9% | 35.5% | 36.4% |
| Debt/Pensions | | | | | |
| Net Direct Debt ($000) | $32,722 | $32,488 | $30,938 | $33,060 | $31,091 |
| 3-Year Average of Moody's ANPL ($000) | $10,825 | $12,958 | $14,436 | $17,486 | $20,313 |
| Net Direct Debt / Operating Revenues (x) | 1.3x | 1.2x | 1.2x | 1.2x | 1.2x |
| Net Direct Debt / Full Value (%) | 2.4% | 2.1% | 1.9% | 2.0% | 1.9% |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x) | 0.4x | 0.5x | 0.6x | 0.7x | 0.8x |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | 0.8% | 0.8% | 0.9% | 1.0% | 1.2% |

*Source: District's audits; Moody's Investors Service*

## Profile

Navasota ISD includes the City of Navasota, the County's largest city and principal commercial center located at the intersection of State Highways 105, 6 and 90. The District lies mainly in Grimes County, with a portion extending into Brazos County. The City's 2010 population was 7,049, increasing 3.8% since 2000. Enrollment is 3,044 (year-to-date).

## Detailed credit considerations

### Economy and tax base: tax base concentrated in minerals

Despite recent contractions attributed to a decline in oil and gas prices, the district's tax base remains moderately-sized and comparable to A1 peers, and is expected to stabilize over the near term. Navasota ISD is located 25 miles southeast of College Station, and resides in Grimes and Brazos counties. Exposure to the energy sector is apparent both in assessed values (AV) and taxpayers: roughly 25% of the base is minerals and top ten taxpayers account for a moderate 25.3% of AV, with National Oilwell Varco representing 9%. The economic slowdown in 2016 impacted the district's base, which declined in fiscal 2017 and fiscal 2018 by 0.8% and 2.7%, respectively, to $1.6 billion, after increasing annually over the prior decade. Positively, with a stabilization in oil and gas prices, values appear to be recovering, and fiscal 2019 AV is expected to show modest expansion.

Officials report that the local economy benefits from proximity to two high-growth counties: Brazos County to the north and Montgomery County to the south. Housing construction is ongoing, and new businesses are moving into Navasota's downtown. With a steady trickle of new families into the district, management anticipates enrollment numbers, which are fairly stable at around 3,000, to tick upwards, increasing by 5% to 7% over the next five years.

Income indices are slightly below average, with median family income of 87.4% of the US. The October 2017 unemployment rate of 4.1% is above the state (3.5%) and nation (3.9%) for the same period.

## Financial operations and reserves: fund balance has improved over the past several years

The district's financial position will remain healthy over the near term given historic performance and conservative budgeting practices. Fiscal 2017 ended as expected, per our December report, with a very modest deficit of $34,000, reducing General Fund balance to $8.1 million, or a still healthy 34% of revenues. In general, around 75% of revenues are derived from property taxes, with state aid making up the other 25%.

Management anticipates closing fiscal 2018 with a balanced budget. The fiscal 2018 budget reflects a $1.8 million deficit, which includes around $250,000 in capital expenditures. However, officials report that with the recent refunding of their Maintenance Tax Notes, they freed up around $730,000 in General Fund revenues. Additionally, they plan to address capital needs with bond proceeds.

The district will begin preparing the fiscal 2019 budget at the end of February.

### LIQUIDITY

General Fund cash reserves track closely to the General Fund balance. At fiscal 2017 year-end, General Fund cash was $8.4 million, or a strong 35.4% of revenues.

## Debt and pensions: elevated debt burden with no plans to issue over the long-term

The district's debt burden will likely remain elevated over the mid-term given slow principal amortization. With around $80 million in outstanding GO debt, the district's debt burden is elevated for the rating category at 5.2% of fiscal 2018 AV. Positively, officials report that the most recent issuance will address all long-term capital needs, and thus, there are no future borrowing plans.

### DEBT STRUCTURE

All of the district's debt is fixed rate. Principal amortization is below average with 40.3% retired within ten years.

### DEBT-RELATED DERIVATIVES

The district is not party to any derivative agreements.

### PENSIONS AND OPEB

Budgetary pressure due to the district's participation in the Texas Teachers Retirement System (TRS) pension plan is expected to remain minimal in the near term. Moody's fiscal 2017 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $23.5 million, or a modest 0.91 times operating revenues. The three year average of the district's ANPL to operating revenues is 0.79 times, while the three-year average of ANPL to full value is 1.22%. Fixed costs, including pension contributions and debt service, are manageable at 14.1% of fiscal 2017 operating revenues.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's research page on Pensions at www.moodys.com.

## Management and governance

Texas School Districts have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, one of the sector's major revenue sources is subject to a cap of $10.40 per 1,000 of assessed value, which can be overriden at the local level to $11.70 (with voter approval). The voter approved levy override provides for additional revenue-raising flexibility. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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