

## CREDIT OPINION

13 February 2018

Rate this Research



### Contacts

Heather Correia +1.214.979.6868  
 Analyst  
 heather.correia@moody.com

Denise Rappmund +1.214.979.6865  
 VP-Senior Analyst  
 denise.rappmund@moody.com

Alexandra S. Parker +1.212.553.4889  
 MD-Public Finance  
 alexandra.parker@moody.com

### CLIENT SERVICES

Americas 1-212-553-1653  
 Asia Pacific 852-3551-3077  
 Japan 81-3-5408-4100  
 EMEA 44-20-7772-5454

# 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
<b>Economy/Tax Base</b>					
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%
<b>Finances</b>					
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%
<b>Debt/Pensions</b>					
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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

**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.moody.com](http://www.moody.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 overridden 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.

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454