S&P Global
Ratings

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Summary:

Spring Independent School District, Texas; General Obligation; School State Program

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Summary:

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Credit Profile		
US$29.5 mil unltd tax rfdg bnds ser 2020 dtd 06/01/2020 due 08/15/2026		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
Spring Indpt Sch Dist GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' program rating and 'AA-' underlying rating to Spring Independent School District (ISD), Texas' approximately $29.5 million series 2020 unlimited-tax refunding bonds. At the same time, we affirmed our 'AA-' long-term rating and underlying rating on the district's general obligation (GO)-backed debt outstanding. The outlook is stable.

The bonds and the district's GO debt outstanding are secured by revenue from ad valorem taxes levied annually against all taxable property in the district, without limitation as to rate or amount. The district will use proceeds to refund debt outstanding for expected net present value savings, with no extension of maturity.

The 'AAA' program rating reflects our view of Spring ISD'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 the bonds that are guaranteed by the program.

Credit Overview

Relative stability and conservative budgeting have enabled the district to build and maintain a very strong level of reserves. While we view this as a positive credit factor, we also recognize that exposure to oil and gas and airline industries increases the risk of economic deterioration as we head further into recession. (see "An Already Historic US Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect). The district's oil and gas exposure is limited to corporate offices; however, given the severity of the drop in oil prices combined with a recession, what the future may bring is unclear. The recessions' effect on the airline industry has also been severe, and we note the United Airlines is among the district's top employers.

State support is a vital component of revenue for the district, and Texas has committed to maintaining current funding levels. Although the commitment extends through 2021, we believe the states' dependence on the oil and gas sector, as well as reductions in sales tax revenue from depressed prices, will pressure the state's budget and, therefore, could pressure funding for local governments in 2021. Taking a proactive approach, district officials have begun preparing for various degrees of revenue reductions and intend to utilize conservative estimates when adopting next years' budget.

The district's tax base has seen continued growth leading to frequent debt issuances. Although its debt is high, with no additional debt plans in the next two years, and no authorized but unissued debt remaining after the series 2020 issuance, we do not expect the debt burden to increase materially. Provided the above, along with expectations for nearly balanced operations in 2020, we view the credit as stable. Generally, our rating outlook timeframe is up to two years. However, given the current uncertainty around the pandemic, our view is centered on the more immediate budget effects over the next year.

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

- Access to and participation in the broad and diverse Houston-The Woodlands-Sugar Land MSA;
- Generally strong financial results leading to a very strong reserve balance; and
- Continued property tax base growth.

Somewhat offsetting the above strengths are the district's high debt burden and below-average, per capita effective buying income (EBI).

Stable 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.

Downside scenario

We could lower the rating if the reserves were to materially weaken for any reason to levels below those of similarly rated peers, or if an already higher-than-average overall net debt profile were to increase.

Upside scenario

All else remaining equal, we could raise the rating if wealth and income levels improve and if debt metrics were to improve to levels comparable with higher-rated peers.

Credit Opinion

Economy

Spring ISD serves an estimated population of 202,707. Median household effective buying income in the district is good, at 95% of national levels, and on a per capita basis, it is adequate at 77% of national levels. Market value totals $13.1 billion, which we consider strong at $64,617 per capita. Net taxable assessed value (AV) has grown by 4.3% since 2018 to $13.1 billion in 2020. The district recently received preliminary AV values from the appraisal district for 2021 that report an increase to $15.5 billion. The tax base is diverse, in our view, with the ten largest taxpayers accounting for approximately 15.2% of net taxable AV.

Located 20 miles from downtown Houston, the district benefits from access to the broad and diverse Houston-The

Woodlands-Sugar Land metropolitan statistical area (MSA), with local growth fueled by both the availability of affordable housing and the expansion of a number significant employers. The district's underlying economy is anchored by corporate offices for petroleum and energy sector companies ExxonMobil Corp., Southwestern Energy Co., Houston Pipeline Co., and Sempra Energy Trading LLC. While oil-and-gas and mineral production have a substantial presence in the regional economy, actual mineral valuation in the district accounts for only 0.03% of total AV. Therefore, we believe the risk to the district's tax base from the current low-oil-price environment is minimal in the short term. However, if commodity prices fail to recover, upstream oil-and-gas operations could be negatively affected as well.

The appraisal district recently informed officials that they are not anticipating a significant adverse effect on the district's overall tax base as a result of the recession. Moreover, the presence of health care, education, commercial retail, manufacturing, and professional services sectors should provide additional stability for the local economy as stay at home orders begin to expire. During 2019, the district added 650 new residential properties to its tax-base, and officials note that continued development in the area which should help mitigate the potential for AV declines in the short-term.

Finances

A wealth equalization formula, based on property values and average daily attendance (property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in average daily attendance (enrollment) can lead to corresponding movements in the amount of state revenue a district receives. Student enrollment totaled 35,168 for 2020, having decreased slightly overall since 2018, but we note that the cumulate decline is less than 3% overall, and officials anticipate that enrollment should generally remain stable.

The district's available fund balance of $115.9 million is very strong, in our view, at 38% of general fund expenditures at fiscal year-end (June. 30) 2019. The district reported a surplus operating result of 6.4% of expenditures.

The district's financial performance has historically been very strong, and they have operated surpluses in each of the past five fiscal years. Despite adopting a final budget reflecting a relatively modest $3.7 million surplus for 2019, a $12 million one-time reimbursement from the state for lost revenue related to Hurricane Harvey was received, and the district outperformed expectations. Despite using a portion of the reimbursement to fund infrastructure and technology improvements, the net result for the year was an approximate $19.7 million surplus. For the year, revenue was primarily derived from state aid (54.6%), followed by property taxes (41.9%).

The fiscal 2020 budget features a roughly $20 million deficit, which includes a $10 million transfer from the general fund into the capital projects fund. However, with only about two months to go before the fiscal year-end, district officials report that they are expecting to end the year with nearly balanced operations. Although the district had some unanticipated expenses transitioning to a distance learning platform, there were offsetting reductions in other facilities expenses related to closures.

While the district anticipates that it will likely still end the year balanced, future budgets will rely on continuing state funding and tax revenue from the district's local base. And although the state has announced that state aid will not be affected in fiscal 2020 and has announced no state aid changes for fiscal 2021, the economic recession will result in sizable state revenue declines. Furthermore, job losses could lead to a softening housing market and declining AV. We will monitor the effect of the recession and its impact on the district's revenue. However, we believe that the district is well-positioned to deal with this pressure over the near term, given the very strong reserve balance.

The district's current tax rate is $1.43 per $100 of AV, with the maintenance and operations rate set at $0.97 and the interest and sinking rate set at 46 cents. There are no material changes anticipated to the current rate, although further compression to the M&O rate is expected as a result of House Bill 3.

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.

Assessment strengths include management's:

- Revenue and expenditure budget assumptions that consider five years or more of historical information and include discussions with outside resources;
- Monthly budget-to-actual updates to the school board and authorization to amend as necessary, with board approval;
- Formal investment policy that follows state guidelines with quarterly investment reports shared with the board;
- Maintenance of a formal debt management policy; and
- Informal target of maintaining 25% of the operating budget in reserves for emergencies, which it is presently exceeding.

The district currently lacks formalized policies in the areas of long-term capital and financial planning.

Debt

Overall net debt is 10.2% of market value and $6,589 per capita, which we believe to be high. Amortization is average, with 59% of the district's direct debt scheduled to be retired within 10 years. The debt service carrying charge was 13.7% of total governmental fund expenditures, excluding capital outlay, which we consider moderate in fiscal 2019.

The district has no plans to issue additional debt within the next two years, so we do not anticipate that its debt profile will change materially in the near term. Additionally, we have verified that the district is not a party to any direct purchase or privately placed obligations that we believe would pose a risk to its finances or liquidity.

Pension and other postemployment benefit liabilities

We do not view pension and OPEB liabilities as an immediate source of credit pressure for Spring ISD, as required contributions represent a small portion of total governmental expenditures and are not expected to increase over the next few years materially. Under a special funding situation, the state is obligated to make pension contributions on behalf of school districts, mitigating risks of escalating costs for the district.

As of June 30, 2019, the district participates in:

- Teacher Retirement System (TRS), 75.2% funded with a proportional share of net pension liability equal to approximately $125 million; and

- 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 2.7% funded, and the district has a proportionate share of the net OPEB liability of approximately $146.4 million.

Given that contributions are made on a statutory basis that is typically lower than the actuarially determined contribution (ADC), last year's contributions were materially lower than both static funding and minimum funding progress. However, legislative changes increasing contribution rates will likely improve both funding metrics, though some assumptions remain a credit risk. For more information, see "Pension Spotlight: Texas" published on RatingsDirect Feb. 25, 2020.

The district paid its full required contribution of approximately $7.7 million toward its pension obligations in fiscal 2019 or 1.3% of total government expenditures. Also, it paid approximately $2.1 million, or 0.4% of total governmental expenditures, toward its other postemployment benefit obligations.

Ratings Detail (As Of May 8, 2020)		
Spring Indpt Sch Dist unltd tax rfdg bnds ser 2016 dtd 01/01/2016 due 08/15/2034		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Spring Indpt Sch Dist unltd tax rfdg bnds ser 2017A dtd 07/15/2017 due 08/15/2029		
Long Term Rating	AA-/Stable	Affirmed
Spring Indpt Sch Dist unltd tax sch bldg bnds		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Spring Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Spring Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Spring Indpt Sch Dist (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.