

**Parker County Junior College
District-Weatherford, Texas;
Junior/Community College**

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Parker County Junior College District-Weatherford, Texas; Junior/Community College

Credit Profile

US\$25.675 mil cons fd rev bnds ser 2021 dtd 03/01/2021 due 08/01/2050

Long Term Rating

A+/Stable

New

Parker Cnty Jr Coll Dist-Weatherford jr/comnty coll (AGM)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating and stable outlook to Parker County Junior College District-Weatherford (PCJCD), Texas' roughly \$25.675 million series 2021 consolidated fund revenue bonds and affirmed its 'A+' underlying rating (SPUR), with a stable outlook, on PCJCD's existing debt.

We base the SPUR on our assessment of the PCJCD's underlying credit quality. In our view, the SPUR reflects PCJCD's ability and willingness to repay debt without consideration of the credit enhancement.

Officials intend to use series 2021 bond proceeds to acquire; purchase; construct; improve; enlarge; and equip certain property, buildings, structures, activities, operations, and facilities for PCJCD. Projects include the workforce and emerging technologies building.

A first lien on specific pledged revenue--including allowable pledged tuition fees, lab fees, and other fees; unrestricted investment income and gross auxiliary revenue; and any additional district revenue not restricted for any specific purpose--secures the series 2021 bonds and existing debt. Property taxes and state operating appropriations are excluded from pledged revenue. Based on the broad pledge of revenue supporting the series 2021 bonds, we view this as equivalent to an unlimited-student-fee pledge.

Revenue bond security features are adequate, in our view, including a rate covenant of 1.2x maximum annual debt service and a debt-service reserve funded with series 2021 bond proceeds. The issuance of additional parity bonds requires estimated pledged revenue to equal, at least, 1.25x new average annual debt service.

We understand that because of COVID-19 and due to broader public-safety concerns, PCJCD closed its campuses in March 2020 and transitioned to online remote learning for the remainder of the spring 2020 semester. This is consistent with in-state and national peers. In the Summer I session of 2020, PCJCD opened its doors to programs that required face-to-face interaction, such as nursing. In the Summer II session, PCJCD used a hybrid approach with 50% capacity. The hybrid approach should continue through summer 2021. Management indicates some programs do not work well with remote learning, such as nursing and lab-based courses, which it offers in person following state social-distancing protocols.

There is a high level of uncertainty regarding the duration and extent of COVID-19 and the related effects on S&P Global Ratings' rated entities' performance, including the ability to continue delivering classes online, the effect on student retention, the student enrollment level, and the potential for student demands for tuition refunds. PCJCD experienced a 9% enrollment decrease in fall 2020 compared with fall 2019. PCJCD received \$5.968 million of Coronavirus Aid, Relief, & Economic Security (CARES) Act funding for COVID-19-related institutional expenses, 50% of which it must use on student-related emergency grants, with the remainder expected to support technology and other institutional purposes. To date, PCJCD has spent most of the institutional portion of CARES funding with the remainder to be expended in fiscal 2022. In addition, PCJCD also received roughly \$126,468 in strengthening institutions program aid.

Pre-COVID-19 and the recent related recession, based on Gov. Greg Abbott's initial budget proposal, the system's fiscal 2021 state funding should remain flat from fiscal 2020; more recently, the state announced no mid-biennium cuts for community colleges. Management does not expect funding cuts or deferrals in fiscal 2021, but we will monitor evolving state budgetary conditions based on the virus' trajectory on economic activity.

Credit overview

The rating also reflects our view of PCJCD's:

- Historically, consistently positive finances on a full-accrual basis, with the exception of fiscal 2019 due to unbudgeted depreciation expenses related to an administrative computer conversion;
- Solid financial resources for the rating category with adjusted unrestricted net assets equal to 76.7% of operating expenses; 129.5% of revenue debt, notes payable, and capital leases; and 125.3% of total debt, including GO debt, as of Aug. 31, 2019;
- Significant revenue-raising flexibility with an operations-and-maintenance tax rate (12 cents per \$100 of assessed valuation (AV)) that remains below the voted maximum (30 cents per \$100 of AV); and
- Good revenue diversity with 28.3% of fiscal 2020 operating revenue derived from property taxes; 24.5% from net tuition, fees, and auxiliary revenue; and 20.2% from state appropriations.

We believe somewhat offsetting credit factors are, what we consider, PCJCD's:

- Limited, but expanding, local economy; and
- Enrollment base that remains susceptible to economic cycles.

The stable outlook reflects S&P Global Ratings' expectation that during the two-year outlook, enrollment decreases will likely be moderate and will likely stabilize. In addition, management will, at a minimum, balance adjusted financial operations, based on our operating income calculations, on a full-accrual basis. We expect PCJCD will likely maintain financial resource ratios.

Environmental, social, and governance (ESG) factors

In our view, PCJCD has exposure to elevated social risks due to the duration of COVID-19 and the unknown effect it will have on future enrollment and state funding. We view COVID-19 risks to public health and safety as social risks under our ESG factors. However, we consider environmental and governance risks in-line with our view of the sector.

Stable Outlook

Downside scenario

Credit factors that could lead to our lowering the rating or revising the outlook to negative include continued enrollment decreases that contribute to full-accrual operating deficits, if financial resource ratios were to decrease, or if PCJCD were to experience significantly weakened support from state and local sources. Additional debt could also pressure the rating. In addition, while we think PCJCD has proactively addressed COVID-19, and we understand the pandemic is a global risk, we could also lower the rating or revise the outlook to negative during the two-year outlook if unforeseen pressure related to COVID-19 were to materially affect demand, finances, or PCJCD's trajectory.

Upside scenario

We consider raising the rating or revising the outlook to positive unlikely due to the current economic climate and likely pressure on state funding.

Credit Opinion

Enterprise Profile

History

Created in 1949, PCJCD is coterminous with Parker County. Its service area includes Jack, Wise, Hood, and Palo Pinto counties. Parker County is adjacent to Tarrant County's western boundary. PCJCD is responsible for operating Weatherford College, Texas' oldest continuing community college. In addition to the main campus in Weatherford, the college offers classes at its branch campus in Wise County, education centers in Mineral Wells and Granbury, agriculture center, and multiple sites within the service area. PCJCD competes for students with nearby community colleges, such as Tarrant County College, as well as larger regional four-year public and private universities.

The county's local employment base is somewhat limited, in our view. It centers on the governmental sector. Leading employers are:

- Weatherford Independent School District (977 employees),
- Springtown Independent School District (479), and
- Weatherford Regional Medical Center (446).

The county benefits from access to Tarrant County's employment base.

AV has grown steadily by a cumulative 45% since fiscal 2016 to more than \$15.5 billion in fiscal 2021. The 10 leading taxpayers accounted for 4.3% of fiscal 2020 AV, most of which, however, concentrates in the oil-and-gas industry. PCJCD also has significant taxing flexibility because the statutory tax limit is 30 cents per \$100 of AV for current operations and 50 cents for debt service. The tax rate is low at 16 cents per \$100 of AV for fiscal 2021: about 12 cents for operations and maintenance and four cents for GO debt. The tax rate slightly increases annually, and it should

continue to increase. In our view, PCJCD's flexibility to raise tax rates, if needed, is a positive credit factor.

Enrollment

PCJCD's student enrollment is relatively small at 5,391 after two years of consecutive decreases. Fall 2020 full-time-equivalent enrollment, which we view as a better measure of community college demand, was 3,621, down from 4,402, or about 18%, in fall 2019. We attribute these enrollment decreases to, similar to most community colleges nationally, the countercyclical nature of community college enrollment or the area's economy, which pushed more individuals to defer college to take unskilled jobs. We also attribute the enrollment decreases to negative enrollment demand during COVID-19 in the spring and fall 2020 semesters. While officials expect similar enrollment decreases for spring 2021, PCJCD expects demand to level off in school year 2021-2022 due to management's effort to provide an array of programs and course offerings. We will continue to monitor COVID-19's effect on system enrollment and any additional effects it might have on PCJCD.

Management

An eight-member board of trustees, elected by the public, governs PCJCD's operations. Each board member serves a staggered six-year term. The board has supervision of district operations and policy-making responsibilities, including setting tuition and fees, approving annual operating and capital budgets, and approving debt.

In our view, PCJCD follows fairly conservative budgeting and financial-management practices. We understand management budgets conservatively, including enrollment projections based on historical trend analysis. In addition, management prepares five-year financial projections it presents to the board biannually as part of its biennium planning. Management indicates it provides comprehensive monthly financial reports to the board, which it amends twice annually or as necessary.

The board reviews and adopts PCJCD's investment-management policy annually, and management reports on performance and compliance to the board quarterly. PCJCD does not have a formal debt-management policy, but it does have a formal minimum-reserve policy of maintaining 20% of expenditures or greater in reserve. The board adopts balanced operating budgets for each fiscal year before fiscal year-end Aug. 31.

Tuition

Tuition rates remain competitive with peer community colleges statewide and significantly lower than nearby four-year universities, which we think provides the system with some advantages. In our view, PCJCD's tuition and fees, relative to its peers, might provide a competitive advantage should unemployment increase in fall semester 2021, causing more individuals to seek educational opportunities.

In fiscal 2016, the most recent year available, three-year cohort student-loan default rates for the system were 11.7%, slightly higher than the national average of 10.1% but lower than the community college average of 15.9%. In our view, the cohort default rate is not currently a credit risk because a school can only lose Pell Grant funding and access to federal student loans if the cohort default rates exceed 30% for three-consecutive years or 40% in one year. Management reports 25% of its current student population receives Pell Grants. We understand management has been proactively responding to increased cohort default rates by educating students on loan repayments and financial counseling and following up with delinquent students.

Financial Profile

Financial performance

PCJCD has historically posted positive full-accrual operations with the exception of fiscal 2019, which we view positively. The fiscal 2020 audit reports a net surplus of roughly \$2.315 million, or a 1% net operating margin, compared with a deficit of \$455,000, or a negative 5%, in fiscal 2019 and an \$11.993 million surplus, or 20.2%, in fiscal 2018. Management mostly attributes negative operating margins in fiscal 2019 to depreciation expenses associated with the computer-program revamp. Historically, management has maintained positive operations by adopting expense-control measures and conservative budgeting by using internal savings to relocate funds for additional funding.

For fiscal 2021, management expects to administer operations positively. Although PCJCD experienced some decrease in tuition revenue, cost savings due to program closures and other measures--such as freezing hiring and postponing nonessential purchases--somewhat offset the revenue decreases, leading to stronger results compared with fiscal 2019. For fiscal 2021, management expects, at least, breakeven operating results.

Fiscal 2020 operating revenue is diverse, in our view, with about 28.4% coming from property taxes; 24.5% from tuition, fees, and auxiliary revenue; and 20.02% from state operating appropriations.

State appropriations

State appropriations for Texas community colleges are funded on a biennium basis.

The current state funding formula for community colleges allocates a fixed \$1.3 million per college for core operations. Once the state allocates fixed-core-operations funding, it allocates 12% of the remaining state operating appropriations based on performance metrics, such as completion and retention, with the remaining 88% contact-hour driven, an enrollment-based measure.

PCJCD's performance-based funding will be measured by student success, including the students' ability to transfer to four-year institutions and complete a degree or certificate.

Community colleges were exempt from state funding cuts for fiscal 2021 based on the governor's order. However, management expects funding reductions for the next biennium.

Financial resources

We view financial resources as sufficient for the rating category. As of Aug. 31, 2020, unrestricted net assets were \$17.3 million. Including debt-service reserves of roughly \$2.4 million, and the Governmental Accounting Standards Board Nos. 68 and 75 pension-and-other-postemployment-benefit (OPEB)-related adjustments totaling a net \$31 million, adjusted unrestricted net assets were \$46.1 million. This equaled 76.6% of operating expenses and 129.5% of pro forma revenue debt. Cash and investments were stronger at 96.6% of fiscal 2020 operating expenses and 155% of revenue debt.

Debt and contingent liabilities

PCJCD had \$1.14 million of GO debt and \$5.505 of revenue bonds outstanding at fiscal year-end Aug. 31, 2020, not including this issuance. Maximum pro forma annual revenue debt service is manageable, in our view, at 3.7% of fiscal 2020 adjusted operating expenses. Officials do not currently plan to issue additional debt during the two-year outlook.

PCJCD participates in the Texas Teachers' Retirement System, which was 76.8% funded at Aug. 31, 2020. PCJCD's proportionate share of the collective net pension liability equals about \$7.689 million. In fiscal 2020, PCJCD paid its full required contribution of about \$549,000, or less than 1% of expenditures, toward pension obligations.

Under a special-funding situation, the state contributes a sizable share of the employer's contribution and carries responsibility for the employer's proportionate share of the unfunded liability. Since PCJCD makes statutory contributions typically lower than actuarially determined contributions, fiscal 2019 contributions were materially below static- and minimal-funding progress.

Furthermore, the plan's 30-year, level-dollar, open-amortization schedule will result in slow-funding progress, even if actual contributions meet actuarially determined contributions and the 6.9% discount leads to contribution volatility.

Despite that, we do not view pension and OPEB liabilities as an immediate credit pressure because required contributions currently account for a small portion of the budget. We do not expect this to increase significantly during the next few fiscal years.

Related Research

Credit FAQ: What The Latest COVID-19 Economic Relief Bill Means For U.S. Public K-12 Schools

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