S&P Global
Ratings

RatingsDirect®

Summary:

Natalia Independent School District, Texas; General Obligation

Primary Credit Analyst:
Joyce Jung, Centennial + 1 (303) 721 4189; joyce.jung@spglobal.com

Secondary Contact:
Alex Louie, Centennial 303-721-4559; alex.louie@spglobal.com

Table Of Contents

Summary:

Natalia Independent School District, Texas; General Obligation

Credit Profile		
US$1.935 mil maint tax nts ser 2018 dtd 12/01/2018 due 08/15/2037		
Long Term Rating	A+/Stable	New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Natalia Independent School District (ISD), Texas' series 2018 maintenance tax notes, with an approximate par amount of $1.935 million. The outlook is stable. After this issuance, the district's direct debt is $3.125 million.

The series 2018 maintenance tax notes are secured by a limited pledge of the district's maintenance tax rate. We rate the limited-tax maintenance tax notes equivalent to the district general obligation bond rating, as the pledged revenue is derived from the same tax base as the obligor and has fungibility of resources and does not lack commitment to support the obligation with available resources, and we believe a shortfall is unlikely in the next few years.

Officials intend to use series 2018 bond proceeds to fund various maintenance projects (HVAC and various energy savings projects).

Although the district's limited local economy, limited operating revenue flexibility, and expected increase in the debt burden constrain the rating, its very strong finances (equal to roughly 50% of operating expenditures) and stable enrollment and tax base support the rating.

The long-term rating reflects our opinion of the district's:

- Proximity to the San Antonio metropolitan area and access to employment opportunities,
- Very strong available reserves, and
- Stable budget and strong budgetary performance.

We believe these factors are somewhat offset by what we consider the district's:

- Limited local economy based on agriculture,
- Below-average wealth and income, and
- Limited operating revenue-raising flexibility since the maintenance and operations (M&O) property tax rate is at the state-mandated maximum of $1.17.

Economy

Natalia ISD serves an estimated population of 6,238. While the median household effective buying income (EBI) is good at 107% of the national level, per capita EBI is adequate at 78% of the national level. In 2018, market value totaled $227.7 million, or $36,508 per capita, which we consider adequate. Net taxable assessed value (AV) grew by a total of 28.8% since 2016 to $227.7 million in 2018. Roughly 9.6% of net taxable AV comes from the 10 largest taxpayers, representing a diverse tax base, in our opinion.

The district is approximately 30 miles southwest of San Antonio in Medina County. While the district's local economy is limited, in our view, and based primarily on agriculture, residents have additional employment opportunities in the broad and diverse San Antonio metropolitan statistical area. The district's tax base is primarily residential, representing 39% of the AV, followed by land values (30%). The district's tax base consistently increased in the last three years largely due to reappraisals. Given that the district has no material commercial or residential development, the appraisal district expects the tax base to remain flat for the next two years.

Finances

A wealth equalization formula, based on property values and average daily attendance, or ADA (property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in ADA (enrollment) can lead to increases or decreases, respectively, in the amount of state revenue a district receives. For fiscal 2017, the district's primary source of revenue was state revenues (76.6%), followed by property values (22.2%).

The district operates four educational facilities: an early childhood center, an elementary school, a junior high, and a high school. In fiscal 2019, enrollment totaled 1,112 students, and enrollment has been relatively flat with minor fluctuations in recent years (roughly 10-20 students). Officials expect enrollment to remain consistent and stable state revenues to support its operating needs for the next two years.

Our view of the district's available reserves incorporates committed fund balance. The district has consistently maintained $1 million in the committed fund balance, and has no plans to draw down the funds within the next two years. The district's available fund balance of $5.22 million is very strong, in our view, at 48% of general fund expenditures at fiscal year-end (Aug. 31) 2017. The district reported a deficit operating result of 4.8% of expenditures in fiscal 2017.

Based on the district's historical financial performance and estimated results for fiscal 2018, we expect the district's finances to remain very strong. The district's operating budget of $10.5 million has remained relatively stable since fiscal 2013, and the district has historically outperformed its budget due to conservative budget assumptions and the monthly budget-monitoring practices. Additionally, the district maintained roughly 50% of operating expenditures, exceeding its informal reserve target of three months of operating expenditures.

However, the district reported an operating deficit in fiscal 2017 largely due to planned one-time equipment purchases (buses and band instruments). Based on the fiscal 2018 unaudited results, officials expect to report an operating surplus of roughly $98,000, which will boost its available reserves to $5.3 million, or 49.4% of operating expenditures.

For fiscal 2019, the district adopted a balanced budget. The budget assumptions are conservative, in our view, and include less-than-actual AV, flat enrollment, and a 98% tax collection rate. Given that the district does not expect any material increase in recurring operating expenditures or one-time expenditures, and expects energy cost savings to support the maintenance tax notes payments, officials expect current the M&O rate, $1.17, to support its operating needs for the next two years.

At this time, the district's total direct tax rate is $1.28, consisting of $1.17 for M&O and 11 cents for debt service. We note that the district's revenue-raising flexibility is limited, as the district levies the state maximum rate of $1.17 for M&O.

Management

We consider the district's financial management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Management uses five years of historical revenues and expenditures trends in addition to the latest economic information from the appraisal district when formulating the budget. The district provides monthly budget-to-actual reports and actual-to-actual reports (a comparison with the previous fiscal year) and investment reports to the board. Budget amendments can be made as needed pending board approval. The district has a formal investment policy that it reviews annually. While the district does not have a formal reserve policy, it has an informal reserve target of maintaining three months' of general fund operations, which it has historically adhered to. The district lacks formalized policies in the areas of long-term financial planning, long-term capital planning, and debt management.

Debt

In our opinion, overall net debt is low as a percentage of market value, at 1.1%, and very low on a per capita basis, at $400. Amortization is average, with 61% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 3.3% of total governmental fund expenditures excluding capital outlay in fiscal 2017, which we consider low.

After this issuance, the district intends to issue approximately $10.7 million within the next two years. The district intends to use the proceeds for various renovations to address aging facilities. Therefore, we expect the district's debt burden to increase, approaching a level we consider moderately high, at roughly 5.8%. Additionally, we expect the carrying charge to increase. With the anticipated debt issuance and the worst-case scenario--issuing the $10.7 million in one installment--the district could raise the debt service levy by 38 cents, to 49 cents. Although the district is in the preliminary stages of structuring the authorized debt, officials plan to issue the bonds in a manner that minimizes the debt service levy impact for the residents. After the 2019 bond projects, the district has no additional debt plans.

The series 2013 and 2016 bonds are privately placed, and represent 25% of total direct debt. However, the bonds have no acceleration or cross default covenants that could deteriorate the district's liquidity in the near term. The series 2013 outstanding amount is $118,000, which will retire in 2019, and the series 2016 outstanding amount is $696,000, which will retire in 2021.

Pension and other postemployment benefits liabilities

The district paid its total annual required contribution of $267,000 toward its pension obligations in fiscal 2017, or 2.1% of total governmental expenditures. In fiscal 2017, the district also paid $40,000 or 0.3% of total governmental expenditures toward its other postemployment benefits (OPEB) obligations. Combined pension and OPEB carrying charges totaled 2.4% of total governmental fund expenditures in fiscal 2017.

The district provides pension and retiree health care benefits to eligible employees by participating in the Texas Teachers' Retirement System (TRS) and TRS-Care, respectively. A combination of state aid, private grants, and employee contributions covers the district's required contribution in its entirety. As per Government Accounting Standards BoardStatement No. 68 standards, employers with benefits administered through cost-sharing, multiple-employer pension plans such as TRS must report their proportionate share of the net pension liability. The district's proportion of the net TRS liability as of the most recent actuarial valuation (Aug. 31, 2016) was $3.0 million. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 82.0%. Given the low pension and OPEB carrying charges, largely attributed to the special funding situation whereby the state picks up the majority of annual benefit costs, we do not expect postemployment benefit expenses to pressure the district's finances.

Outlook

The stable outlook reflects our opinion that the district's stable enrollment and tax base will support its recurring operating expenditures for the next two years, enabling the district to maintain very strong reserves. As a result, we do not expect to change the rating within the two-year outlook.

Upside scenario

We could raise the rating if the district's tax base continues to expand, increasing wealth and income to levels comparable with those of its higher-rated peers.

Downside scenario

We could lower the rating if the district's available reserves deteriorate materially to levels no longer in line with those of its similarly rated peers.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.