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Summary:

Poth Independent School District, Texas; School State Program

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Summary:

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Credit Profile

US\$2.91 mil unlted tax rfdg bnnds ser 2021 dtd 05/01/2021 due 08/15/2033

<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	A+/Stable	New
Poth Indpt Sch Dist PSF		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed

Rating Action

S&P Global Ratings has assigned its 'AAA' program rating and 'A+' underlying rating to Poth Independent School District (ISD), Texas' \$2.91 million series 2021 unlimited-tax refunding school building bonds, and affirmed its 'A+' underlying rating on the district's existing general obligation (GO) debt. The outlook is stable.

Revenue from unlimited-ad valorem taxes on all property within the districts secures the GO bonds. Inclusive of the series 2021 issuance, the district will have approximately \$15 million of net direct debt.

The program rating reflects our assessment of the district's qualification for and the guarantee provided by the Texas Permanent School Fund (PSF) bond guarantee program. The program provides the security of a permanent fund of assets that the district could use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, see our report published June 25, 2020, on RatingsDirect.)

Credit Overview

Poth ISD serves an agricultural area with a population of approximately 4,055 about 35 miles southeast of San Antonio. Historically, market value in the district has fluctuated in tandem with the oil and gas industry; however, new commercial and residential developments will offset future swings. Before ending 2020 with a surplus budget, the district recorded deficits for five consecutive fiscal years but maintained, in our opinion, a very strong fund balance during this same period. Overall net debt is moderate, and we believe that the district's capital needs will increase as enrollment grows with new housing developments.

In our opinion, the underlying rating reflects our assessment of the district's:

- Access to the strong San Antonio metropolitan area economy, which serves as a regional retail, medical, and service center;
- Strong (116%) household effective buying income (EBI) and good (101%) per capita EBI.
- Improving financial position, characterized by very strong reserves.

- Limited local economy centered around agriculture and the oil and gas industry; and
- Moderately concentrated tax base (29.5%).

Environmental, social, and governance (ESG) factors

We analyzed the district's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile. We determined that its environmental, social, and governance risks are in line with our view of the sector standard. Our rating also incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic and the prolonged recovery. Absent the implications of COVID-19, we consider the district's social risks to be in line with those of the sector.

Stable Outlook

Downside scenario

We could lower the rating if the ISD's budgetary performance demonstrates ongoing operational deficits or if financial reserves decrease to an amount that is no longer consistent with the current rating.

Upside scenario

We could raise the rating if the district's property tax base expanded and diversified to a level more comparable with that of higher-rated peers while maintaining very strong reserves and financial position.

Credit Opinion

Economy

The district is located in southern Wilson County, approximately 35 miles southeast of San Antonio, and serves an estimated population of 4,055. In our opinion, median household EBI is strong at 116% of the national level, but per capita EBI is good at 101%. At \$77,122 per capita, the 2021 market value totaling \$312.7 million is, in our opinion, strong.

Officials note that the local economy has remained resilient since the onset of the Covid-19 pandemic, as the small community has been able to keep infection rates to very low numbers allowing businesses to remain open under state and county mandates. The district has several new developments that are likely to have a positive impact on the local economy. AT&T is in the process of installing a new cell tower in the city limits that will provide better phone service to residents and serve as a tax benefit once the company begins generating revenue from the services on the tower. Additionally, the district's first main subdivision, with approximately 40 homes, is in the final stages of construction and a second and third subdivisions are in the early stages of development. The tax base is moderately concentrated, in our view, based on the top 10 largest taxpayers, comprising 31.5% of net taxable assessed value (AV).

Due to the Eagle Ford Shale, AV has historically fluctuated. After steady increases from 2018 through 2020 (3.5% in total), AV declined 1.2% in 2021 to \$312,731, or \$77,122 per capita, which in our opinion, is strong. Officials noted that they expect the increase in residential home values to offset further declines in AV. The tax base is moderately concentrated, in our view, with the 10 largest taxpayers accounting for approximately 29.5% of net taxable assessed

value. The oil and gas sector contributes 20.49% of this concentrate, with the largest taxpayer, Recoil Resources Inc, contributing 9.66% of total AV.

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 increases or decreases, respectively, in the amount of state revenue a district receives. Enrollment for 2021 totaled 838, declining from 842 in 2020. Historically, enrollment has fluctuated with the swings of the oil and gas industry but increased slightly overall from 2017 to 2021. These slight variations were manageable and officials are now anticipating steady enrollment increases as new housing developments come online.

The district's available fund balance of \$4.2 million is very strong in our view, at 46% of general fund expenditures at fiscal year-end (Aug. 31) 2020. The district ended the year with a \$700,000 surplus (7.7% of 2020 expenditures) as a result of cost savings during the pandemic, enrollment and ADA increases realized during the school year, and better than projected tax collections. Before 2020, the district recorded deficits for five consecutive fiscal years but maintained, in our opinion, a very strong fund balance during this same period.

The current total property tax rate of \$1.30 per \$100 of AV includes a maintenance and operations levy of 97 cents and a debt service levy of 33 cents. The district currently has no plans to change the M&O tax rate, as it expects property values to increase in the future. Additionally, the district is hopeful that the I&S rate may decrease as the refinancing concludes.

For 2021, the district is benefiting from TEA's hold harmless ADA allowances and anticipates ending the year with a surplus the same, if not more than the \$150,000 budgeted. Our current view is that the district's finances will remain stable over our outlook horizon.

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.

Some of the key highlights of management policies and practices include:

- Management prepares its budgets based on historical analysis;
- Officials monitor the budget monthly, with financial reports provided to the board, which can make revisions if necessary;
- Management maintains a written in-depth and conservative investment policy that parallels state laws with strong internal controls and delivers annual updates to the governing body;
- Management has a formal policy of maintaining at least three months of operating expenditures in reserves to offset any reductions in the tax base because of the cyclical nature of the oil and gas industry; and
- The district lacks policies in some areas, including long-term capital planning and debt.

Debt

Overall net debt is moderate, in our opinion, at 5.4% of market value and \$4,385 per capita. With 53% of the district's direct debt scheduled to be retired within 10 years, amortization is average. Debt service carrying charges were 10.9% of total governmental fund expenditures excluding capital outlay in fiscal 2020, which we consider moderate. Officials noted that a future bond election is possible given some capacity needs at the elementary schools. Given these capital needs, we expect the debt to remain moderate, which will continue to constrain the rating.

The district has entered into two direct purchase agreements with Broadway National Bank for its series 2016 bonds and its series 2017 maintenance tax notes. Both series are fixed-rate debt and are secured by the district's limited GO pledge. We do not believe this debt exposes the district to liquidity risk given there is no ability for the bank to accelerate the debt. Non-payment is the primary event of default with writ of mandamus as the remedy.

Pension and other post-employment benefit liabilities

We do not view pension and OPEB liabilities as an immediate source of credit pressure, as required contributions account for a small portion of total governmental expenditures and are not likely to materially increase in the next few years. Under a special funding situation, the state pays a sizable share of the employer contribution and carries responsibility for its proportionate share of the unfunded liability.

The district participates in the following plans:

- Teacher Retirement System (TRS), 75.5% funded with a proportional share of the net pension liability equal to \$2,158; 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 4.99% funded, and the district has a proportionate share of the net OPEB liability of \$2,280.
- The district paid its full required contribution of \$163,000, or 1.3% of total governmental expenditures, toward its pension obligations in fiscal 2020 and also paid \$48,000, or 0.4% of total governmental expenditures, toward its OPEB obligations in fiscal 2020. Combined pension and OPEB carrying charges totaled 1.6% of total governmental fund expenditures in 2020.

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