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Ratings

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Summary:

Premont Independent School District, Texas; School State Program

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Credit Profile		
US$3.955 mil unltd tax sch bldg bnds ser 2021 dtd 07/01/2021 due 08/15/2051		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	A/Stable	New
Premont Indpt Sch Dist unltd tax sch bldg and rfdg bnds ser 2017 dtd 07/01/2017 due 08/15/2018-2036 2042 2047		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	A/Stable	Affirmed
Premont Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	A/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term program rating and 'A' underlying rating to Premont Independent School District (ISD), Texas' $3.995 million series 2021 unlimited-tax school building and bonds. At the same time, S&P Global Ratings affirmed its 'A' underlying rating on the district's general obligation (GO) debt outstanding. The outlook is stable.

Revenue from an unlimited-ad valorem tax levied on all taxable property in the district secures the bonds. Proceeds will fund renovations for the high school, including to classrooms and bathrooms, and fund security upgrades.

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

After a period of accreditation and financial challenges, Premont ISD has entered into strategic partnerships with local universities to advise the district, offer development tools for teachers to raise academic test scores, and tutor students. As a result, the district has seen steady enrollment increases by distinguished itself from neighboring districts—offering early college classes and certification academies—and was recently recognized by the governor as one of the top five districts in the state for career development. Utilizing conservative management practices, the district's finances have improved considerably with the new administration. Offsetting these strengths, the district's local economy is concentrated in oil/gas, and the debt, though moderate, is elevated compared to peers.

The rating reflects our assessment of Premont ISD's:

- Concentrated tax base with low (nominally and compared to peers) wealth and income levels;
- Very strong financial position, as evidenced by consecutive surpluses;
- Strategic partnership with Texas A&M University-Kingsville and other universities to promote academic success; and
- Moderate, but elevated compared to peers, debt burden.

Environmental, social, and governance (ESG) factors

We believe that the local economy's heavy dependence on oil and gas production exposes the district to outsized environmental risks relative to its peer group, insofar as factors such as future changes in federal regulations pertaining to carbon emissions and the transition to renewable energy could adversely affect the oil and gas industry, which could in turn pressure the local economy and revenue performance. Additionally, we analyzed the district's social and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that both are in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could consider raising the rating if the district were to see improvement in the local economy, specifically diversification in the tax base, resulting in improved wealth and income levels, all other factors consistent.

Downside scenario

Conversely, we could lower the rating if the district's financial position were to materially deteriorate.

Local economy concentrated in oil and gas

Located in south Texas, approximately 70 miles southwest of Corpus Christi and 100 miles east of Laredo, the district's local economy is primarily based in agribusiness as well as petroleum production. Oil-and-gas-related taxpayers dominate the top 10 taxpayers. The unemployment rate in the district has historically been elevated, including during the pandemic, which is partially attributed to the oil and gas industry volatility and corresponding swings in employment. The largest taxpayer, Kinder Morgan Tejas Pipeline, which accounts for 10.9% of fiscal 20201 AV, is a new pipeline in the area which improved the tax base by 14% to $169 million in 2020. Management anticipates modest AV growth in the next two to three years.

Compared with peers at a similar rating, wealth and income levels are below average. The district reports no significant impact from the COVID-19 pandemic on the local economy and major taxpayers and noted that a number of smaller commercial businesses opened during the pandemic; thus, we expect the economic fundamentals will remain stable in the near term.

Strong financial performance and growing enrollment support very strong operating reserves

The district has recorded four consecutive surpluses resulting in a very healthy financial profile. In fiscal 2020, the district received more state aid than was budgeted and saw lower than budgeted expenditures, partially due to the savings due to pandemic-related shutdowns. The district conservatively estimates adding $1 million to reserves at fiscal year-end 2021 and although the district has not yet adopted the budget for fiscal 2022, management is expecting to increase the budget by $700,000. The district makes an annual transfer to a construction fund for future capital improvement projects and intend to use reserves for two smaller-scale projects- demolition of the old elementary school and construction of a concession stand and restrooms at the football field.

The district has not received any federal stimulus funds yet but is expecting approximately $4.3 million in funds—via elementary and secondary school emergency relief fund (ESSER) 2 and 3—some of which will be recorded in fiscal 2022. The district plans to use these funds to address learning remediation. Unlike many districts who are having to supplant these federal funds to make up with hold harmless losses, Premont ISD saw an increase in enrollment during the pandemic and is expecting enrollment growth in the future. The growth is partially due to the district's improving academics and partnerships with universities nearby (Texas A&M- Kingsville, Corpus Christi, and Belmar College). Additionally, the district offers early college, something that neighboring districts do not. The district primarily relies on state aid for its revenues (76% in fiscal 2020), followed by local sources at 19%; therefore, increases or decreases in average daily attendance (enrollment) can lead to corresponding movements in the amount of state revenue a district receives.

Given the district's unique program offerings and conservative budgeting practices, we expect the district to maintain a strong financial profile over the next two to three years.

Standard management with adequate policies in some but not all key areas

Practices include monthly reporting of revenue and expenditures to the board with the ability to amend the budget as needed, a formal investment management policy with monthly performance and holdings reports submitted to the board, and an informal policy of maintaining no less than $1.3 million in general fund reserves. The district lacks formal policies in some areas, including long-term planning and debt management.

Moderate debt profile but elevated compared to peers

The district went to voters in May and received authorization from voters to issue $4.13 million, the district is issuing the full amount with this issuance. Following this issuance, the district does not anticipate issuing additional debt in the near future, as the current borrowing should accommodate its capital needs. Given the slow amortization and limited AV growth, we expect the district's debt burden to remain elevated. We note that the district's series 2012 maintenance tax notes are privately placed but expected to be retired in the next year. Additionally, the district has $888,000 in outstanding time warrants. The notes do not contain any nonstandard events of default and there are no acceleration rights.

Pension and other post-employment benefit liabilities

We do not view pension and OPEB liabilities as an immediate source of credit pressure for Premont ISD, as required contributions currently make up a small portion of total governmental expenditures and are not expected to materially increase over the next few years. Under a special funding situation, the state contributes a sizable share of the employer contribution and carries responsibility for the proportionate share of the unfunded liability.

The district participates in the following multiple-employer, cost-sharing plans:

- Texas Teachers' Retirement System (TRS): 75.5% funded, with a proportional share of the net pension liability equal to $2.14 million.

- Texas Public School Retired Employees' Group Insurance program (TRS-Care), which provides health insurance coverage to members of the TRS pension plan is 5% funded and the district has a proportionate share of the net OPEB liability of $2.59 million.
- (For more information on pensions, see our report "Pension Spotlight: Texas," published Feb. 25 2020, on RatingsDirect.)

Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	**2019**	**2018**
Economic indicators					
Population				3,376	3,363
Median household EBI % of U.S.	Low			63	71
Per capita EBI % of U.S.	Low			59	63
Market value ($000)		168,548	146,975	133,860	138,744
Market value per capita ($)	Adequate	49,925	43,535	39,650	41,256
Top 10 taxpayers % of taxable value	Concentrated	42.2	43.8	34.8	32.2
Financial indicators					
Total available reserves ($000)			3,011	2,364	2,334
Available reserves % of operating expenditures	Very strong		41.8	42.0	46.8
Total government cash % of governmental fund expenditures			1.6	1.5	1.8
Operating fund result % of expenditures			9.4	0.5	16.3
Financial Management Assessment	Standard				
Enrollment		710	664	617	494
Debt and long-term liabilities					
Overall net debt % of market value	Moderately high	9.1	7.9	10.4	10.8
Overall net debt per capita ($)	Moderate	4,568	3,246	4,293	4,440
Debt service % of governmental fund noncapital expenditures	Low		7.4	9.2	9.2
Direct debt 10-year amortization (%)	Slow	26	15	15	15
Required pension contribution % of governmental fund expenditures		-	1.3	1.3	1.1
OPEB actual contribution % of governmental fund expenditures		-	0.3	0.3	0.4
Minimum funding progress, largest pension plan (%)		-	68.7	63.4	71.6

EBI--Effective buying income. OPEB--Other postemployment benefits.