

## Summary:

# Seguin Independent School District, Texas; Miscellaneous Tax; School State Program

### Credit Profile

US\$31.335 mil unlted tax sch bldg bnds ser 2019 dtd 07/15/2019 due 02/15/2049

*Long Term Rating* AAA/Stable New

*Underlying Rating for Credit Program* AA-/Stable New

Seguin Indpt Sch Dist maintenance tax nts ser 2016Z dtd 10/18/2016 due 08/01/2031

*Long Term Rating* AA-/Stable Affirmed

Seguin Indpt Sch Dist PSF / CRS

*Long Term Rating* AAA/Stable Affirmed

*Underlying Rating for Credit Program* AA-/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term (program) rating and 'AA-' underlying rating to Seguin Independent School District (ISD), Texas' series 2019 unlimited-tax school building bonds. At the same time, S&P Global Ratings affirmed its 'AA-' underlying rating on the district's existing general obligation (GO) debt and series 2016Z maintenance tax notes outstanding. The outlook is stable.

Revenue from unlimited ad valorem taxes on all taxable property within the district secures the GO bonds. The bond proceeds will be used for the construction of a football stadium, the renovation of an elementary school, the construction of a middle school, annexation of land for a new elementary school, and for other capital improvement projects throughout the district.

Maintenance tax notes are payable from available funds, including annual ad valorem maintenance-and-operations tax revenue from a levy on all taxable property in the district within the limits provided by law. We make no rating distinction between the district's unlimited- and limited-tax debt, because the taxing base is coterminous with the district and we see no unusual risks regarding the district's willingness to support debt or resource fungibility.

The program rating reflects our assessment of the district's qualification for, and the guarantee provided by, the Texas Permanent School Fund 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, see our report published June 8, 2018 on RatingsDirect.)

The district has built and maintained a very strong financial position for the past two years, despite some major drawdowns for planned capital outlay. Over the next two to three years, we expect the district's financial position to remain very strong given the recent increasing assessed value (AV) trend, very diverse tax base, additional state funding from the recently enacted House Bill 3 (see our report "Texas Funds Public Schools, Staving Off Expenditure

Growth For Now," published June 13, 2019), and officials' lack of plans to significantly spend down reserves in the near future. After this issuance, the district plans to issue the remainder of its authorized debt in the near term and return to voters for additional authorization in the medium term if capacity needs arise. As a result, the district's debt profile will remain elevated for the foreseeable future.

The underlying rating reflects our opinion of the district's:

- Access to the San Antonio metropolitan statistical area's (MSA) strong and diverse economy;
- Very diverse taxpayer bases, with adequate income and strong market value per capita; and
- Very strong finances.

Partly offsetting the above strengths, in our view, are the district's:

- High overall net debt on a per capita bases, with near-term plans to issue additional debt; and
- Below-average amortization.

## **Economy**

Seguin ISD serves an estimated population of 47,580. In our opinion, median household effective buying income is adequate at 90% of the national level, but per capita effective buying income is adequate at 82%. At \$65,728 per capita, the 2018 market value totaling \$3.13 billion is, in our opinion, strong. Net taxable AV has been growing since fiscal 2015 (with the exception of a small decline of 6.3% in 2017) to \$3.1 billion. Officials estimate about 4% average AV growth over the medium term based on historical averages, but budget conservatively at 2% growth. Roughly 13.5% of net taxable AV comes from the 10 largest taxpayers, representing a very diverse tax base, in our opinion. The two top taxpayers are Structural Metals Inc. and Caterpillar Inc. at 4.5% and 2.6%, respectively.

The district is about 35 miles east of San Antonio in Guadalupe County. The City of Seguin has direct transportation access to the San Antonio MSA by Interstate 10 and the Austin MSA by I-35. The city also benefits from increased accessibility by Texas State Highway 130. The local economy centers on agriculture and manufacturing, but is primarily residential. Most residents work in the area, but employment opportunities are also available in the San Antonio and Austin MSAs. Management reports that new residential development is taking place within the district and along its outskirts, and could lead to the construction of about 7,300 new dwelling residential units over the course of the next 18 to 24 months.

## **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. The district is slightly above the wealth equalization level, but is not required to pay recapture payments to the state at its current level.

Student enrollment, which has remained relatively flat in the past several years, is an estimated 7,341, which is represents a decrease by 1% from the previous year. Residential development underway leads us to believe that

additional enrollment growth is possible in the near future, but the full impact of that enrollment growth is not yet known.

The district's available fund balance of \$27 million is very strong, in our view, at 42% of general fund expenditures at fiscal year-end (June 30) 2018. The district reported a surplus operating result of 2.4% of expenditures. The district depends primarily on property taxes for general fund revenue (56.5%), followed by state aid (40.4%).

As a result of conservative budgeting and expenditure controls, the district has posted general fund surpluses for eight of the past nine fiscal years. The exception was a deficit in 2016 as a result of planned capital outlay for the completion of a high school. Although officials adopted a deficit budget for fiscal 2019, management anticipates ending the year with an approximate surplus of \$2 million, or 3% of operating expenditures, with instruction and capital expenses coming in under budget. As a result, we project the district's unassigned fund balance to remain strong for the near future. The district plans to adopt a balanced budget in fiscal 2020, and expects to receive about \$4 million in additional state aid from the passage of House Bill 3.

The property tax rate of \$1.42 per \$100 of AV consists of \$1.06 dedicated for maintenance and operations and the remaining 36 cents for debt service. The district anticipates a compression in the maintenance and operations rate by 7 cents as a result of the House Bill 3 provisions, as well as an increase in the debt service rate by as much as 5 cents over the next two years to assist with debt service payments.

### **Management**

We consider the district's management practices standard under our financial management assessment methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas. Key practices include use of 10 years of historical analysis and consultation with outside sources for revenue and expenditure assumptions. Furthermore, budget-to-actual comparisons are reported to the board on a monthly basis and amendments are made as needed. The board has adopted a formal investment policy, which closely mirrors state guidelines, and reviews holdings and earnings reports quarterly. The district lacks formal long-term financial planning, capital planning, and debt management policies. The board recently formalized a liquidity policy to maintain a minimum of 25% of operating expenses in reserves.

### **Debt**

We consider overall net debt moderately high at 7.7% of market value and high at \$5,093 per capita. With 41% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. The debt service carrying charge was 14.3% of total governmental fund expenditures excluding capital outlay, which we consider moderate, in fiscal 2018. The 2016Z maintenance tax notes were privately placed, but with no permissive legal provisions.

Seguin ISD has \$30 million in authorized but unissued debt remaining, and expects to issue the remaining debt in 2020. Officials report that they may attempt to gain additional voter authorization within the next two to five years under the condition that no changes need to be made to the debt service tax rate.

## **Pension and other postemployment benefit liabilities**

Seguin ISD participates in the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The plan is 82% funded and the district's proportionate share of the net pension liability in fiscal 2018 was \$14.5 million. The district paid its full required contribution of \$1.5 million, or 1.6% of total governmental expenditures, toward its pension obligations in fiscal 2018.

The district provides other postemployment benefits (OPEB) under the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the TRS. The plan is 1.6% funded and the district's OPEB net pension liability in fiscal 2018 was \$25 million. The district paid \$387,000, or 0.4% of total governmental expenditures, toward its other OPEB obligations. Even though the OPEB payments represent a small portion of expenditures, they may represent a higher percentage in the future, since they are essentially pay-as-you-go.

Given the low OPEB funding rate, the district may need to increase its OPEB contributions in the medium to long term. However, pension and OPEB contributions currently represent low budgetary pressure. Pension and OPEB carrying charges totaled 2% of total governmental fund expenditures in 2018.

## **Outlook**

The stable outlook on the underlying rating reflects our expectation that we will not change the rating over the two-year outlook horizon. We expect Seguin ISD to maintain reserves in accordance with its formal fund balance target. In addition, we believe the overall net debt ratios will likely remain elevated as a result of below-average amortization and plans to issue additional debt.

### **Upside scenario**

If market and income values significantly increased to levels we believe are commensurate with those of higher-rated peers, and debt levels were to moderate, we may consider a higher rating.

### **Downside scenario**

We could lower the rating in case of additional drawdowns of the fund balance that result in a decline to levels we no longer view as very strong. We could also lower the rating if increasing enrollment pressures result in the need for additional voter authorization for debt in the near term, as opposed to the medium or long term, elevating the debt profile to a level no longer comparable with that of 'AA-' 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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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