

# RatingsDirect®

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## Summary:

# Luling Independent School District, Texas; School State Program

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# Luling Independent School District, Texas; School State Program

### Credit Profile

US\$7.0 mil unltd tax sch bldg bnds ser 2019 dtd 08/01/2019 due 02/15/2049

<i>Long Term Rating</i>	AAA/Stable	New
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<i>Underlying Rating for Credit Program</i>	A+/Stable	New
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Luling Indpt Sch Dist unltd tax rfdg bnds ser 2016

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
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## Rationale

S&P Global Ratings has assigned its 'AAA' long-term program rating and 'A+' underlying rating to Luling Independent School District (ISD), Texas' series 2019 unlimited-tax school building bonds, and affirmed its 'A+' underlying rating on the district's existing general obligation (GO) debt. The outlook on all ratings is stable.

The bonds are a direct obligation of the district, payable from an unlimited ad valorem tax levied on all taxable property within the district. Officials will use the bond proceeds for various facility improvements throughout the district.

The program rating reflects our assessment of the district's eligibility for, and participation in, the Texas Permanent School Fund (PSF) bond guarantee program.

Luling ISD has a local economy that is primarily driven by the oil and gas industry, which can cause fluctuations in assessed valuations (AV) and enrollment. Recent AV increases have been the result of strong mineral values and reappraisals on existing properties. New construction is relatively limited. The district maintains very strong financial reserves as demonstrated with a fund balance of \$5.1 million, equal to 43% of general fund expenditures. Debt is what we consider low at 1.9% of AV, but will increase slightly with debt expected to be issued in 2020.

The 'A+' rating reflects our view of the district's:

- Access to broader employment bases in the Austin and San Antonio metropolitan statistical areas;
- Very strong financial position; and
- Low overall net debt burden.

Partially offsetting the above strengths, in our opinion, are the district's

- Below-average, but adequate, income levels; and
- Somewhat limited local economy concentrated in oil and gas production.

## **Economy**

Luling ISD is located 40 miles south of Austin and 50 miles east of San Antonio in Caldwell County. It serves an estimated population of 6,931 and income levels are adequate, in our view, at 87% and 80% of national averages, respectively, for median household and per capita effective buying incomes. The district's total \$479.9 million market value in 2019 is strong, in our view, at \$69,236 per capita. Although the local economy is based primarily on the oil and gas industry, the top 10 taxpayers are still diverse comprising 19.4% of net taxable AV. Due to the close proximity of the cities of San Antonio and Austin, residents have access to broader employment opportunities. Net taxable AV has risen by a total of 18.7% since 2017 to \$479.9 million in 2019, because of increases in mineral values and reappraisals on existing properties. New construction is relatively limited but includes two hotels and small residential projects.

## **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. In 2019, enrollment came in at 1,397 students. Enrollment decreased in each year from 2017 to 2019 but historically fluctuates from 1,300-1,400 annually.

The district's \$5.1 million available fund balance is very strong in our view, at 43% of general fund expenditures at fiscal year-end (June 30) 2018. The district reported a surplus operating result of 2% of expenditures in 2018. Luling ISD has a history of practicing conservative budgeting for revenues and expenditure, which supports annual operating surpluses. The fiscal 2019 adopted budget was balanced although current estimates project that the fund balance could decline by approximately \$200,000 because of security enhancements and maintenance repairs that were made during the year. Management does not have plans to draw down further on the fund balance and we believe it will remain very strong despite the one-time use of reserves in fiscal 2019. For fiscal 2020, the district expects to adopt a balanced budget that includes salary increases coming out of state legislation.

## **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. These practices include:

- Management uses three to five years of historical data to formulate revenue and expenditure projections.
- The district amends the budget as needed and provides monthly financial updates to the board.
- Luling ISD also has a formal investment policy and provides earnings and holdings reports to the board on a monthly basis.
- The district has an informal reserve policy of maintaining three months of operating expenditures in its reserves.
- The district currently lacks a debt management policy, a long-term financial plan, and a long-term capital plan.

## **Debt**

Overall net debt is 1.4% of market value and \$1,909 per capita, which we believe to be low. Amortization is slow, with 32% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 3.2% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider low.

The current \$7 million bond issue will fund a new pre-kindergarten to grade 5 campus and renovations at an existing classroom building and the junior high school. The remaining \$24.9 million in authorized debt is expected to be issued in the summer of 2020 and there are no plans to seek additional bond authorization from voters after that. The district is not party to any direct purchase debt and is not exposed to contingent liabilities.

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

The district provides pension benefits to its retirees through the Texas Teachers' Retirement System (TRS), a cost-sharing, multiple-employer, defined benefit pension plan that is 74% funded. The district also offers health benefits to retirees through the Texas Public School Retired Employees' Group Insurance program (TRS-Care), a cost-sharing, multiple-employer, defined benefit postemployment health care plan.

In fiscal 2018, the district paid its fully required contribution of \$201,000, or 1.5% of total governmental expenditures, toward its pension obligations. The district also contributed \$58,000, or 0.4% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2018. Combined pension and OPEB carrying charges totaled 1.9% of total governmental fund expenditures in 2018.

## **Outlook**

The stable outlook on the 'AAA' program rating reflects our opinion of the Texas PSF's strength and liquidity.

The stable outlook on the 'A+' underlying rating reflects our opinion that the district will maintain its very strong reserves to hedge against potential property tax volatility due to its concentrated economy in the oil and gas sector. The outlook also reflects our expectation that the district will continue to benefit from its proximity to the large and diverse economies of Austin and San Antonio. We do not anticipate changing our rating within the two-year outlook horizon.

### **Upside scenario**

We could raise the rating if the district's local economy significantly expands and diversifies, leading to improved wealth and income measurements that are comparable to those of its higher-rated peers.

### **Downside scenario**

Conversely, we could lower the rating if district's available fund balance falls below its informal target of three months of operating expenditures.

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