

RatingsDirect®

Summary:

Stephenville Independent School District, Texas; School State Program

Primary Credit Analyst:

Katelyn A Batesel, Centennial + 1 (303) 721 4683; katelyn.batesel@spglobal.com

Secondary Contact:

Kristin Button, Dallas (1) 214-765-5862; kristin.button@spglobal.com

Table Of Contents

Rationale

Outlook

Summary:

Stephenville Independent School District, Texas; School State Program

Credit Profile

US\$54.44 mil unlted tax sch bldg bnds ser 2018 dtd 08/15/2018 due 02/15/2043		
<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
Stephenville Indpt Sch Dist unlted tax qual sch const bnds taxable		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
Stephenville Indpt Sch Dist PSF		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating and 'AA-' underlying rating to Stephenville Independent School District (ISD), Texas' series 2018 unlimited-tax school building bonds. At the same time, we affirmed our 'AA-' underlying rating on the district's outstanding general obligation (GO) debt. The outlook is stable.

The long-term program rating reflects our view of the district's eligibility for, and participation in, the Texas Permanent School Fund bond guarantee program, which provides the security of a permanent fund of assets the district can use to meet debt service on bonds guaranteed by the program.

Revenue from an unlimited ad valorem tax secures the bonds. Proceeds will be used to acquire, construct, renovate, and equip school facilities.

The 'AA-' rating reflects our view of the district's:

- Consistent surplus operations,
- Very strong reserves, and
- Strong market value per capita.

Partly offsetting the above strengths, in our view, are the district's below-average, albeit adequate, income indicators and elevated debt burden.

Economy

Stephenville ISD serves an estimated population of 24,709. Median household and per capita effective buying income in the district are adequate at 73% and 69% of national levels, respectively. The district's total \$1.8 billion market value

in 2019 is strong, in our view, at \$74,260 per capita. Net taxable assessed value has grown by 16.6% since 2017 to \$1.8 billion in 2019. Roughly 12.5% of net taxable assessed value comes from the 10 largest taxpayers, representing a very diverse tax base, in our opinion.

The district is approximately 60 miles southwest of the Dallas-Fort Worth metropolitan area. Stephenville serves as Erath County's seat for the surrounding communities; the city is the hub for county medical, retail, industrial, and education services. Agriculture, manufacturing, and service industries continue to support the local economy. Tarleton State University, a member of the Texas A&M System, provides further economic stability as the leading employer (1,238 employees). Other major local employers include FMC Technologies (809), the district itself (541), Saint-Gobain Abrasives (450), and Wal-Mart (429). In 2017, the unemployment rate was below both the state (4.3%) and national (4.4%) averages at 3.4%.

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. Enrollment came in at 3,665 students in 2018, having increased overall since 2014. Management projects that enrollment will remain fairly level for the next few years, which we believe is reasonable given the historical trend.

The district's available fund balance of \$8.1 million is very strong, in our view, at 27% of general fund expenditures at fiscal year-end (Aug. 31) 2017. In addition to its available general fund balance, the district held roughly \$4 million in committed reserves at fiscal year-end 2017, which management reports could be reclassified and used for operations upon board approval. Including these funds, we consider the district's resulting available reserves very strong at 39.8% of general fund expenditures. The district reported a surplus operating result of 4.5% of expenditures.

Over the past four fiscal years, the district posted only one operating deficit, which management attributes to roof repair costs that fell during the 2016 fiscal year, but for which it received insurance reimbursements the following year. Management projects that the district will post general fund surpluses in fiscal years 2018 and 2019, which we believe is reasonable given the district's record of stable operations. Consequently, we anticipate that the district will maintain very strong reserves for the foreseeable future.

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.

We have revised our assessment to standard from good, as the district no longer maintains a formal reserve policy.

Highlights of the district's financial management policies and practices include the use of both historical data and consultations with a number of outside sources to develop financial forecasts, monthly reporting to the board on both budget-to-actual performance and investment holdings, maintenance of a formal investment management policy, and adherence to an informal reserve target to keep \$9 million to \$10 million in total reserves. The district maintains neither a formal long-term capital improvement plan nor a formal debt management policy, and although management has a formal long term financial plan, we believe the plan lacks a number of key details.

Debt

We consider overall net debt moderately high at 6.3% of market value but moderate at \$4,418 per capita. With 32% of the district's direct debt scheduled to be retired within 10 years, amortization is slow. The debt service carrying charge was 7.2% of total governmental fund expenditures excluding capital outlay, which we consider low, in fiscal 2017.

The district has no plans to issue additional debt within the next two years, so we do not anticipate that its debt profile will change materially in the near term. We have verified the district is not party to any privately placed or direct purchase agreements that would pose a risk to its finances or liquidity.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of \$517,000, or 1.4% of total governmental expenditures, toward its pension obligations in fiscal 2017. The district also paid \$106,000, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 1.7% of total governmental fund expenditures.

The district participates in the Texas Teachers' Retirement System (TRS). According to its 2017 audit, which adhered to Governmental Accounting Standards Board Statement No. 68 reporting standards, its share of the plan's net pension liability was nearly \$5.7 million. The plan's fiduciary net position was 82% of the total pension liability. The district also contributes to TRS Care, a cost-sharing, multiple-employer defined benefit postemployment health care plan. Given that the district's pension and OPEB obligations represent a comparatively small proportion of its budget, we believe they pose little pressure to the district's finances.

Outlook

The stable outlook on the program rating reflects our assessment of the strength and liquidity of the Texas Permanent School Fund program.

The stable outlook reflects our anticipation that the district will post balanced operations in most years and thereby maintain very strong reserves for the foreseeable future. Consequently, we do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

If the local economy were to materially grow and develop, as evidenced by improved income and market value indicators, we could consider raising the rating.

Downside scenario

If the district's financial performance were to deteriorate, such that its reserves fell to a level we no longer considered commensurate with that of similarly rated peers, or if its debt burden were materially increase without offsetting tax base growth, we could consider lowering the rating.

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.

Summary: Stephenville Independent School District, Texas; School State Program

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.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.