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Ratings

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Southwest Texas Junior College District; Junior/Community College

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Unenhanced Rating	A(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Credit Highlights

- S&P Global Ratings raised its underlying rating (SPUR) to 'A' from 'BBB' on Southwest Texas Junior College District's (SWTJC, the college, or the district) combined-fee revenue and refunding bonds.
- The outlook is stable.
- The rating action reflects the application of our "Global Not-For-Profit Education Providers" criteria, published April 24, 2023, on RatingsDirect.

Security

As of Aug. 31, 2022, the district had approximately $26.5 million in total debt outstanding, consisting of the rated series 2014 and 2016 and unrated series 2006A, 2012, and 2014A combined-fee revenue bonds totaling $18.4 million, $6.7 million in leases payable, $505,000 in maintenance tax notes, and $464,000 in notes payable.

Securing the combined-fee revenue bonds is a first lien on specific pledged revenue, which includes tuition and other general education and auxiliary fees, and any additional revenue generated, including grants received from the federal government and the State of Texas. Property taxes and state operating appropriations are excluded from pledged revenue, which is fairly typical for Texas community colleges. We consider this a broad pledge.

Credit overview

The rating reflects our view of SWTJC's adequate enterprise risk profile and strong financial risk profile. The enterprise risk profile reflects our view of stabilizing enrollment, following declines in previous years, and a stable and tenured management team. The financial risk profile reflects our view of good revenue diversity, a trend of full-accrual surpluses, and manageable debt. The rating also reflects our view of the depth and breadth of the college's good and stable tax base, which provides meaningful support for operations.

We understand that Sul Ross University has indicated potential plans to expand its academic services in Uvalde and Del Rio, and we believe that this could present heightened competition risk to SWTJC's demand profile. Although we understand that timing and impact are unclear, we will monitor the situation as well as its impact on the demand and financial profile. A recent proposal was denied by the state legislature in 2023, so the next potential proposal for the university would be in the next legislative biennium in two years.

The 'A' rating reflects our view of SWTJC's:

- Recent trend of operating surpluses, with consistent performance expected for fiscal 2023;
- Growing economy with rising assessed value (AV) and a small tax base;
- Relatively stable enrollment base, which has grown in recent years following a pandemic-induced reduction in demand; and
- Good revenue diversity and significant revenue-raising flexibility given an operations-and-maintenance tax rate (12 cents per $100 of AV) in fiscal 2023 that remains below the voted maximum (50 cents per $100 of AV).

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

- Relatively lean, albeit growing, financial resources; and
- Potential of increased competition risk in the next few years.

Environmental, social, and governance

We analyzed SWTJC's environmental, social, and governance factors and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that during our two-year outlook period, the college's full-accrual financial operations will remain positive and financial resource ratios will hold or improve. The stable outlook also reflects our expectation that the college will maintain at least stable demand trends.

Downside scenario

We could consider a negative rating action if the college experiences significant enrollment decreases, causing financial operations and financial resources to decrease to levels that we consider no longer consistent with the rating.

Upside scenario

Although we are unlikely to do so given the potential for increased competition over our outlook period, we could consider a positive rating action if the district experiences significant growth in financial resources with a strengthening economic base, coupled with consistent enrollment trends and healthy operations.

Credit Opinion

Enterprise Risk Profile

Participation in a growing and increasingly diverse regional economy, and stabilizing enrollment

SWTJC, created in 1946, is a comprehensive, public, two-year college serving 11 counties in southwest Texas. The main campus is located in Uvalde, approximately 70 miles west of San Antonio. Uvalde County's local economy centers on tourism, agriculture, and hunting. In addition to the main campus, the district has five satellite campuses in the border cities of Del Rio and Eagle Pass.

Enrollment has shown signs of stability, rebounding in fall 2022, and management reports further year-over-year growth in spring and summer 2023 as well as positive growth expectations for fall 2023. Management attributes this rebound to its increased technical program offerings and high school recruitment efforts. Management expects enrollment to continue to stabilize and grow modestly in the next five years as a result of the addition of several technical programs designed to meet the needs of the local economy and popularity of dual-credit participation through partnerships with high schools. We expect SWTJC to maintain incremental enrollment growth across its campuses, in line with its expectations, barring any impact relative to Sul Ross.

The district's tuition rates remain lower than those of peer community colleges throughout Texas and significantly lower than those of nearby four-year universities, and we believe that this provides the system with some advantages. In our view, SWTJC's tuition and fee structure relative to that of its peer community college group might provide a competitive advantage in enrollment growth efforts. We expect SWTJC to continue incremental enrollment growth across its campuses, barring any effects relative to Sul Ross.

Although relatively small, in our view, the college's tax base (in terms of AV) has grown healthily in recent years, having increased 37% over the past five years to $4.6 billion in fiscal 2023. The district levies taxes for operations and maintenance, but also has the ability to levy taxes for debt service. The top 10 leading taxpayers accounted for 17% of fiscal 2023 AV, which we view as moderately diverse and which is moreover much lower than levels of around 27% in fiscal 2016. We view the growing diversity of the tax base favorably.

Conservative budgeting practices, solid financial management practices, and an experienced and stable management team

We consider management stable and experienced, with expertise in members' respective business lines. The president, Dr. Hector Gonzales, has been in his position since 2013, with numerous other senior members having served for more than a decade, including the vice president of finance, promoted in August 2022, who has served in various roles with the district.

A seven-member board of trustees governs SWJTC. Each member is elected by the public and serves a staggered six-year term. The board supervises district operations and policy-making responsibilities, including the direction of the curriculum, tuition and fees, annual operating and capital budgets, and debt issuances.

Financial Risk Profile

Recent history of positive financial performance, solid revenue diversity, growth in financial resources, and a moderate debt burden

The financial position has historically remained relatively stable but improved in fiscal years 2021 and 2022, thanks partly to operational savings tied to the pandemic and Higher Education Emergency Relief Fund stimulus for one-time related expenditures. For fiscal 2023, management anticipates an operating surplus though somewhat moderate financial operations relative to the past two fiscal years. The fiscal 2024 budget indicates a slight surplus as well, in line with fiscal 2023 projections. We also understand the college is expected to benefit from the changes in the state funding formula passed through House Bill8, and we understand the district is one of a few in the state that are expected to receive both base tier and outcome-based funding. We will monitor effects on the college's financial performance and expect the changes in the state funding formula to support our view of relatively stable operations in the near term.

Adjusted operating revenue is diverse, in our view, with approximately 29% derived from tuition, fees, and auxiliary revenue; 17% from state operating appropriations; 9% from property taxes; and 7.3% from grants.

SWTJC's financial resources, while historically relatively light when compared with those of similarly rated peers, improved to levels that we consider in line with the rating, given the aforementioned surplus operations and conservative budgeting approach. Cash and investments relative to operations were 40.0% (up from 18.4% in fiscal 2020) for fiscal 2022 and, relative to debt, were 93.1%. We expect financial resource ratios to remain consistent, with at least balanced full-accrual operations over the near term, with no planned spend-down of reserves, other than bond proceeds.

We view the overall maximum annual debt service burden moderately low at 5%. Amortization is faster than average, with 73.7% of debt to be retired within 10 years, and we view this favorably. Management has no immediate plans to issue any debt.

Approximately $10 million of the revenue bonds is bank-qualified debt. Although we do not rate this debt, we have reviewed the terms and covenants, which are on parity with those of the series 2014 bonds. Covenants include establishing and maintaining a reserve fund equal to no less than the average annual debt service requirements for all bonds, and an additional bonds test requiring projected pledged revenue to equal at least 1.2x debt service requirements after issuance. The event-of-default remedies listed in the bond resolution do not call for acceleration. With the lack of acceleration triggers, we do not believe these bank-qualified bonds increase event-driven liquidity risk.

We consider the college's pension and other postemployment benefits (OPEB) liabilities a minimal credit pressure. Pension costs remain manageable, in our view, with pension and OPEB costs accounting for approximately 4% of total operational expenditures. Recent contribution increases improved the outlook for Texas pension plans. Despite the improved funded ratios, attributes that introduce contribution volatility risk remain.

The college participates in the following defined benefit plans:

- Teacher Retirement System, a cost-sharing, multiple-employer plan measured as of Aug. 31, 2022: 88.80% funded using a 7.25% discount rate, with the college's share of net pension liability of $4.1 million
- Employees Retirement System, a cost-sharing, multiple-employer OPEB plan funded on a pay-as-you-go basis with the college's share of net OPEB liability of about $27.3 million

For more information on our view of Texas pensions, see our report "Pension Spotlight: Texas," published April 4, 2023.

Southwest Texas Junior College District enterprise and financial statistics					
	--Fiscal year ended Aug. 31--				
	2023	**2022**	**2021**	**2020**	**2019**
Enrollment and demand					
FTE enrollment	5,355	5,014	4,451	5,470	4,750
Annual FTE change (%)	6.8	12.6	(18.6)	15.2	9.5
Tax base					
Service area population	36,992	36,992	37,089	24,564	24,564
Total AV ($000s)	4,571,466	4,155,878	4,076,164	3,839,309	3,347,661
Top 10 taxpayers as % of total AV	21.9	24.1	19.1	21.2	21.9
Market value per capita ($)	N.A.	N.A.	N.A.	N.A.	N.A.
Per capita EBI as % of U.S.	N.A.	N.A.	52	54	59
Median household EBI as % of U.S.	N.A.	N.A.	60	60	65
Annual unemployment rate (%)	6.2	4.8	7.9	9.1	5.4
Income statement					
Total adjusted operating revenue ($000s)	N.A.	66,249	73,403	61,050	57,477
Total adjusted operating expense ($000s)	N.A.	61,648	59,069	59,324	55,313
Net adjusted operating income ($000s)	N.A.	4,601	14,334	1,726	2,164
Net adjusted operating margin (%)	N.A.	7.5	24.3	2.9	3.9
State appropriations dependence (%)	N.A.	17.1	14.4	17.4	17.0
Student dependence (%)	N.A.	28.5	29.5	35.7	39.0
Taxes and other local support dependence (%)	N.A.	9.4	8.5	9.9	9.7
Financial resources					
Cash and investments, including foundation cash and investments ($000s)	N.A.	24,658	22,502	11,642	11,075
Cash and investments to operations (%)	N.A.	40.0	38.1	19.6	20.0
Cash and investments to debt (%)	N.A.	93.1	102.3	47.4	42.3
Debt					
Total debt ($000s)	N.A.	26,483	21,994	24,561	26,172
MADS ($000s)	N.A.	3,099	2,350	2,358	2,358
MADS burden (%)	N.A.	5.0	4.0	4.0	4.3

AV--Assessed value. EBI--Effective buying income. FTE--Full-time-equivalent. MADS--Maximum annual debt service. N.A.--Not available. Total adjusted operating revenue = total operating revenues + institutionally funded financial aid + government appropriations + government grants + endowment spending + tax revenues - realized and unrealized gains/losses. Total adjusted operating expense = operating expenses + institutionally funded financial aid + interest expense – noncash pension and other postemployment benefits expenses. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. MADS burden = 100*(MADS/adjusted operating expenses). Cash and investments = cash + unrestricted and restricted financial investments + foundation cash and investments. Total outstanding debt = tax supported debt + revenue/ enterprise-secured debt + foundation debt + other debt. All debt metrics include revenue/enterprise-secured and foundation debt if applicable.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022