S&P Global
Ratings

RatingsDirect®

Summary:

Collin County Community College District, Texas; General Obligation

Primary Credit Analyst:
Jennifer K Garza (Mann), Dallas (1) 214-871-1422; jennifer.garza@spglobal.com

Secondary Contact:
Thomas J Zemetis, Centennial 303.721.4278; thomas.zemetis@spglobal.com

Table Of Contents

1807318 | 302531004

Summary:

Collin County Community College District, Texas; General Obligation

Credit Profile		
Collin Cnty Comnty Coll Dist GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'AAA' rating, with a stable outlook, on Collin County Community College District, Texas' general obligation (GO) bonds.

The rating reflects our opinion of the district's:

- Inclusion in the deep and diverse Dallas-Fort Worth metropolitan statistical area (MSA), boosting wealth and income levels;
- Very strong financial position, coupled with good management practices; and
- Diverse revenue streams with significant revenue-raising flexibility.

Revenue from the district's direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the district secures the bonds. Local referendum passed on establishment of the college limits the district's tax rate for local maintenance at 8 cents per $100 of assessed value (AV) and debt service at 12 cents per $100 AV. The district's total property tax rate is 8.12 cents per $100 AV, including an 7.8174-cent maintenance and operations rate and a 0.3048-cent debt service tax rate.

Collin County Community College District's GO bonds are eligible to be rated above the sovereign because we believe the college can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria ("Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect), U.S. local governments are considered to have moderate sensitivity to country risk. The district's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the college. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management, and there is no history of government intervention. The district has considerable financial flexibility, as demonstrated by the very strong general fund balance as a percent of expenditures, as well as very strong liquidity.

The district serves an estimated population of 914,127 and is coterminous with Collin County, located approximately 31 miles north of Dallas' central business district. The county includes many towns and cities, including Plano, McKinney, Frisco, and Allen. Median household effective buying income is very strong, in our opinion, at 157% of national levels. Since fiscal 2013, market value increased by about 46% to $112.3 billion in fiscal 2017, which equated to a market value per capita of $122,876, which we consider very strong. Student headcount decreased by about 8.1%

in 2015 to 27,434 due in part to elimination of the spring mini-mester and consolidation of both summer sessions into one and enrollment increased 3.5% for 2016 whereas enrollment has increased 5.3% when comparing the spring 2017 semester to the previous year. In February 2016, the board approved an increase in the in-district tuition fees by $3 to the current $42 per hour, which is currently the lowest tuition rate among community colleges in the state of Texas.

In our view, Collin County Community College District's fiscal position has remained very strong. The district has reported consecutive surpluses since fiscal 2002. At the end of fiscal 2016, the district reported a surplus of $21.7 million, which increased its unrestricted net assets to $212.3 million or 132% of operating expenditures, which we consider very strong. We believe the district's liquidity also remains very strong with year-end cash of $213.8 million or approximately 515 days of operating expenditures. Management projects ending fiscal 2017 with a similar sized surplus compared with the previous year of $34.4 million, primarily due to conservative budgeting practices. For fiscal 2016, 44% of revenues were derived from property taxes; 22% from state appropriations; 17% from net tuition, fees, and auxiliary revenues; and 2% from grants and contracts. We believe that this represents a diverse revenue stream that lends stability to the financial operations of the district.

We consider Collin County Community College District's financial management practices "good" under our financial management assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. A few key practices include management's monthly monitoring and reporting of revenues and expenditures and quarterly reporting on investment holdings to the board. The district also engages in long-term financial forecasting and possesses a formalized five-year capital plan that is updated annually. The district currently lacks a debt management policy.

The district offers pension benefits through the Teachers Retirement System of Texas, a cost-sharing, multiple-employer, defined-benefit pension plan. The district also contributes to the State Retiree Health Plan, a cost-sharing, multi-employer, defined-benefit postemployment health care plan administered by the Employees Retirement System of Texas. During fiscal 2016, the district's total contributions for other postemployment benefits amounted to $6.2 million, or a modest 3.8% of expenditures.

In our opinion, the overall net burden of the district is moderately high at 6.2% of market value and high, at $7,562 on per capita basis. Most of this debt burden is due to underlying entities within the boundaries of the college district, primarily school districts. We understand that officials do not have definitive plans to issue debt in the near term but has announced plans to call a $600 million bond election in May 2017. The 2017 bond program would be issued over a period of six to seven years and would finance additional campuses, including a technical training center for workforce development programs.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that management will likely maintain its strong financial performance due, in part, to revenue-raising flexibility. The outlook also reflects our expectation that the district's inclusion in a strong and growing economic base will continue to support the district's fiscal stability. We do not expect to change the rating within the two-year outlook horizon because of our anticipation that management's significant revenue-raising flexibility will allow it to maintain a strong financial position. Should the district's very strong reserve or liquidity levels materially weaken or if budget flexibility were significantly reduced we might lower 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. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.