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Ratings

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Summary:

New Braunfels Independent School District, Texas; School State Program

Primary Credit Analyst:
Jim Tchou, New York + 1 (212) 438 3821; jim.tchou@spglobal.com

Secondary Contact:
Joshua Travis, Farmers Branch + 1 (972) 367 3340; joshua.travis@spglobal.com

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Credit Profile		
US$40.08 mil unltd tax sch bldg bnds ser 2021 dtd 01/15/2021 due 02/01/2044		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
New Braunfels Indpt Sch Dist unltd tax rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
New Braunfels Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' program rating and 'AA' underlying rating (SPUR) for credit program and stable outlook to New Braunfels Independent School District, Texas' roughly $40.08 million series 2021 unlimited-tax general obligation (GO) school building bonds and affirmed its 'AA' long-term rating and SPUR, with a stable outlook, on the district's existing GO debt.

The 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 program-guaranteed bonds.

The stable outlook on the program rating reflects our assessment of the Texas Permanent School Fund bond guarantee program's strength and liquidity. (For more information, see our analysis, titled "Texas Permanent School Fund," published June 25, 2020, on RatingsDirect.)

Revenue from an unlimited ad valorem property tax secures the bonds.

Officials intend to use series 2021 bond proceeds to construct and renovate school facilities. The series 2021 bonds will be the third and final issuance under an electorate-approved $118.3 million authorization from November 2018.

Credit overview

Favorably located between the San Antonio and Austin metropolitan statistical areas, the district has been experiencing strong property tax base and enrollment growth, coupled with continuing economic expansion. While this growth has resulted in capital needs, supporting elevated debt, we note that costs are manageable and that the electorate has supported and authorized debt required to meet these needs. In our view, low fixed-cost pension obligations also counter high debt. Furthermore, the district has produced years of strong operating results, maintaining very strong reserves, supported by consistently increasing enrollment, which helps maintain stable state revenue allocations.

While we acknowledge the district could potentially face challenges with a prolonged pandemic, we expect officials will likely make adequate budgetary adjustments to ensure budgetary balance. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled "Staying Home For The Holidays," published Dec. 2, 2020, and "Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder," published Jan. 6, 2021, on RatingsDirect.)

The SPUR reflects our opinion of the district's:

- Access to San Antonio's and Austin's broader economies,
- Strong wealth and income, and
- Very strong finances.

We believe what we consider the district's moderately high overall debt, with continued growth that will likely result in further debt issuance, somewhat offsets these strengths.

The stable outlook on the SPUR reflects S&P Global Ratings' opinion the district will likely maintain very strong finances despite continued growth-related capital needs.

Environmental, social, and governance (ESG) factors

Severe weather, including flooding, is the major environmental risk to the district, which we consider still in-line with the sector standard. We think sizable reserves and insurance coverage somewhat insulate operations from potential revenue-collection disruptions. We consider social risks in-line with the sector standard. The district's governance risks relative to its economy, management, financial measures, and debt-and-liability profile are also in-line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the district were to markedly reduce reserves.

Upside scenario

We could raise the rating if debt were to decrease substantially and if the district were to formalize financial management practices and policies, memorializing methods that have allowed it to sustain strong operating performance, which we consider in-line with higher-rated peers.

Credit Opinion

Economy

The district serves a population estimate of 57,444. In our opinion, median household and per capita effective buying incomes are strong at 122% but good at 108%, respectively, of national levels. The district's total $6.8 billion market value in fiscal 2021 is extremely strong, in our view, at $118,634 per capita. Roughly 5.8% of net taxable assessed value (AV) comes from the 10 leading taxpayers, representing a very diverse tax base.

Located along the Interstate 35 corridor, nearly equidistant from Austin and San Antonio, the district primarily serves residents of New Braunfels and the surrounding area. The district's favorable location, with access to diverse employment centers, supports significant residential growth. This development has resulted in 77% cumulative AV growth since fiscal 2016 to $6.8 billion from $3.9 billion and 15.6% growth in fiscal 2021.

The local area also derives economic benefit from tourism and recreation with spring-fed rivers and a waterpark that are popular summertime destinations. While the tourism-and-recreation sector slowed during summer 2020 due to COVID-19, ongoing housing development helped support the local economy.

Officials report the Veramendi development on the district's central-west side will add more than 4,500 housing units with full buildout expected during the next 10 years-15 years. The development has broken ground with more than 100 homes built, coupled with an elementary school in the area. The district expects growth during the coming years will continue near historical rates, likely 8%-9% annually. We consider these projections prudent.

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. Student enrollment totaled 9,253 on Oct. 30, 2020, a 1.3% decrease from the same point in 2019 due largely to COVID-19. Officials expect a 4% enrollment increase for fiscal school year 2021-2022 and about 2.5% annualized growth during the next five years.

For fiscal 2020, the district added $10 million to fund balance and ended fiscal 2020 with unassigned fund balance of $52.7 million, or 71% of estimated expenditures. Fiscal 2020 results were better than budgeted, which reflected a modest projected deficit of roughly $470,000. However, the district typically budgets conservatively, assuming limited enrollment growth. Since the district began fiscal 2020 with increased enrollment, it hired the staff needed to serve the new students, allowing officials to ensure increased expenses did not outpace revenue growth due to increased enrollment.

The fiscal 2021 budget reflects the use of $529,000 in reserves. However, due to the district's history of outperforming the budget, we posit it will likely maintain very strong finances with reserves remaining more than 30% of expenditures. The district has historically realized strong financial performance, conservatively budgeting enrollment and consistently realizing favorable budget-to-actual expenditure results.

Management

We consider the district's financial management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

While the district lacks a formal general fund reserve policy, it informally maintains 18% of operations in reserve, which it has historically exceeded. Management uses comprehensive revenue and expenditure assumptions based on historical trend analysis and demographic data. School board members discuss the budget with staff monthly, and they have annual planning workshops to prepare for the coming year.

Management monitors the formal investment-management policy and makes quarterly performance-and-holdings reports to the board; the board also reviews the policy annually. While the district lacks formal long-term financial plans, it contracts with a demographer to help monitor growth and plan for future school sites. The district lacks formal debt-management policies.

Debt

We consider overall net debt moderately high at 6.5% of market value, or high at $7,702 per capita. Amortization is below average with officials planning to retire 44% of direct debt during 10 years. The debt service carrying charge was 18% of total governmental-fund expenditures, excluding capital outlay, which we consider elevated, in fiscal 2020.

Following this issuance, the district will have about $265 million of debt outstanding. Due to continued enrollment growth, management expects to approach the electorate for another GO bond authorization in November 2021. Although the amount is still under discussion, officials do not expect the need for a tax increase to support additional debt. Therefore, we think debt will likely remain high and possibly increase during the next few fiscal years, pending referendum results.

We note the district privately placed series 2016 unlimited-tax school building qualified school construction bonds. However, due to a lack of acceleration rights or permissive provisions, coupled with a fixed-interest rate, we do not think the bonds pose a liquidity risk or otherwise have a negative effect on the debt profile.

Pension and other-postemployment-benefit (OPEB) highlights

- We do not view pension and OPEB liabilities as an immediate credit pressure for the district because required contributions account for a small portion of total governmental expenditures and should not materially increase during the next few fiscal years.
- Under a special-funding situation, the state contributes a sizable share of employer contributions and carries responsibility for a proportionate share of unfunded liabilities.

As of June 30, 2020, the district participates in:

- Texas Teachers' Retirement System (TTRS), which was 75.2% funded, with a proportional share of the net pension liability equal to $23.5 million; and
- Texas Public School Retired Employees' Group Insurance program (TTRS-Care), providing health insurance to members of TTRS, which was 2.7% funded, with a proportionate share of the district's net OPEB liability at $28.4 million.

The district paid its full required contribution of $1.7 million toward pension obligations in fiscal 2020, or 1.2% of total governmental expenditures. The district also paid $444,000, or 0.3% of total governmental expenditures, toward OPEB obligations in fiscal 2020. The combined pension and OPEB carrying charge totaled 1.5% of total governmental-fund expenditures in fiscal 2020.

Both TTRS and TTRS-Care are cost-sharing, multiple-employer, defined-benefit plans. The state typically makes the bulk of contributions to these plans on the district's behalf. We do not expect retiree costs to increase substantially during the next few fiscal years.

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020