S&P Global
Ratings

RatingsDirect®

Summary:

Silsbee Independent School District, Texas; School State Program

Primary Credit Analyst:
Rob M Marker, Centennial + 1 (303) 721 4264; Rob.Marker@spglobal.com

Secondary Contact:
Andy A Hobbs, Farmers Branch + 1 (972) 367 3345; Andy.Hobbs@spglobal.com

Table Of Contents

Summary:

Silsbee Independent School District, Texas; School State Program

Credit Profile		
US$11.2 mil unltd tax rfdg bnds ser 2020 dtd 10/01/2020 due 08/15/2039		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	A/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term (program) rating and 'A' underlying rating to Silsbee Independent School District (ISD), Texas' $11.2 million series 2020 unlimited-tax refunding bonds. The outlook is stable.

An annual ad valorem tax levied against all taxable property located within the district, without legal limit as to rate or amount. Proceeds will refund a portion of debt outstanding for interest savings.

Credit overview

Consecutive surpluses in 2018 and 2019 used to build healthy reserves will provide short-term flexibility should recessionary pressures related to COVID-19 increase. So far, local businesses have shown resilience despite the pandemic. Many received the essential classification, which allowed them to continue operating through state-mandated closures. The oil and gas sectors contribute to the local economy; however, very little taxable value is from minerals, and the majority is from investments in pipelines and refineries. Officials anticipate surplus results in 2020 and 2021, and we expect the credit will remain stable over our outlook horizon. This is generally for up to two years; however, given the current economic uncertainty, our view is centered on the more immediate budget effects over the next six-12 months.

For S&P Global Economics' latest forecast, see "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020, on RatingsDirect.

The rating reflects our view of the district's:

- Adequate buying incomes and strong market value per capita;
- Limited economy, with exposure to the oil and gas sector;
- Generally stable financial performance, characterized by consecutive surplus results and reserves we view as very strong;
- Low debt per capita and moderate debt service carrying charges; and
- Moderately concentrated tax base.

Environmental, social, and governance factors

We view the risks posed by the COVID-19 pandemic to public health and safety as a social risk that, if sustained, could weaken the local economy through higher unemployment and disruptions to consumer spending. It has also caused a modest decline in enrollment, which the state uses to calculate state-aid. However, that has yet to pressure the district's financial performance, and officials plan to build reserves over our outlook period. Severe weather events, including hurricanes, present the most significant environmental risk to the district. However, no material damage resulted from major hurricanes; Rita (2005), Ike (2008), Harvey (2007), or Laura (2020), and reserves could provide short term relief if a severe weather event did cause damage. We also analyzed Silsbee's governance risk and determined that it aligns with our sector standard view.

The 'AAA' program rating reflects our view of the district's eligibility for the Texas Permanent School Fund (PSF) bond guarantee program. The program provides the security of a permanent fund of assets that the district could use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, see our report published June 25, 2020, on RatingsDirect.)

Stable Outlook

Downside scenario

If budgetary performance worsens, leading to material declines in reserves, we could lower the rating.

Upside scenario

Material economic growth, including improvements to wealth and income levels, combined with continued maintenance of very strong reserves, could lead to a higher rating.

Credit Opinion

Economy

Located in Hardin County, roughly 20 miles north of Beaumont, Silsbee ISD serves an estimated population of approximately 17,259. In our opinion, median household effective buying income (EBI) and per capita EBI are adequate, at 78% and 79% of national averages. Market value totaled $968 million for 2021, which we consider strong, at $56,084 per capita.

We view the tax base as moderately concentrated, with the 10 leading taxpayers representing 27% of the total tax base. The leading taxpayer, South Hampton Resources, an oil and gas property, represents 15% of the total AV. While oil and gas sectors contribute to the district's economic stability, capital assets, including pipelines and refineries, account for significantly more of the tax base than mineral values, constituting just over 2% of the tax base. Other primary taxpayers include BNSF Railway Co, and Dragon Products Ltd., an industrial manufacturing firm.

Aside from oil and gas, manufacturing and retail also contribute to the local economy. Many local businesses are classified as essential and were therefore permitted to remain open throughout state-mandated business closures. We understand that those that did close are back open and doing well, evidenced by strong sales tax collections.

Assessed values have demonstrated strong growth recently, increasing an average of 6% over the last three years, and officials anticipate similar growth going forward. The tax base is primarily residential, with 40% classified as single-family properties, followed by industrial property at 14%. We expect the residential makeup will provide tax base stability in the short term, and some ongoing residential construction will help support the tax base. We also recognize that a prolonged recession or continued downward pressure on the oil and gas sector could further contribute to high unemployment and declining AV, and we will continue to monitor changes to the district's key economic indicators.

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 fiscal 2020, enrollment was 2,842 students, a 4.2% decrease from 2019- primarily a direct result of COVID-19. It had previously increased each year since 2016, and officials expect it to continue trending upward as concerns over the virus ease. Classrooms are currently open to in-person learning at approximately 80% capacity. The remainder of students attend virtually, and attendance is monitored for ADA calculations.

General fund performance has been stable, with surplus results realized in three of the last five fiscal years and consecutive surpluses reported on the two most recent audits, 2018 and 2019. Consistent with conservative budgeting practices, the 2019 results exceeded the budget, with revenues and expenditures outperforming. The largest revenue source is state aid (62% of total revenue in 2019), followed by local property tax (36%). The state has not announced funding cuts for school districts; however, reductions in state revenue related to mandated business closures implemented to slow the spread of COVID-19 may lead to reductions in funding for districts in the coming years. Should funding cuts occur, the district's very strong reserves should provide stability in the short term.

At the end of fiscal 2019, the district held an unassigned general fund balance of $4.3 million per its formal reserve policy. Amounts above $4.3 million are held in the districts committed fund balance. An additional $4.1 million of reserves are classified as committed. When included, reserves total $8.4 million, or 32% of expenditures. Because officials can reassign committed funds to uncommitted, making them available for operations, and there are no plans to spend down current reserves, we consider them available in our assessment.

With the 2020 fiscal year recently ending, officials anticipate reporting a significant surplus of $2.2 million, or 7% of expected expenditures. Recently implemented House Bill 3, which required compression to school districts maintenance and operations rate in exchange for additional state funding, led to roughly $2.5 million in additional state aid with a less severe offset in the reduction to local revenue resulting from the compression. The adopted 2021 anticipates a surplus of roughly $800,000, and officials conservatively assumed a student count reduction.

The district's current tax rate of $1.39 per $100 of AV consists of $1.07 for maintenance and operations and 32 cents for debt service.

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.

Key practices include:

- Conservative budgeting practices and estimates formulated using three-five year historical trend analysis and through discussions with local businesses;
- Monthly budget-to-actual results shared with the board and amendments performed as necessary;
- Local investment policy adhering to state guidelines which restricts aggressive that we would consider aggressive;
- Informal reserve target to maintain three months of operating expenditures in available reserves, which it is presently exceeding.

The district does not maintain a long-term financial or capital plan, nor does it have a debt management policy.

Debt

Overall net debt is 3.2% of market value, which we view as moderate. However, on a per capita basis, it is viewed as low, at $1,809. With 56% of the district's debt scheduled to be retired within 10 years, amortization is average. Debt service carrying charges were 10.9% of total governmental fund expenditures, excluding capital outlay in fiscal 2019, which we consider moderate. The district will not have any remaining authorized but unissued debt after the series 2020 issuance and has no plans for any additional issuances over the next three years.

The district does not hold any privately placed debt that could present a contingent liability risk and has no plans to take on more debt over our outlook horizon. We, therefore, expect this district's debt burden will remain relatively stable.

Pension and other post-employment benefit (OPEB) liabilities

We do not view pension and OPEB liabilities as an immediate source of credit pressure, as required contributions account for a small portion of total governmental expenditures and are not likely to materially increase in the next few years. Under a special funding situation, the state pays a sizable share of the employer contribution and carries responsibility for its proportionate share of the unfunded liability.

The district participates in the following plans:

- Teacher Retirement System (TRS), 75.2% funded with a proportional share of the net pension liability equal to $7.4 million; and
- Texas Public School Retired Employees Group Insurance Program (TRS-Care), which provides health insurance coverage to members of the TRS pension plan. TRS-Care is 2.7% funded, and the district has a proportionate share of the net OPEB liability of $10 million.

- The district paid its full required contribution of $468,000, or 1.4% of total governmental expenditures, toward its pension obligations in fiscal 2019 and paid $141,000, or 0.4% of total governmental expenditures, toward its OPEB obligations fiscal 2019.