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Summary:

San Elizario Independent School District, Texas; School State Program

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Credit Profile

US\$28.0 mil Unltd Tax Sch Bldg Bnds ser 2015 dtd 07/15/2015 due 05/01/2045

<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	A/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' enhanced program rating and 'A' underlying credit rating and stable outlook to San Elizario Independent School District, Texas' series 2015 unlimited-tax school building bonds.

The 'AAA' program rating reflects our assessment 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 'A' rating reflects our opinion of the district's:

- Location in the El Paso, Texas metropolitan statistical area (MSA);
- Diverse and growing tax base; and
- Very strong financial position, including very strong reserves.

The district's low-to-adequate wealth and income indicators, evidenced by median household effective buying income and market value per capita, are constraining factors, in our view. We also view the district's moderately high overall net debt burden as a percentage of market value as a constraining factor.

Voters authorized the series 2015 bonds in November 2014; the full authorization is being issued. An unlimited ad valorem tax levied on all taxable property in the district secures the district's series 2015 bonds. Officials intend to use bond proceeds to finance various capital improvement items.

Located in the Rio Grande River Valley and serving a population of about 13,700, San Elizario Independent School District is situated just south of El Paso in El Paso County. The historically agricultural area includes the City of San Elizario, which became incorporated in 2013. Income levels are, in our opinion, adequate, with median household effective buying income at 66% of the national level. The district's taxable assessed value (AV) has experienced continual growth in the past several years, with AV increasing by 26% since fiscal 2012 to \$204.6 million in fiscal 2015. Based on preliminary assumptions, AV will increase in fiscal 2016. Market value of \$15,298 per capita is low, in our opinion. The tax base is diverse, as the 10 principal taxpayers account for 15.1% of AV. Current enrollment is 4,054 students and management expects flat enrollment for fiscal 2016.

In our view, the district's financial position is very strong. For each of the three previously audited fiscal years (fiscal

years 2012 to 2014), the district has posted sizable operating surpluses and maintained reserve levels above 25% of operating expenditures. Though officials adopted a deficit budget of \$698,000 in fiscal 2015 to finance one-time capital expenditures, management has confirmed the district's commitment to maintaining strong reserve levels. By the close of fiscal 2015 on June 30, management expects to post the drawdown. The fiscal 2016 adopted budget will likely yield break-even results.

Audited results for fiscal 2014 reflect an operating surplus of \$2.7 million and an available fund balance of \$12.2 million, or 33.3% of operating expenditures, which we consider very strong. State funding, federal aid, and property tax receipts, the principal income generators, accounted for 85%, 9%, and 6% of fiscal 2014 operating revenue, respectively.

The fiscal 2015 property tax rate of slightly more than \$1.16 per \$100 of AV includes an operations levy of about \$1.11 and a debt service rate of five cents. Following the series 2015 debt issuance, the debt service rate will increase to about 14 cents in fiscal 2016. From fiscal 2017 through fiscal 2045, representatives expect the debt service levy to be about 14 cents. Future tax rate assumptions account for flat AV and enrollment trends. There are no definite plans to adjust the operations levy at this time.

Standard & Poor's considers the district's financial management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Management provides monthly budget updates to officials and uses several years of data when crafting revenue and expenditures. The district does not maintain a debt management policy. Management adheres to the Texas Public Funds Investment Act, and provides at least quarterly investment reports to the school board.

The district participates in the Texas Teacher Retirement System (TRS). The annual pension contribution, which the state paid on behalf of the district, was about \$202,000 in fiscal 2014. The district made additional contributions of \$158,315 for employees' salaries that exceeded the statutory minimum. The fiscal 2014 pension contribution accounted for less than 1% of total governmental expenditures. In addition, the district participates in the TRS-Care program, a TRS-administered postemployment health care plan. The district also offers Medicare Part D to eligible retirees.

Accounting for this issuance and debt service aid from the state, the overall net debt burden is, in our opinion, moderately high at 7% of market value, or low at \$1,077 per capita. We consider debt service amortization extended, with officials planning to retire 36% of debt in 10 years and 60% in 20 years and all debt retired within 30 years. Debt service carrying charges were, in our view, low at 6.4% of governmental expenditures for fiscal 2014. The district does not have any authorized, but unissued, debt remaining. Officials indicate they do not definitively plan to approach the electorate for additional bonding authority over the next 12 months. In addition, the district does not have any variable-rate debt or interest-rate swap exposure.

Outlook

The stable outlook on the 'AAA' enhanced program rating reflects Standard & Poor's assessment of the Texas Permanent School Fund's strength and liquidity. The stable outlook on the 'A' underlying credit rating reflects our

opinion that, despite a projected operating deficit in fiscal 2015, in the next two years the district will likely continue to manage resources effectively to maintain its healthy finances. San Elizario's inability to maintain what we consider its strong finances could have an adverse effect on the rating. Although the district's inclusion in the El Paso MSA economy provides additional support to the stable outlook, San Elizario's wealth and income levels are constraining rating factors, which make upward rating movement unlikely in the two-year outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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