

# RatingsDirect®

---

## Summary:

# Sherman Independent School District (ISD), Texas; School State Program

### Primary Credit Analyst:

Kristin Button, Farmers Branch + 1 (214) 765 5862; kristin.button@spglobal.com

### Secondary Contact:

Stephen Doyle, Farmers Branch + 1 (214) 765 5886; stephen.doyle@spglobal.com

## Table Of Contents

---

Rating Action

Stable Outlook

Credit Opinion

Related Research

## Summary:

# Sherman Independent School District (ISD), Texas; School State Program

### Credit Profile

US\$30.42 mil unlted tax rfdg bnds (taxable) ser 2021-A dtd 07/01/2021 due 02/15/2032

*Long Term Rating* AAA/Stable New

*Underlying Rating for Credit Program* AA-/Stable New

Sherman Indpt Sch Dist var rate unlted tax sch bldg bnds ser 2018-B due 08/01/2048

*Long Term Rating* AAA/Stable Current

*Underlying Rating for Credit Program* AA-/Stable Affirmed

Sherman Indpt Sch Dist PSF/CRS

*Long Term Rating* AAA/Stable Current

*Underlying Rating for Credit Program* AA-/Stable Affirmed

Sherman 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' long-term rating and 'AA-' underlying rating to Sherman Independent School District (ISD), Texas' \$30.4 million taxable series 2021 unlimited-tax refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA-' underlying ratings on the district's general obligation (GO) debt outstanding. The outlook is stable.

The long-term rating reflects our assessment of the district's qualification for, and the guarantee provided by, 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 long-term program rating, please see our report published June 25, 2021, on RatingsDirect.)

The bonds are payable from a continuing direct annual ad valorem tax levied by the district, without legal limit as to rate or amount, on all taxable property within the district. Proceeds from the sale of bonds will be used to refund existing debt for savings without extension of maturities. Post-issuance, the district will have approximately \$199 million in debt outstanding.

### Credit overview

Located 65 miles north of Dallas, close to the Oklahoma border, Sherman benefits from its participation in the Sherman-Denison metropolitan statistical area (MSA), which serves as a regional trade center between Texas and Oklahoma. Its experienced management team practices conservative budgeting, which supports positive financial performance, and very strong reserves. Enrollment growth led to the district taking on debt in 2017 for the

construction of a new high school, making its debt high compared with similarly rated peers. The district expects to issue debt to address some additional facility needs, so the debt is expected to remain high and a constraining factor on the rating.

The underlying rating reflects our opinion of Sherman ISD's:

- Adequate economic metrics, including tax base growth and resident wealth levels;
- Maintenance of very strong reserves equal to 41% of expenditures in fiscal 2020; and
- Elevated debt profile, represented by 8% overall net debt as a percent of market value, plus plans for additional borrowing.

The stable outlook on the long-term rating reflects our assessment of the Texas PSF's strength and liquidity.

### **Environmental, social, and governance (ESG) factors**

Overall, we consider the district's population growth as a social opportunity that drives economy growth and stronger socioeconomic indicators; however, the growth also brings capacity pressure to the district that results in higher debt. We believe the management team is prepared to handle the ongoing growth while maintaining stable credit quality. We also analyzed Sherman ISD's environmental and governance risks relative to the district's credit factors and determined that both are in line with our view of the sector standard.

## **Stable Outlook**

### **Upside scenario**

We could raise the rating if Sherman ISD's debt burden moderates, although this is unlikely in the near term, based on current debt metrics and additional debt plans.

### **Downside scenario**

We could lower the rating if the district's finances experience a trend of significant deterioration, combined with debt rising to levels that are well above those of similarly rated peers.

## **Credit Opinion**

### **Location in North Texas contributes to annual tax base growth**

Sherman ISD is approximately 65 miles north of Dallas, near the Texas and Oklahoma border, and it serves the Sherman-Denison MSA, a regional retail and medical center for northern Texas and southern Oklahoma. In addition to the strong retail sector, electronics, manufacturing, and food-processing firms, such as Sunny-D, Tyson Foods, and Texas Instruments, along with a regional medical center, anchor the local economy.

Assessed value, which has grown an average of 9.5% over the past three years, consists primarily of residential, commercial, and industrial parcels, adding a degree of stability to its tax base. Officials expect continued economic growth, with both commercial and residential development. There are three new planned developments in progress, consisting of thousands of single- and multifamily dwelling units, as well as commercial and retail presence. Texas

Department of Transportation continues to invest in the city, with the modernization and extension of Interstate 45 up to Oklahoma, which is expected to stimulate additional development and commerce and create additional employment opportunities.

### **Very strong reserves supported by conservative budgeting**

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 increases or decreases in the amount of state revenue a district receives. Enrollment totaled 7,520 students in fiscal 2021, decreasing just 0.3% from the previous year. Officials are projecting a 5% increase in enrollment for fiscal 2022 with the return of some students that were not enrolled during 2021, in addition to new students from families moving into the district.

Projections for fiscal 2021 reflect a surplus of approximately \$1 million, without including any Elementary and Secondary School Emergency Relief (ESSER) funding. Management has a history of adopting conservative budgets that produce year-end positive results. The budget for fiscal 2021 anticipated a small surplus of just under \$100,000, but expenditures came in under budget and revenues were stable. The projected year-end result includes a one-time \$1,000 stipend given to employees. The district might allocate another one-time stipend in fiscal 2022, but this depends on several factors. The 2022 budget is balanced. District revenues are composed of local property taxes (50% of total general fund revenues), state aid (47%), and federal program revenues (3%).

Management notes that the district expects to receive \$13.3 million in ESSER III funding that will be used through September 2024.

We believe management has established a long-term trend of stable financial operations, with very strong available reserves that will continue to support the current rating.

### **Standard practices and policies supported by experienced management team**

The board receives budget updates on a monthly basis except in July, when the district ends its fiscal year. The district's formal investment policy complies with state laws, and the board receives monthly investment updates. The district does not maintain a formal debt management policy. Although officials do not prepare a formal multiyear financial forecast or long-term capital improvement plan, the district's maintenance department keeps track of future capital needs. Officials informally target the maintenance of three months' operating expenditures in reserve, and the district has been above this level in each of the past four audited fiscal years.

### **Above-average debt will continue, with additional debt likely**

The district's debt is moderately high, which will continue with additional debt plans. The district is conducting a needs assessment to determine facility needs, and a bond election may occur during 2022. The timing and amount are still to be determined.

The district does not have any private-placement loans and all debt has been issued with fixed interest rates. Sherman ISD's 2018 variable-rate debt is in a fixed-rate period into 2023. Upon a failed remarketing, the district would pay a stepped rate; however, the district has historically had no issues with market access.

We do not view pension and other postemployment benefits (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 over 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 participated in the following plan as of August 31, 2019:

- Teacher Retirement System (TRS), 75% funded, with a proportionate share of the net pension liability equal to \$25 million.

In fiscal 2020, the district paid its full required contribution of \$3.5 million, or 0.9% of total governmental expenditures, toward its pension obligations. It also paid 0.2% of total governmental expenditures toward its OPEB obligations. Combined pension and OPEB carrying charges totaled 1.1% of total governmental fund expenditures in 2020.

Sherman Independent School District--Key Credit Metrics					
	Characterization	Most recent	Historical information		
			2020	2019	2018
<b>Economic indicators</b>					
Population				45,202	44,481
Median household EBI % of U.S.	Adequate			83	82
Per capita EBI % of U.S.	Adequate			77	78
Market value (\$000)		4,052,300	3,675,348	3,252,640	3,088,349
Market value per capita (\$)	Very strong	89,649	81,309	71,958	69,431
Top 10 taxpayers % of taxable value	Diverse	21.1	20.9	17.2	19.3
<b>Financial indicators</b>					
Total available reserves (\$000)			28,389	23,682	21,729
Available reserves % of operating expenditures	Very strong		40.5	35.7	34.7
Total government cash % of governmental fund expenditures			58.1	80.5	125.0
Operating fund result % of expenditures			6.5	2.9	6.7
Financial Management Assessment	Standard				
Enrollment		7,520	7,545	7,405	7,497
<b>Debt and long-term liabilities</b>					
Overall net debt % of market value	Moderately high	7.9	8.1	9.3	9.5
Overall net debt per capita (\$)	High	7,072	6,547	6,701	6,627
Debt service % of governmental fund noncapital expenditures	Moderate		14.8	14.5	14.5
Direct debt 10-year amortization (%)	Slower than average	38	36	27	25
Required pension contribution % of governmental fund expenditures			0.9	1.3	1.7
OPEB actual contribution % of governmental fund expenditures			0.2	0.3	0.4
Minimum funding progress, largest pension plan (%)		68.7	63.4	71.6	80.0

EBI--Effective buying income. OPEB--Other postemployment benefits.

## **Related Research**

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.