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Ratings

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Summary:

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

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Credit Profile		
US$30.42 mil unltd 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 unltd 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
Economic indicators					
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
Financial indicators					
Total available reserves ($000)			28,389	23,682	21,729
Available reserves % of operating expenditures	Very strong		40.5	35.7	34.7
Total government cash % of governmental fund expenditures			58.1	80.5	125.0
Operating fund result % of expenditures			6.5	2.9	6.7
Financial Management Assessment	Standard				
Enrollment		7,520	7,545	7,405	7,497
Debt and long-term liabilities					
Overall net debt % of market value	Moderately high	7.9	8.1	9.3	9.5
Overall net debt per capita ($)	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