

RatingsDirect®

Summary:

Klein Independent School District, Texas; General Obligation; School State Program

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Summary:

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Credit Profile

US\$40.525 mil unlted tax rfdg bnds ser 2021 dtd 10/15/2021 due 02/01/2041

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

Rating Action

S&P Global Ratings assigned its 'AAA' long-term (program) rating and 'AA' underlying rating to Klein Independent School District (ISD), Texas' \$40.5 million series 2021 unlimited-tax refunding bonds. At the same time, we affirmed our 'AA' rating on the ISD's existing GO debt. The outlook is stable.

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. Bond proceeds will be used to refund existing debt for a net present value savings.

Credit overview

Klein ISD continues to experience solid tax base growth and benefit from its location in the Houston metropolitan statistical area (MSA). Good financial performance has allowed for increases in available reserves and transfer of excess general fund revenues to the capital projects fund for future construction. We expect the district will continue to use relief aid prudently, which will support stable operations. The district has no authorized but unissued debt, but could return to voters in May 2022 with a new bond proposal. Despite the continued impacts of the COVID-19 pandemic on enrollment and district operations, we expect key credit metrics will be stable in the near term, which is reflected in the rating outlook.

The program rating reflects our assessment of the district's qualification for, and the guarantee provided by, the Texas Permanent School Fund 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.

The underlying rating reflects our opinion of the district's:

- Strong economic metrics including overall tax base size, tax base growth, and resident wealth levels,
- Favorable location in the Houston area, and
- Solid financial performance with very strong reserves.

Partly offsetting the above strengths, in our view, is the district's:

- High-to-moderate debt profile.

Environmental, social, and governance (ESG) factors

Our analysis encompasses our review of environmental, social, and governance risks that Klein ISD faces. Although the district is in a region prone to significant weather events, such as hurricanes, we believe it has sufficient reserves that provide a significant cushion to address unexpected expenditures or revenue declines. We have determined that they are consistent with our view of the sector standard.

Stable Outlook

Upside scenario

We could raise the rating if the district's debt burden moderates with all other key credit metrics remaining stable.

Downside scenario

Although unlikely in the near term, we could lower the rating if the ISD's finances deteriorate, weakening reserves to a level we no longer consider very strong, or if economic metrics weaken.

Credit Opinion

Sizable economy favorably situated in Houston metro area

Klein ISD serves an estimated population of approximately 270,000. Its median household effective buying income is strong, in our view, at 126% of the national average, and per capita effective buying income is 105% of the national average, which we consider good. In recent years, the total tax base has increased steadily, reaching \$25.7 billion market value for 2021. Market value per capita is very strong at \$95,102. The district benefits from its proximity to Houston and the broad and diverse greater Houston metro area. The tax base mainly consists of single-family residential properties (72.6% of the total tax base) as well as commercial properties (17.3%). The top 10 taxpayers are diverse, make up only 3.76% of the total tax base, and include an electronics manufacturer, utility, grocery store, and other commercial properties. District officials report the local housing market remains stable and positive reappraisals have fueled higher taxable values. Despite some fluctuations due to the pandemic, enrollment has generally remained stable. Officials noted enrollment was down about 1,000 students due to challenges associated with the pandemic. However, total district enrollment remains sizable at 53,102 as of August 2021. We anticipate the robust tax base and steady local economy that benefits from being part of the greater Houston MSA will remain stable in the near term.

Positive financial performance leads to ample reserves

The district has a history of stable financial performance and ample general fund reserves. Available fund balance at fiscal year-end 2020 of \$226.5 million was very strong in our view, at 57.1% of general fund expenditures. The ISD reported a \$53.1 million operating surplus for the year. In 2020, general fund revenues were derived from local property taxes (48.5% of total general fund revenues), state aid (49%), and federal program revenues (1.5%). For fiscal 2021, the operating tax rate was compressed from \$1.3373 per \$100 of assessed value to \$1.3001, as dictated by House Bill 3. However, for 2021, financial performance was good as the district recorded an \$11.2 million operating surplus in the general fund before a \$28.9 million transfer out of the fund to the capital projects fund. Estimated year-end unassigned fund balance of \$115 million equates to 25% of general fund expenditures.

Officials anticipate more than \$100 million in state or federal COVID-19 or relief aid in the next two years. They intend to use the vast majority of aid for one-time capital projects, not ongoing reoccurring expenditures. Given the ISD's history of stable finances, we do not anticipate any material deterioration in the reserve position or performance in the near term.

Strong financial management policies and practices

We view the district's management as good, with strong financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Highlights include the district's use of long-term financial planning to monitor growth-related needs closely and stay ahead of enrollment pressure to ensure continued long-term classroom capacity. When formulating the budget, the district reviews historical data. A capital plan is also utilized, although it is associated with the district's bond program, with the most recent plan being from 2015. The ISD has a formal investment policy and provides written investment reports to the board quarterly. The general fund policy requires the maintenance of a general fund balance of 25% of expenditures. The district lacks a formal debt management policy.

Elevated debt profile

We consider overall net debt high to moderately high at 8.4% of market value and \$8,021 per capita. Amortization is slower than average, with only 41% of direct debt scheduled to be retired within 10 years. The debt service carrying charge was 8.4% of total governmental fund expenditures excluding capital outlay, which we consider moderate, in fiscal 2020. The district does not have any immediate debt plans; however, it could return to voters in May 2022, as it has no authorized but unissued debt. Therefore, we do not expect any significant shift in the debt profile in the near term.

Pension and other postemployment benefits liabilities

We do not view pension and other postemployment benefits (OPEB) liabilities as an immediate source of credit pressure for Klein ISD, as required contributions account for a small portion of total governmental expenditures and are not expected 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 plans as of June 30, 2020:

- Teacher Retirement System (TRS), 76% funded with a proportional share of the net pension liability equal to \$171.5 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 ISD has a proportionate share of the net OPEB liability of \$192.7 million. Given that contributions are made on a statutory basis that is typically lower than the actuarially determined contribution (ADC), fiscal 2020 contributions were materially below both static funding and minimal funding progress. Furthermore, based

on plan assumptions, funding progress could slow even if actual contributions met ADC and an above-average discount rate could lead to some contribution volatility.

Klein Independent School District, Texas -- Key Credit Metrics					
	Characterization	Most recent	Historical information		
			2021	2020	2019
Economic indicators					
Population				270,238	268,081
Median household EBI % of U.S.	Strong			126	132
Per capita EBI % of U.S.	Good			105	109
Market value (\$000)		25,700,280	24,204,689	22,822,907	21,361,796
Market value per capita (\$)	Very strong	95,102	89,568	84,455	79,684
Top 10 taxpayers % of taxable value	Very diverse	3.8	4.0	4.1	4.6
Financial indicators					
Total available reserves (\$000)				226,558	175,060
Available reserves % of operating expenditures	Very strong			57.1	39.9
Total government cash % of governmental fund expenditures				67.3	41.1
Operating fund result % of expenditures			0.4	13.4	8.7
Financial Management Assessment	Good				
Enrollment		53,102	52,824	54,096	53,328
Debt and long-term liabilities					
Overall net debt % of market value	Moderately high	8.4	9.0	9.7	10.4
Overall net debt per capita (\$)	High	8,021	8,085	8,225	8,293
Debt service % of governmental fund noncapital expenditures	Moderate			8.4	8.4
Direct debt 10-year amortization (%)	Slower than average	41	39	38	37
Required pension contribution % of governmental fund expenditures				1.9	1.7
OPEB actual contribution % of governmental fund expenditures				0.5	0.4
Minimum funding progress, largest pension plan (%)			68.7	63.4	63.4

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

Ratings Detail (As Of October 13, 2021)		
Klein Indpt Sch Dist unlted tax rfdg bnds ser 2020 dtd 10/15/2020 due 08/31/2041		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed

Ratings Detail (As Of October 13, 2021) (cont.)

Klein Indpt Sch Dist unlted tax schoolhouse & rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed
Klein Indpt Sch Dist GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Klein Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed
Klein Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed
Klein Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed

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