S&P Global Ratings

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Summary:

Bellville Independent School District, Texas; School State Program

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

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Credit Profile		
US$5.275 mil unltd tax rfdg bnds ser 2022 dtd 01/01/2022 due 02/15/2032		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
Bellville Indpt Sch Dist PSF Gtd		
Long Term Rating	AAA/Stable	Affirmed
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 Bellville Independent School District, Texas' approximately $5.275 million series 2022 unlimited-tax general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA-' long-term rating on the district's existing GO-backed debt. The outlook is stable.

The long-term rating reflects our view 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 could use to meet debt service on bonds guaranteed by the program. (For more information, see "Texas Permanent School Fund," published June 25, 2021, on RatingsDirect.)

An unlimited ad valorem tax levied on all taxable property within the district secures the GO bonds.

Officials intend to use series 2022 bond proceeds to refund existing debt for debt service savings.

Post-issuance, the district will have approximately $16.36 million in direct debt outstanding.

Credit overview

The district is in Austin County, approximately 50 miles northwest of Houston and 100 miles southeast of Austin. The local economy is supported by agriculture and oil and mineral production, with four of the top-ten taxpayers in the oil and gas industry and two others are power plants. The district is primarily residential and assessed value (AV) has been steadily increasing, which officials attribute to new residential developments and people moving out of larger cities for more space. The district maintains very strong available reserves and has had positive operating results since fiscal 2018. Post-issuance, it has what we consider moderate debt per capita, though low per market value. The district has an additional issuance expected in the next two years, though, coupled with its debt defeasance program started in 2021, we expect debt costs to remain manageable.

The rating reflects our view of the district's:

- Increasing market value, with extremely strong market value per capita and a very diverse tax base, reflected by the

10 leading taxpayers accounting for 8.1% of fiscal 2022 AV;

- Good median household and per capita effective buying incomes;
- Very strong available fund balance, equal to 70.1% of operating expenditures; and
- Overall moderate net debt per capita and low market value debt with an additional near-term issuance expected, coupled with fairly rapid amortization.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to the district's economy, management, financial measures, and debt and liability profile, and have determined all are in line with our view of the sector standard. The district maintains a stabilization fund with a balance of $1 million to mitigate any unforeseen ESG risks.

Stable Outlook

Upside scenario

With all else equal, we could raise the rating if incomes and market value were to significantly increase, comparable to those of higher rated peers.

Downside scenario

We could lower the rating if significant debt issuances, not offset by market value growth, pressure the district's finances.

Credit Opinion

Steady, very diverse, primarily residential tax base with good incomes

The rural district, about 50 miles northwest of Houston and 100 miles southeast of Austin, encompasses about 358 square miles. There has been steady AV growth, largely attributed to people moving outward from busier cities. The tax base is what we consider very diverse, though the majority of the top-10 taxpayers are oil and gas or power plants, which could be subject to some fluctuation. Incomes are what we consider good, and we note the county's unemployment rate is below state and national averages.

With the exception of 2019 and 2020, enrollment has been increasing. Officials project to add approximately 10-15 students per year for the next several years, corresponding to the expected steady growth in the area.

Years of positive operating results and very strong reserves

The district has historically maintained what we consider very strong finances. With the exception of one operating deficit in 2017 due to capital outlay, it has reported surpluses for more than a decade. Local and intermediate sources accounts for 66.5% of general fund operating revenue and state aid accounts for 32%.

In fiscal 2020, the district budgeted for a $552,000 deficit, but ended with a surplus of $1 million, largely due to decreased expenditures from schools being closed for COVID-19 from March through the end of the fiscal year.

In fiscal 2021, the district adopted a balanced budget and budget-to-actual results show a surplus of $1.5 million, partially attributed to the sale of property, and partially due to conservative budgeting practices to account for the lingering pandemic.

The district adopted a balanced budget for fiscal 2022 and at this point in the year, is tracking closely to budget.

The district has what we consider very strong available reserves. We note committed funds can be considered available with board approval, and in fiscal 2020 the district had $4.5 million in committed funds for construction and $1 million in committed funds for their stabilization fund, which is reserved for emergencies, and $600,000 committed for other purposes, which strengthens the district's overall reserve position.

We understand the district may spend down reserves for capital outlay in the amount of roughly $4.5 million, but despite that, we expect reserves will still remain very strong.

The district received approximately $4.5 million from CARES Act funding and the American Rescue Plan Act of 2021, which management will use for COVID-19-related expenses, salaries, facility renovations, and learning loss.

The district's tax rate for fiscal 2022 is $1.14 per $100 of AV, with the maintenance and operations rate set at 98.85 cents and the interest and sinking (I&S) rate set at 14.67 cents.

Good financial management policies and practices under our Financial Management Assessment (FMA) methodology

Strengths include management's:

- Revenue and expenditure budget assumptions, which consider historical information and discussions with outside resources;
- Monthly budget-to-actual updates to the school board and authorization to amend the budget as necessary, with board approval;
- Formal investment management policy that follows state guidelines, with monthly investment reports shared with the board;
- Formal reserve policy of maintaining four months' operating expenses in available reserves, which it is currently meeting; and
- Capital improvement plan that extends to fiscal 2028.

Management currently lacks a formal debt-management policy and a long-term financial plan.

The district has not been subject to any cyber-attacks and maintains cyber security insurance.

Moderate overall net debt per capita with fairly rapid amortization and additional debt plans

Including the series 2022 bonds, the district will have approximately $16.36 million in total direct debt. We consider its market value debt low and per capita debt moderate, and we note amortization is fairly rapid. The district has no authorized, but unissued, debt remaining, although a recent bond election for $105 million for the construction of a new high school and renovations to existing facilities failed in November 2021. We understand that the district will look to issue roughly half of that amount at some time within the next two years. It also began into a defeasance program in 2021, and between fiscal years 2021 and 2022, will defease $2.26 million in principal on outstanding debt using excess I&S funds.

Given the district's defeasance program, a new debt issuance in the near term will likely be manageable and not pressure finances.

Pension and other postemployment benefit (OPEB) liabilities

We do not view pension and OPEB liabilities as an immediate credit pressure for the district because required contributions make up a small portion of total governmental expenditures. We do not expect these costs will likely increase materially during the next few fiscal years. As a Governmental Accounting Standards Board nonemployer contributing entity, Texas funds a sizable share of employer contributions and carries responsibility for the proportionate share of unfunded liabilities.

As of Aug. 31, 2020, the district participated in:

- Texas Teachers' Retirement System (TRS), which was 75.5% funded, with a proportionate share of the net pension liability equal to $6.5 million; and
- Texas Public School Retired Employees' Group Insurance program (TRS-Care), providing health insurance to TRS members, which was 4.99% funded, with a proportionate share of the net OPEB liability at $6.5 million.

Since the district makes statutory contributions that are typically lower than the actuarially determined contribution, last year's contributions were materially lower than both static and minimum funding progress. Legislative changes that increase contribution rates will likely improve both funding metrics; however, some assumptions remain a credit concern.

The district paid its full required contribution, or 1.4% of total governmental expenditures, toward pension obligations in fiscal 2020. It also contributed 0.5% of total governmental expenditures toward OPEBs in fiscal 2020. The combined pension and OPEB carrying charge totaled 1.9% of total governmental fund expenditures in fiscal 2020, which we consider low. (For more information on TRS and Texas' pension landscape, see "Pension Spotlight: Texas," published Feb. 25, 2020.)

Bellville Independent School District--Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population			13,580	13,497	13,439
Median household EBI % of U.S.	Good		105	95	97
Per capita EBI % of U.S.	Good		104	97	101
Market value ($000)		1,590,404	1,488,862	1,397,864	1,289,173
Market value per capita ($)	Extremely strong	117,114	109,636	103,568	95,928
Top 10 taxpayers % of taxable value	Very diverse	8.1	8.7	8.1	7.2
Financial indicators					
Total available reserves ($000)			13,567	13,736	11,226
Available reserves % of operating expenditures	Very strong		70.1	69.3	58.8

Bellville Independent School District--Key Credit Metrics (cont.)					
	Characterization	**Most recent**	**Historical information**		
			2020	**2019**	**2018**
Total government cash % of governmental fund expenditures			68.2	64.1	56.2
Operating fund result % of expenditures			4.6	13.1	9.0
Financial Management Assessment	Good				
Enrollment		2,193	2,188	2,211	2,262
Debt and long-term liabilities					
Overall net debt % of market value	Low	1.8	2.2	2.4	1.7
Overall net debt per capita ($)	Moderate	2,091	2,447	2,535	1,613
Debt service % of governmental fund noncapital expenditures	Low		7.1	7.3	7.3
Direct debt 10-year amortization (%)	Fairly Rapid	62	55	52	48
Required pension contribution % of governmental fund expenditures			1.4	1.7	1.6
OPEB actual contribution % of governmental fund expenditures			0.5	0.5	0.5
Minimum funding progress, largest pension plan (%)			68.7	63.4	71.6

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