S&P Global Ratings

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Summary:

Grapevine-Colleyville Independent School District, Texas; General Obligation; School State Program

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Table Of Contents

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Credit Profile		
US$52.86 mil unltd tax sch bldg bnds ser 2019 dtd 09/01/2019 due 08/15/2041		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA+/Stable	New
Grapevine-Colleyville Indpt Sch Dist Texas PSF		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA+/Stable	Upgraded
Grapevine-Colleyville Indpt Sch Dist unltd tax sch bldg and rfdg bnds		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA+/Stable	Upgraded
Grapevine-Colleyville Indpt Sch Dist GO		
Long Term Rating	AA+/Stable	Upgraded
Grapevine-Colleyville Indpt Sch Dist GO		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA+/Stable	Upgraded

Rationale

S&P Global Ratings raised its rating to 'AA+' from 'AA' on Grapevine-Colleyville Independent School District (ISD), Texas' general obligation debt outstanding. At the same time, S&P Global Ratings assigned its 'AAA' long-term rating and 'AA+' underlying rating to the district's series 2019 unlimited-tax school building bonds. The outlook is stable.

The upgrade reflects the continued growth in the district's income and wealth indicators, as well as the moderation of the district's debt burden. Through its participation in the Dallas-Fort Worth metropolitan statistical area (MSA), the district's per capita effective buying income has increased to 184% of the national average from 165% in 2016. Additionally, the district's assessed value has increased at an annual rate of 9.9% over the last four years, totaling $17.3 billion in fiscal 2020. This tax base growth in conjunction with management utilizing excess interest and sinking (I&S) fund revenues to prepay debt service has led to the district's overall net debt burden declining to 4.1% of market value and $8,618 per capita from 5.8% and $9,466 per capita in 2016. By prepaying some of its debt service, the amount of principal scheduled to be retired over the next 10 years has increased to 62% from 39% in 2016, which we view as a positive credit factor. With no significant medium-term debt plans, expectations for further tax base growth, and with the district planning to continue to prepay debt service, we expect the district's debt burden to continue to moderate over the two-year outlook horizon. The higher rating is also supported by the district's maintenance of a very strong available fund balance that totaled $52.8 million in fiscal 2018, or 31% of general fund expenditures. It is our expectation that the district will maintain its very strong financial position going forward.

The 'AAA' program rating reflects our view of the district's eligibility for 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 program rating, see our report published June 7, 2019 on RatingsDirect.)

The bonds are payable from an annual ad valorem tax levied on all taxable property within the district, without limitation as to rate or amount. Bond proceeds will be used for various capital projects.

The 'AA+' rating reflects our view of the district's:

- Participation in the Dallas-Fort Worth MSA deep and diverse economy;
- Very strong income indicators and extremely strong market value per capita; and
- Very strong available fund balance.

Partly offsetting the above credit strengths, in our view, is the district's overall net debt burden which we consider moderate as a percentage of market value, but high on a per capita basis.

Economy

Grapevine-Colleyville Independent School District serves an estimated population of 84,310 approximately 20 miles from both downtown Dallas and Fort Worth. Given its location, district residents have ample employment opportunities throughout the Metroplex, which we believe is reflected in the district's income and wealth indicators. At 163% and 184% of national averages, respectively, the district's median household and per capita effective buying incomes are very strong in our view. Market value totaled $17.3 billion in 2020, which we consider extremely strong at $205,337 per capita. Net taxable assessed value growth has accelerated over the last four years, increasing on average by 9.9% annually, compared with an average growth rate of 2.9% from fiscal years 2014 to 2016. District officials expect the recent trend of strong assessed value growth to continue over the next two to three years, aided in part by a new TEXRail station in Grapevine that has helped bring additional tourist and commercial activity to the area. Roughly 11.5% of net taxable assessed value comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

Finances

A wealth equalization formula, based on the local revenue level in excess of entitlements appropriated by the state, determines state funding for all school districts. Therefore, increases or decreases in average daily attendance (enrollment) can lead to increases or decreases, respectively, in the amount of state revenue a district receives. Enrollment totaled 13,895 students in 2019. Enrollment decreased slightly overall from 2017 to 2019, but is expected to be stable going forward. We note that the district depends primarily on property taxes for general fund revenue (81.5%), with state aid accounting for only 8.0% of revenue.

The district has maintained a very strong financial position with operating surpluses in four of the last five audited fiscal years, including a $993,000 operating surplus, or 0.6% of expenditures, in fiscal 2018. We consider the district's available fund balance of $52.8 million to be very strong, at 31% of general fund expenditures. The district's final amended budget for fiscal 2019 shows a $6 million operating deficit; however, the district expect to end the year with a slight deficit between $800,000 and $1 million, approximately 0.5% of budgeted expenditures, due to conservative budgeting. Similarly, the district's budget for fiscal 2020 has a $6.6 million operating deficit but the district expects to once again end the year with significantly better-than-budgeted results. District officials also note that with the passage of House Bill 3, they expect the district to receive additional state aid revenue, as well as, see a reduction in Chapter 49 payments, both of which will be beneficial to the district's budget (for more information on state funding change, see our report "Texas Funds Public Schools, Staving Off Expenditure Growth For Now," published June 13, 2019 on RatingsDirect). It is our expectation that the district will maintain a very strong financial position over the next two years.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In developing the budget, management utilizes up to five years of historical data, as well as legislative actions, and projections for the tax rate, enrollment, and assessed value. The district can amend the budget throughout the year, with the board receiving monthly budget-to-actual reports. While the district has historically maintained a three year financial forecast and presented it to the board, the district did not do so this year due to the uncertainty surrounding the passage and effects of House Bill 3, but plans to resume the practice going forward. Concerning long-term capital planning, the district develops a capital improvement plan in conjunction with a bond program. The district has a formal investment policy and also provides the board with a quarterly investment report on the district's holdings and earnings. The district's formal reserve policy is to maintain at least 20% of operating expenditures in the district's assigned and unassigned fund balance in case of financial need or crisis. Currently, the district does not have a formal debt management policy.

Debt

Overall net debt is moderate, in our opinion, as a percentage of market value at 4.1%, but high on a per capita basis at $8,618. Amortization is fairly rapid, with 62% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 22.3% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider elevated.

After this issuance, the district will not have any authorized but unissued debt outstanding, and does not have plans to issue additional debt (apart from refunding bonds) over the next two to three years. We note that the district has utilized excess revenues from its I&S tax to prepay some of its debt outstanding, resulting in the percentage of debt scheduled to be retired over the next 10 years improving from 39% in 2016 to the current 62%. The district plans to continue these prepayments, which along with expectations for further tax base growth and with no significant near-term debt plans, should lead to the district's debt burden to continue to moderate over the outlook period.

Pension and other postemployment benefit liabilities

In fiscal 2018, the district paid its full required contribution of $2.4 million, or 0.8% of total governmental expenditures, toward its pension obligations. The district also contributed $692,000, or 0.2% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2018. Combined pension and OPEB carrying charges totaled 1.0% of total governmental fund expenditures in 2018.

The district provides pension benefits for full-time employees through the statewide multiple-employer defined-benefit plan, the Teacher Retirement System (TRS). It also provides OPEBs in the form of retiree health care through the Texas Public School Retired Employees Group Insurance Program (TRS-Care). The district's net pension liability for TRS as of Aug. 31, 2017 was $23.2 million. We also note that TRS recently lowered the discount rate to 7.25% from 8% and updated its mortality tables. These updated assumptions resulted in a decrease in the funded ratio, to 73.7% in fiscal 2018 from 82.2% in fiscal 2017. In accordance with updated reporting standards related to Governmental Accounting Standards Board Statement No. 75, the district's reported net OPEB obligation for TRS-Care was $43.5 million. Payments to TRS-Care are statutorily based and the district has been making the full required contributions.

With the passing of Senate Bill 12 on May 27, 2019, contributions to TRS will increase incrementally from fiscal years 2020-2024. Despite this change, we do not expect district pension costs will materially increase during the next few years. Statewide school district contributions will increase to 2% of payroll by 2024, up from the current 1.5%. The state, however, will pay the largest share of these increases. While contribution increases will likely result in some near- to medium-term cost increases for local independent school districts, we believe that increased funding will likely provide long-term TRS stability and that annual funding will eventually reach or exceed actuarially determined rates, likely leading to improved plan funding ratios.

Outlook

The stable outlook on the 'AAA' rating reflects our view of the strength of the Texas PSF guarantee, based on the fund's assets and performance. The stable outlook on the 'AA+' rating reflects our view of the district's very strong income indicators and tax base growth, as well as our expectation that the district will maintain its very strong financial position. It also reflects our expectation that the district's moderate to high overall net debt burden will continue to be a constraining factor on the rating. We therefore do not expect to change the rating over the two-year outlook period.

Upside scenario

If continued tax base growth and prepayment of debt service were to lead to a significant moderation of the district's overall net debt burden, we could consider a higher rating.

Downside scenario

If the district's available fund balance were to deteriorate to levels we no longer consider very strong, as a result of sustained operating deficits, or if the district's debt burden were to increase significantly, we could consider lowering the rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed