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Ratings

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Summary:

Fort Bend Independent School District, Texas; CP; General Obligation; School State Program

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Summary:

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Credit Profile		
US$58.0 mil unltd tax rfdg bnds (green bnds) ser 2017A dtd 04/01/2017 due 08/15/2042		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA+/Stable	New
US$34.0 mil unltd tax rfdg bnds ser 2017B dtd 04/01/2017 due 08/15/2042		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA+/Stable	New
Fort Bend Indpt Sch Dist unltd tax cml pap nts (Tax-exempt) ser 2016B		
Short Term Rating	A-1+	Affirmed
Fort Bend Indpt Sch Dist unltd tax commercial paper notes ser 2016A		
Short Term Rating	A-1+	Affirmed
Fort Bend Indpt Sch Dist var rate unltd tax sch bldg bnds		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA+/Stable	Affirmed
Fort Bend Indpt Sch Dist GO		
Long Term Rating	AA+/Stable	Affirmed
Fort Bend Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA+/Stable	Affirmed
Fort Bend Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA+/Stable	Affirmed
Fort Bend Indpt Sch Dist PSF		
Underlying Rating for Credit Program	AA+/Stable	Affirmed
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term program rating and 'AA+' underlying rating to Fort Bend Independent School District (ISD), Texas' series 2017A unlimited-tax general obligation (GO) refunding bonds (green bonds) and series 2017B unlimited-tax GO refunding bonds. At the same time, we affirmed our 'AA+' underlying rating on the district's existing GO debt and our 'A-1+' rating on the district's commercial paper (CP) notes outstanding. The outlook, where applicable, is stable.

Revenue from an unlimited ad valorem tax levied on all taxable property in the district secures the bonds as well as the

district's GO debt and CP notes outstanding. Officials are using proceeds to take out short-term financing provided by the district's CP note program, with financed projects including three new elementary schools as well as districtwide renovations and projects.

The program 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 the district could use to meet debt service on bonds guaranteed by the program. (For more information, please see our full analysis on the Texas PSF published Jan. 25, 2017 on RatingsDirect.)

The underlying rating reflects our opinion of the district's general creditworthiness, including its:

- Access to the Houston metropolitan statistical area's (MSA) deep and diverse economy, resulting in ongoing economic growth;
- Very strong income and strong wealth levels; and
- Very strong finances that continue to improve despite growth-related pressure.

Partly offsetting the above strengths, in our view, is the district's high overall debt, with future debt-supported capital needs.

Economy

Fort Bend Independent School District serves an estimated population of 360,488. In our opinion, median household effective buying income (EBI) is very strong at 152% of the national level, but per capita EBI is strong at 123%. Market value totaled $35.7 billion in 2017, which we consider very strong at $98,900 per capita. Net taxable assessed value (AV) has grown by a total of 23.9% since 2015 to $35.7 billion in 2017. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 2.4% of net taxable AV.

The district, one of the largest in the state, is located just southwest of Houston, with boundaries that encompass Sugar Land, Missouri City, Arcola, Meadows Place, and parts of Houston. The area served by the district is primarily residential, with employment opportunities available to residents locally and throughout the Houston MSA. Despite the downturn in the petroleum industry, the district reports that it has not seen a meaningful impact on local home prices or new construction. Several sizable master planned communities are in various stages of development, with hundreds of new homes being built annually. This growth is expected to result in continued strong AV growth approaching 10% annually for fiscal 2018 and remaining strong thereafter.

Finances

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 movements in the amount of state revenue a district receives. Enrollment totaled 74,212 students in 2017. Enrollment increased in each year from 2013 to 2017.

The district has averaged 1.9% annual growth over the past five years, and is conservatively projecting enrollment to be 74,761 for fiscal 2018. The district anticipates growth in excess of 1,000 students per year, approximating 1.0% to 1.5%. Operating 75 campuses, the district continues to build additional facilities to accommodate sustained enrollment growth. The district has committed to building new campuses to promote environment sustainability and is seeking

Leadership in Energy and Environmental Design (LEED) certification for three elementary schools opening this fall. This is in addition to one existing campus that has obtained LEED-certified status as well as another that is awaiting certification.

The district's available fund balance of $108.7 million is very strong, in our view, at 19% of general fund expenditures at fiscal year-end (June 30) 2016. The district reported a surplus operating result of 2.1% of expenditures in 2016. The district depends primarily on property taxes for general fund revenue (54.8%), followed by state aid (43.0%).

In addition to the district's assigned and unassigned general fund balance, the district maintains various fund balance commitments, specifically $49.4 million for potential loss of state funding as well as $16.2 million in other discretionary available commitments. When including these amounts that could be made available if needed, the district's available fund balance is equal to $174.3 million, or 30.2% of expenditures.

The district reported a sizable surplus of $12.2 million (2.1% of expenditures) in fiscal 2016. Officials attributed the surplus to higher-than-anticipated local and federal revenue in combination with favorable budget-to-actual expenditure variances. For fiscal 2017, the district's adopted budget reflects a $2.3 million deficit. However, officials report that the budget is trending favorably and anticipate that the district will end the year with break-even operations at worst, with the possibility of a modest operating surplus.

For fiscal 2018, the district is in the budget development process. As part of this process, the district reports that it is considering calling a tax ratification election (TRE) for November of 2017. The TRE would request authority to increase the tax rate for operating purposes to $1.06 per $100 of AV from $1.04. Concurrently, the district would likely reduce the debt service rate to 26 cents (per $100 of AV) from 30 cents, resulting in an overall tax rate reduction of 2 cents to $1.32. The district anticipates adopting a balanced or near balanced budget, but if the TRE is not called or is not supported, a use of reserves in 2018 is likely. We believe that the district will maintain its very strong financial position over the next two years, though the proposed tax rate swap and drop would provide additional flexibility into the future.

Management

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

Management bases revenue and expenditure assumptions on historical trend analysis and demographic projections provided by an external party. The district's formally adopted investment policy adheres to the Texas Public Funds Investment Act, and provides at least quarterly investment reports to the school board along with year-to-date budget-to-actual financial reports. The district has a formalized debt management policy that governs the issuance of various types of debt. It also has a formal reserve policy of maintaining reserves of at least 90 days' operating expenditures: two months in unassigned fund balance and one month in committed balance to protect against loss of state funding. The district's long-term capital and financial plans provide insight into its operations related to new facilities and funding levels.

Debt

Overall net debt is moderately high, in our opinion, at 8.8% of market value and high at $8,718 per capita. With 56% of the district's direct debt scheduled to be retired within 10 years, amortization is average. The debt service carrying charge was 12.7% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider moderate.

Our estimates include accreted interest on capital appreciation bonds, which totaled about $9.2 million according to 2016 audited figures. Despite that the district's overall net debt is what we view as moderately high, the district's direct debt equals only 2.5% of fiscal 2017 AV. Management attributes most overlapping debt to utility districts. Following the current borrowing, the district will have approximately $348 million in authorized but unissued debt. Officials report that they will continue to use the CP program note proceeds to finance construction on an ongoing basis, with the next long-term issuance likely occurring in the fall of 2017 and the spring of 2018. Despite the additional debt plans, we anticipate that the district's debt profile will not materially deteriorate given the continued AV growth.

The district has two series of variable-rate bonds. The series 2015A were re-marketed on Aug. 1, 2016 for a two-year term with an annual rate of 0.9%. The 2015B bonds remain in the initial rate period through July 31, 2017 and are bearing interest at a rate of 2% per annum. A failed conversion or remarketing of either series does not constitute an event of default but would require the district to pay interest on the bonds at a higher rate (stepped rate) of 8%, though there is no principal acceleration. In our view, the small portion of variable-rate debt relative to the district's overall debt profile and available cash and reserves mitigates the risk of higher interest costs under a stepped rate associated with a failed remarketing on the variable-rate bonds. Approximately 9.5%, or about $83.29 million, of the district's total GO debt outstanding is variable rate. While the district may issue additional variable-rate debt in the future, officials will comply with their formal debt management policy, which limits variable-rate debt to 25% of total debt outstanding.

In November of 2016, the district authorized and entered into a CP program with the issuance of the series 2016A CP notes, of up to $100 million in principal outstanding. A revolving credit agreement with JP Morgan Bank N.A., effective Nov. 3, 2016 and expiring Nov. 1, 2019, provides liquidity support for the notes. The revolving credit agreement total commitment covers both principal and interest on the notes, up to $107.397 million with an initial maximum interest rate of 10% per annum for a period of 270 days. Under the terms of the revolving credit agreement, following an event of default, the revolving credit agreement provider could issue a notice instructing the dealer and issuing paying agent to cease further note issuance; otherwise, upon certain events of default, the revolving credit agreement provider could terminate its commitment under the agreement and declare any borrowed funds under the agreement immediately due and payable. We believe that the district maintains sufficient liquidity to mitigate any potential acceleration, with over $267 million in cash and liquid investments or by taking out the notes with more than $348 million in authorized but unissued GO debt.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $6.9 million, or 0.8% of total governmental expenditures, toward its pension obligations in fiscal 2016. In fiscal 2016, the district also paid $2.6 million, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 1.1% of total governmental fund expenditures in 2016.

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The district participates in the Texas Teachers' Retirement System (TRS), a state-managed, cost-sharing, defined benefit multi-employer pension plan. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the district's net pension liability (as of the August 2015 actuarial valuation) was $141.6 million. The plan maintained a funded level of 78.4%, using the plan's fiduciary net position as a percentage of the total pension liability. The district made its full required contribution, which is statutorily determined. The district also provides retiree health insurance through TRS-Care, a cost-sharing, multi-employer, defined benefit, postemployment health care plan administered by TRS. Given the low pension and OPEB carrying charges, largely attributed to the special funding situation whereby the state picks up the majority of annual benefit costs, we do not expect postemployment benefit expenses to pressure the district's finances.

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 underlying rating reflects our expectation that, given the district's location and participation within the Houston MSA, the expanding economy will allow for continued growth in the tax base, which will provide management significant flexibility to implement its bond program without material changes to the district's debt ratios and reserves. Given the above, we do not expect to change the rating during our two-year outlook horizon.

Upside scenario

Although we are unlikely to do so, we could consider raising the underlying rating if the district were able to fully benefit from the tax base expansion, resulting in more locally sourced revenue and strong financial performance, combined with significant moderation of debt metrics to levels commensurate with those of higher-rated peers.

Downside scenario

Should economic growth fall off, causing debt levels to rise or financial reserves to deteriorate significantly, we could lower the rating.

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

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