

Clint Independent School District, Texas

Unlimited Tax Bonds New Issue Report

Ratings

New Issue

Unlimited Tax Bonds, Series 2015A^a AAA

Outstanding Debt

Unlimited Tax Bonds AA-

^aThe 'AAA' long-term rating on the bonds reflects the guaranty provided by the Texas Permanent School Fund, whose insurer financial strength is rated 'AAA' by Fitch Ratings. The bonds' underlying long-term rating, reflecting the credit quality before consideration of the guaranty, is 'AA-'.

Rating Outlook

Stable

Related Research

[Fitch Rates Clint ISD, TX's ULTs 'AAA' TX PSF/'AA-' Underlying; Outlook Stable \(October 2015\)](#)

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New Issue Details

Sale Information: \$16,365,000 Unlimited Tax Bonds, Series 2015, via negotiations the week of Oct. 19.

Security: The bonds are payable from an unlimited property tax levy of the district, and also carry the Texas Public School Fund Guarantee (PSF) bond guarantee (for more information on the Texas PSF see "Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable," dated Sept. 4, 2014 and available on www.fitchratings.com).

Purpose: To refund a portion of the district's outstanding unlimited tax debt for interest savings.

Final Maturity: Feb. 15, 2029.

Key Rating Drivers

Strong Financial Performance: The district consistently records operating surpluses, resulting in the steady growth of unrestricted general fund reserves approaching a healthy 30% of spending.

Well-Located Tax Base: The primarily residential district has experienced good population growth and steady gains in its tax base, benefiting from its location on the eastern boundary of El Paso County. The area economy includes international trade, manufacturing and distribution; Fort Bliss, the U.S. Army's second largest installation, and the stabilizing presence of medical, education, and government sectors. Growth prospects are strong.

Below-Average Socioeconomic Profile: District income levels are well below average and the pace of growth has stagnated in the past five years compared to growing state and national income metrics.

High Debt Ratios: The district's debt is very high relative to market value, although fixed costs are low relative to governmental spending due to state assistance and the district retains good flexibility under the state cap for new debt issuance to meet future needs.

Rating Sensitivities

Decline in State Support: Material decline in state support for operations and debt service or a weakening of the district's strong fund balance position could pressure the rating.

Rating History

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	10/14/15
AA-	Affirmed	Stable	6/24/15
AA-	Affirmed	Stable	3/16/15
AA-	Affirmed	Stable	6/26/14
AA-	Affirmed	Stable	8/29/12
AA-	Affirmed	Stable	10/14/10
AA-	Revised	Stable	4/30/10
A	Affirmed	Stable	2/27/09
A	Upgraded	Stable	8/13/08
A-	Affirmed	Stable	6/12/07
A-	Affirmed	Stable	12/6/06
A-	Upgraded	Stable	11/28/06
BBB+	Revised	Positive	8/25/06
BBB+	Affirmed	Stable	2/21/06
BBB+	Affirmed	Stable	7/7/03
BBB+	Affirmed	—	12/9/02
BBB+	Assigned	—	12/7/01

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Credit Profile

The district is located approximately 18 miles southeast of the city of El Paso (GOs rated 'AA' with a Stable Rating Outlook by Fitch Ratings). The district serves Horizon City, the town of Clint, and the unincorporated area of East Montana within a large 380-square mile boundary.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended Aug. 31)

	2009	2010	2011	2012	2013	2014
Property Tax Revenue	9,018	9,688	9,756	10,305	10,618	11,022
Other Local Sources	803	1,049	786	869	919	919
State Sources	61,772	64,714	67,572	70,606	75,758	75,758
Federal Sources	8,582	7,971	8,128	8,563	8,871	8,871
General Fund Revenue	80,009	80,845	83,490	86,791	90,656	96,570
Instruction	44,234	44,695	44,680	46,291	49,334	48,666
Operation and Maintenance of Plant	8,364	7,921	8,820	9,313	9,837	12,207
School Administration (Materials, Supplies)	3,258	2,992	3,189	8,716	9,138	0
Capital Outlay	1,756	1,956	221	228	851	174
Other	22,173	23,797	24,617	19,613	19,921	32,854
General Fund Expenditures	79,785	81,361	81,527	84,161	89,081	93,901
Operating Surplus/(Deficit)	224	(516)	1,963	2,630	1,575	2,669
Transfers In	1,854	0	32	21	44	0
Other Sources	0	544	0	0	0	0
Net Transfers and Other	1,854	544	32	21	44	0
Net Surplus/(Deficit)	2,078	28	1,995	2,651	1,619	2,669
Total Fund Balance	21,172	21,200	23,195	25,846	27,466	30,135
As % of Expenditures, Transfers Out, and Other Uses	26.5	26.1	28.5	30.7	30.8	32.1
Unreserved Fund Balance	19,857	18,715	0	0	0	0
As % of Expenditures, Transfers Out, and Other Uses	24.9	23.0	0	0	0	0
Unrestricted Fund Balance ^a	0	0	21,148	24,099	25,437	27,557
As % of Expenditures, Transfers Out, and Other Uses	0	0	25.9	28.6	28.6	29.3

^aReflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

Local Economy Benefits From Proximity to El Paso

The district continues to record positive, albeit uneven, growth in its primarily residential tax base. The district's taxable assessed valuation (TAV) grew by a compound annual average of 4.0% since fiscal 2008, including gains of 3.3% in fiscal 2014 and 0.6% for fiscal 2015. Preliminary figures for fiscal 2016 show growth in market value (3.0%) but contraction in TAV due to additional exemptions.

Ease of access to the city of El Paso and the Fort Bliss Air Defense Training Center make the district's affordable housing a primary growth driver. The U.S. Department of Defense has invested over \$7 billion in Fort Bliss in the past seven years; however, the base is not protected from across-the-board cuts at the federal level and Fitch will continue to monitor the potential for a reduction in force and associated impact on the local community. The top 10 taxpayers are represented by a utility, real estate, manufacturing, and construction interests with no taxpayer or industry concentration. Tax collections have averaged close to 100% over the past five fiscal years.

Related Criteria

[Exposure Draft: U.S. Tax-Supported Rating Criteria \(September 2015\)](#)

[Tax-Supported Rating Criteria \(August 2012\)](#)

[U.S. Local Government Tax-Supported Rating Criteria \(August 2012\)](#)

IHS Global Insights points to the El Paso region's younger-than-average population as a key strength, supporting strong service sector growth. However, relatively low skill levels limit high-paying job growth. The city's latest unemployment rate of 5.5% for July 2015 is improved from the prior year, but largely reflects a decline in both resident employment and labor force. Wealth as measured by median household income is about two-thirds of state and national averages.

Enrollment growth averaged 4.4% annually from fiscal years 2005–2011 but has since been relatively flat at 11,750 students. The district projects flat enrollment for planning purposes and monitors daily attendance closely to make timely budget adjustments if needed. Longer term, outward expansion of El Paso will likely generate additional enrollment gains at the district.

Strong Financial Performance

Management budgets conservatively and maintains a healthy level of reserves. State funding contributed more than 75% of the district's operating revenues over the past five years, followed by ad valorem tax revenues and federal monies.

The district's financial profile is characterized by positive operating results and strong reserves. Fiscal 2014 audited results were better than a previously projected deficit due to capital expenditures coming in under budget and higher than expected enrollment. At the close of fiscal 2014, the district's unrestricted fund balance stood at \$27.5 million, or a healthy 29.3% of spending.

The district estimates closing fiscal 2015 (Aug. 31) with a \$4 million surplus. The fiscal 2016 adopted budget was balanced with minimal changes from prior years, including an annual 1.5% salary increase and a 2.0% tax base growth assumption.

Debt Burden Growth

Metrics for overall debt outstanding spiked recently to an elevated \$5,852 per capita and a very high 20.2% of market value. The district's debt service payments were a very low 3% of government spending after adjusting for 76% state debt service assistance received in fiscal 2014. The fiscal 2014 debt service payment makes up a higher 9.3% of government spending without the state adjustment. The district receives debt service support from the state through the facilities funding component of the funding formula, which has proved consistent even in times of economic downturn at the state level.

Amortization is slow, with 35% retired in 10 years and management reports minimal capital needs after an \$80 million issuance earlier this year. The debt service tax rate is projected to remain at an affordable \$0.295 per \$100 of TAV, comfortably below the statutory new money issuance cap of \$0.50.

Debt Statistics

(\$000)	
This Issue	16,365
Outstanding Direct Debt – Net of Refunding	178,975
Total Net Direct Debt	195,340
Overlapping Debt	57,558
Total Overall Debt	252,897
Debt Ratios	
Net Direct Debt Per Capita (\$) ^a	4,520
As % of Market Value ^b	15.6
Overall Debt Per Capita (\$) ^a	5,852
As % of Market Value ^b	20.2

^aPopulation: 43,217 (2014). ^bMarket value: \$1,220,708,000 (2013).
Note: Numbers may not add due to rounding.

The district contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple employer defined benefit pension plan. Other post-employment benefits (OPEB) are also provided through TRS. The combined pension and OPEB contributions, which are set by state law, totaled \$1.8 million or a low 1.5% of spending in fiscal 2014. The district's total carrying costs for debt service and retirement benefits comprised a low 4.7% of governmental spending, net of state aid for debt.

Texas School Funding Litigation

For the second time in the past 18 months a Texas district judge ruled in August 2014 that the state's school finance system is unconstitutional. The ruling, which was in response to a consolidation of six lawsuits representing 75% of Texas school children, found the system inefficient, inequitable, and underfunded. The judge also ruled that local school property taxes are effectively a statewide property tax due to lack of local discretion and therefore are unconstitutional.

Following a similar ruling in February 2013, the judge granted a motion to reopen the lawsuit four months later after state legislative action that partially restored state funding levels and made other program changes. Fitch expects the state will appeal the latest ruling to the state supreme court. If the state school finance system is ultimately found unconstitutional, the legislature will be directed to make changes to the system to restore its constitutionality. Fitch would consider any changes that include additional funding for schools and more local discretion over tax rates to be a credit positive.

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