

RatingsDirect®

Summary:

Texas City Independent School District, Texas; School State Program

Primary Credit Analyst:

Allie Jacobson, Englewood 303-721-4242; allie.jacobson@spglobal.com

Secondary Contact:

Melissa Banuelos, Dallas + 1 (214) 871 1403; Melissa.Banuelos@spglobal.com

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Texas City Independent School District, Texas; School State Program

Credit Profile

US\$139.0 mil unlt'd tax sch bldg bn'ds ser 2023 dtd 04/01/2023 due 08/15/2053

<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	AA/Stable	New
Texas City Indpt Sch Dist ul'td tax rfdg bn'ds		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed
Texas City Indpt Sch Dist unlt'd tax rfdg bn'ds		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed
Texas City Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating and 'AA' underlying rating to Texas City Independent School District (ISD), Texas' anticipated \$139 million series 2023 unlimited-tax school building bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' underlying rating on the district's general obligation debt outstanding.
- The outlook is stable.

Security

Revenue from an unlimited ad valorem tax levied on all taxable property in the district secures the bonds. Proceeds from the series 2023 bonds will be used for a new high school building; a science, technology, engineering, and mathematics (STEM) center; an early childhood center; and a stadium.

The 'AAA' rating reflects our view of the district's eligibility for, and participation in, the Texas Permanent School Fund (PSF) bond guarantee program; more details can be found below.

Credit overview

The district's once predominantly industrial tax base has somewhat diversified following its 2016 annexation of La Marque ISD, and the district now has a stronger residential and commercial presence. Net taxable assessed value (AV) has seen 16.4% growth since 2021 to over \$6.7 billion in 2023, and we expect that the economy will continue to see at least modest growth from development and increases in existing property values over the next few years. There are preliminary plats approved for approximately 5,000 new single-family homes, and in the past two years over 1,000

permits have been issued to homeowners to make improvements to existing properties. There is also commercial development in the planning stages in downtown Texas City, and Texas City ISD has entered into six new Chapter 313 agreements that officials anticipate will come onto AV beginning in 2026.

The district's operational surpluses in fiscals 2021 and 2022 (approximately 18% and 13% of each year's operating expenditures, respectively) were driven by state funding from the La Marque ISD annexation, monies from the district's Foreign Trade Zone (FTZ) agreement with properties in the Gulf of Mexico, and monies from the Formula Transition Grant. We note that since these are temporary funding sources that are not guaranteed year to year, the district conservatively excludes Formula Transition Grant funds and FTZ funds from the base operating budget and does not commit them to recurring expenses. We understand that the district may spend down reserves that are assigned for construction projects that were part of the ten-year facilities plan but not part of the 2022 bond election. However, we expect that the district's finances will remain stable as it plans to maintain at least 25% of operational expenses in the unassigned fund balance, which is in line with its reserve target. In total, the district's direct debt burden is approximately \$312 million, which we expect will increase slightly with a likely \$19 million issuance in 2024 that will use up the remainder of its authorized debt. While there are additional projects the district will need in the next few years that are not included in the bond package, and there may be a need to go to voters for additional authorization, the district may be able to fund the remaining projects with its supplemental fund balance.

Additional rating factors include our view of the district's:

- Property tax and employment base that is concentrated in the petrochemical industry, with access to the Houston-The Woodlands-Sugar Land metropolitan statistical area's deep and diverse economy, which provides economic support;
- Very strong financial position, with finances that we expect will remain stable, and with a surplus budget for fiscal 2023 and expectations for enrollment to grow at a steady rate after a period of enrollment decline as new residential development comes into the district and with new course offerings, including a dual-language program, an early college program, and a firefighter certification;
- Financial management practices we consider good, highlighted by a five-year financial forecast that it reviews and updates annually; and
- Moderately high-to-high overall net debt, which we expect will remain moderately high-to-high with the likely 2024 issuance, and manageable pension and other postemployment benefit liabilities.

Environmental, social, and governance

We have analyzed the district's environmental risks and determined that they are elevated given its location along the coast and exposure to extreme weather-related events. However, the ISD reserves a portion of its very strong general fund balance to respond to catastrophic events, providing a significant cushion to address unexpected expenditures and revenue declines. Additionally, we analyzed its social and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are neutral.

Outlook

The stable outlook reflects our opinion that the district will likely maintain its very strong reserves and that operations will not be affected by the increase in its debt burden.

Downside scenario

We could consider negative rating action if the district fails to maintain balanced operations on a sustained basis or if there is a material decrease in reserves.

Upside scenario

Assuming all other factors remain stable or improve, we could consider positive rating action if the district moderates its debt burden and significantly diversifies its tax base.

Texas Permanent School Fund

The 'AAA' rating reflects our view of the district's eligibility for, and participation in, the Texas Permanent School Fund (PSF) bond guarantee program, which provides the security of a permanent fund of assets the district can use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, see our "Texas Permanent School Fund" report, published Nov. 23, 2022, on RatingsDirect.)

The stable outlook on the long-term program rating reflects our view of the Texas PSF's strength and liquidity.

Texas City Independent School District, Texas -- Key credit metrics

	Characterization	Most recent	Historical information		
			2022	2021	2020
Economic indicators					
Population				61,030	60,782
Median household EBI % of U.S.	Adequate			79.0	81.0
Per capita EBI % of U.S.	Adequate			78.0	80.0
Market value (\$000)		6,757,895	5,932,220	5,804,816	5,343,414
Market value per capita (\$)	Extremely strong	110,731	97,202	95,114	87,911
Top 10 taxpayers % of taxable value	Concentrated	42.5	37.4	53.5	48.6
Financial indicators					
Total available reserves (\$000)			96,546	84,917	68,203
Available reserves % of operating expenditures	Very strong		105.1	90.5	76.5
Total government cash % of governmental fund expenditures			12.7	24.1	14.4
Operating fund result % of expenditures			13.4	18.0	(7.0)
Financial Management Assessment	Good				
Enrollment		7,890	7,811	8,044	8,451
Debt and long-term liabilities					
Overall net debt % of market value	Moderately high	6.8	5.4	6.1	6.8

Texas City Independent School District, Texas -- Key credit metrics (cont.)

	Characterization	Most recent	Historical information		
			2022	2021	2020
Overall net debt per capita (\$)	High	7,509	5,204	5,818	5,963
Debt service % of governmental fund noncapital expenditures	Moderate		14.7	15.9	15.9
Direct debt 10-year amortization (%)	Slower than average	38.0	63.0	62.0	62.0
Required pension contribution % of governmental fund expenditures			1.4	1.3	1.5
OPEB actual contribution % of governmental fund expenditures			0.3	0.3	0.4
Minimum funding progress, largest pension plan (%)			81.4	86.8	68.7

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of April 3, 2023)

Texas City Indpt Sch Dist unlted tax rfdg bnds

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

Texas City Indpt Sch Dist unlted tax rfdg bnds ser 2020A dtd 11/15/2020 due 02/15/2025

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

Texas City Indpt Sch Dist unlted tax sch bldg and rfdg bnds

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

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