

## **FITCH RATES SOCORRO ISD, TX ULT RFDG BONDS 'AAA' PSF/'AA' UNDERLYING; OUTLOOK STABLE**

Fitch Ratings-Austin-28 April 2016: Fitch Ratings has assigned a 'AAA' rating to the following Socorro Independent School District, TX (the district) unlimited tax (ULT) refunding bonds:

--\$26.9 million ULT refunding bonds, series 2016.

The 'AAA' Long-Term rating for the bonds is based on a guaranty provided by the Texas Permanent School Fund (PSF), whose bond guaranty program is rated 'AAA' by Fitch.

The bonds are scheduled for negotiated sale the week of May 2nd. Proceeds will be used to refund a portion of the district's outstanding ULT bonds for debt service savings.

In addition, Fitch has assigned a 'AA' underlying rating to the bonds and has upgraded the rating on \$493.3 million in outstanding ULT debt (pre-refunding) and the district's Issuer Default Rating (IDR) to 'AA' from 'AA-'.

The Rating Outlook is Stable.

### **SECURITY**

The bonds are payable from an unlimited property tax levy of the district, and also carry the Texas PSF bond guarantee (for more information on the Texas PSF see 'Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable' dated Sept. 4, 2014).

### **KEY RATING DRIVERS**

The rating upgrade to 'AA' reflects application of Fitch's revised U.S. Tax-Supported Rating Criteria. The district benefits from above average revenue growth, strong gap-closing capacity, and low fixed costs. Capital needs may arise given the potential for modest to moderate enrollment growth, though Fitch expects that long-term liabilities will continue to be a moderate burden on resources due to the strong state support for debt service.

### **Economic Resource Base**

The district is located east of the city of El Paso (general obligation bonds rated 'AA'/Stable Outlook) in an arid ranching area that includes a portion of the Fort Bliss military installation and the Briggs Army Airfield. The district includes the city of Socorro, Horizon City, a portion of the city of El Paso, and unincorporated areas of El Paso County. Growth prospects are strong yet socioeconomic indicators are expected to remain below average.

### **Revenue Framework: 'aa' factor assessment**

The property taxes and state aid that support the district are expected to continue to yield revenue growth in excess of the national GDP. The district's independent legal ability to raise revenues is limited by state law, although the district retains some margin under the limit.

### **Expenditure Framework: 'aa' factor assessment**

District expenditures are likely to keep pace with revenue as enrollment growth continues on a modest to moderate trajectory. The low fixed-cost burden reflects state-support for debt service, pension, and OPEB costs.

#### Long-Term Liability Burden: 'aa' factor assessment

Debt and pension liability levels are moderate relative to personal income. Fitch anticipates the district's long-term liabilities will remain a moderate burden on resources due to the strong state support of debt service given the district's property-poor status.

#### Operating Performance: 'aaa' factor assessment

The combination of the district's expenditure-cutting flexibility and healthy reserve funding levels leave it well positioned to address cyclical downturns.

### RATING SENSITIVITIES

**Reduced Expenditure Flexibility:** A material increase in spending in excess of revenues could result in a rating downgrade.

**Improved Revenue Expectations:** Developments that improve Fitch's assessment of the district's revenue framework, whether through increased growth expectations or enhanced flexibility could result in an upgrade.

### CREDIT PROFILE

The district's primarily residential tax base continued to make gains even through the recession. Abundant affordable land within the district's boundaries will likely continue to spur residential development. Enrollment growth has been moderating in recent years, slowing from 4% year-over-year growth in fiscal 2010 to 1.2% in fiscal 2016.

#### Revenue Framework

Roughly three-quarters of the district's operating revenues come from state aid due to the district's low-property wealth, with the remainder derived from property taxes. Revenue growth is primarily a function of enrollment as the state seeks to ensure a certain level of per pupil spending for all school districts.

The district's general fund revenues have grown at a compound annual growth rate of 5% over the past 10 years, well above the growth rate of U.S. GDP. Fitch anticipates enrollment growth will continue to spur revenue growth.

The district's M&O tax rate of \$0.976 per \$100 taxable assessed value (TAV) could rise to the statutory cap of \$1.04 without voter approval. Management has expressed a commitment to keeping the tax rate level, and Fitch views the margin under the limit favorably. The district levies a separate, unlimited debt service tax rate that stood at \$0.299 per \$100 TAV as of fiscal 2016, with comfortable margin under the \$0.50 state attorney general's limit for new issuance approval.

#### Expenditure Framework

The district's main expenditure item is personnel at about 60% of general fund spending. The district also funds some annual capital outlay from general fund revenues for maintenance and repairs on facilities.

Fitch expects expenditure growth to align with revenue growth absent policy actions, but recognizes a high level of expenditure flexibility in the healthy portion of paygo capital each year.

The district's fixed cost burden is moderate, with carrying costs for debt, pensions and OPEB equaling 12% of 2015 governmental expenditures. That figure falls to 7.5% when state support for debt service is netted out. Areas of spending pressure may include health care costs, and management notes salary increases beyond the historical 1.5% may be necessary in the near-term, though the district maintains strong control over wages and benefits.

### Long-Term Liability Burden

The bulk of the district's long-term liability burden is made up by its outstanding debt load. The district is currently undergoing a facility review in order to plan for long-term needs. There is remaining capacity to accommodate student growth with the aid of portable classrooms. There is no outstanding authorization for new money debt and there are no immediate plans to approach voters. Amortization is below average with 42% retired in 10 years.

The district participates in the Texas Teachers Retirement System (TRS), a cost-sharing multiple employer pension system. Under GASB 67 and 68, TRS's assets cover 83.3% of liabilities as of fiscal 2015, a ratio that falls to 75% using a more conservative 7% return assumption.

The proportionate share of the system's net pension liability paid by the district is minimal. The district's contributions currently are limited to 1.5% of salaries (total contribution of \$6.4 million in fiscal 2015).

### Operating Performance

The district has grown its financial cushion in the last six fiscal years, weathering the recession well. General fund balances have more than tripled since 2009, reaching a strong \$111.9 million in fiscal 2015 or 35% of spending. Although Fitch expects the district to draw down reserves from this elevated level they are expected to remain high. The district retains ample expenditure flexibility to manage well through economic downturns.

The district has demonstrated a strong commitment to supporting financial flexibility. Budgeting is conservative and management has been proactive in using excess revenues to limit debt issuance and boost reserves.

### Texas School Funding Litigation

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 and was the second such ruling in the past two years, 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.

The Texas attorney general has appealed the judge's latest ruling to the state supreme court. If the state school finance system is ultimately found unconstitutional, the legislature would likely follow with changes intended 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.

Contact:

Primary Analyst  
Leslie Cook  
Associate Director

+1-(512)-215-3740  
Fitch Ratings, Inc.  
111 Congress Avenue  
Austin, TX 78701

Secondary Analyst  
Jose Acosta  
Senior Director  
+1-(512)-215-3726

Committee Chairperson  
Laura Porter  
Managing Director  
+1-(212)-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:  
elizabeth.fogerty@fitchratings.com.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and the Municipal Advisory Council of Texas.

#### Applicable Criteria

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=879478](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '[WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM)'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.