STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Crandall Independent School District, Texas; General Obligation; School State Program

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Table Of Contents

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Credit Profile		
Crandall Indpt Sch Dist PSF		
Long Term Rating	AAA/Stable	Affirmed
School Issuer Credit Rating	A+/Stable	Affirmed
Crandall Indpt Sch Dist GO		
Long Term Rating	A+/Stable	Affirmed
Crandall Indpt Sch Dist GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Crandall Indpt Sch Dist GO		
School Issuer Credit Rating	NR	Withdrawn
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' program rating and 'A+' school issuer credit rating (ICR) and stable outlook on Crandall Independent School District, Texas' series 2012A unlimited-tax general obligation (GO) refunding bonds and affirmed its 'A+' long-term rating, with a stable outlook, on the district's series 2012B unlimited-tax GO refunding bonds.

Moreover, Standard & Poor's affirmed its 'AAA' program rating and 'A+' ICR, with a stable outlook, on the district's existing GO debt.

Standard & Poor's also affirmed its 'A+' long-term rating and underlying rating (SPUR), with a stable outlook, on the district's existing GO debt not issued under the Texas Permanent School Fund bond guarantee program.

The series 2012B unlimited-tax GO refunding bonds are not guaranteed by the Texas Permanent School Fund bond guarantee program.

The program rating reflects our assessment of the district's eligibility for, and participation in, the Texas Permanent School Fund bond guarantee program, which provides the security of a permanent fund of assets the district can use to meet debt service on program-guaranteed bonds.

The 'A+' rating reflects our opinion of the district's:

- Convenient access to the Dallas-Fort Worth's deep economy and employment base;
- Strong finances, indicated by healthy general fund reserves; and

- Strong income.

We believe the rating is somewhat constrained by the district's:

- Limited and undeveloped, albeit growing, local economy;
- Moderately high overall net debt relative to market value; and
- Additional capital needs due to expected growth in the district.

An unlimited ad valorem property tax levied on all taxable property in the district secures the series 2012A and 2012B bonds. Officials intend to use bond proceeds to refinance a portion of the district's series 1995, 2002, 2007, and 2009 GO debt for a current estimated savings in excess of 10%.

Crandall Independent School District, with a population estimate of 13,445, is in Kaufman County, 25 miles southeast of downtown Dallas, where it encompasses Crandall and Combine. Due to the district's location, residents have access to employment opportunities throughout the Dallas-Fort Worth metropolitan area, which supports, what we consider, strong median household effective buying income at 141% of the national level.

Despite a recent 2% assessed value (AV) decrease from fiscal years 2012-2013, the property tax base has experienced solid tax base growth over the past six fiscal years. AV has increased by 46% since fiscal 2007 to slightly more than $540 million in fiscal 2013. Although the district's local economy has historically centered on agriculture, over the past several years, the residential tax base has increased substantially; residential property accounts for more than 60% of the tax base. Heartland, a single-family residential development, is growing; officials expect it to contain 8,000 homes upon buildout. The tax base remains very diverse with the 10 leading taxpayers accounting for less than 6% of fiscal 2013 AV. Market value, a wealth indicator, remains, in our view, an adequate $40,182 per capita. The current student enrollment of 3,036 indicates a 3% increase over previous-year enrollment. Management is projecting student enrollment to reach 3,500 by calendar year 2016.

In our opinion, finances are very strong. Following several years of operating surpluses, the district has maintained an unreserved, unassigned fund balance that has accounted for no less than, what we consider, a very strong 32% of operating expenditures for the past five fiscal years. Management attributes consecutive surpluses and the maintenance of, in our opinion, very strong reserves to, what we regard as, conservative budgeting practices. Officials adopted a $75,000 surplus budget for fiscal 2013; according to representatives, the budget is trending well. Management expects fiscal 2012 audited results to reflect at least break-even operations. Fiscal 2011 audit results indicate a $280,000 operating surplus and a $6.4 million unassigned fund balance, or 33% of fiscal 2011 operating expenses. State aid accounts for roughly 67% of general fund revenue while property taxes generate the bulk of the remainder.

The district currently levies a property tax rate of $1.04 per $100 of AV for operations and about 48.4 cents per $100 of AV for debt service for a total property tax rate of about $1.52. While the district can increase the operations levy by the state-mandated maximum of an additional 13 cents, with electorate approval, officials have not indicated any plans to adjust this portion of the rate. Collections are, in our view, strong, averaging 99% over the past several years.

Standard & Poor's deems the district's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Key practices include management's:

- Monthly monitoring of the district's budget;
- Hiring of an independent demographer to make enrollment projections;
- Formal debt management policy that provides maturity, swap, and refunding guidelines;
- Board-approved reserve policy of maintaining at least two months' expenditures; and
- Long-term capital plan with no identified funding sources.

Net of state support for slightly more than 45% of debt service payments, overall net debt is, in our opinion, a moderately high 8.7% of fiscal 2013 AV, or a moderate $3,498 per capita. Debt service carrying charges were, in our view, an elevated 16% of fiscal 2011 expenditures. We consider debt amortization about average with officials planning to retire 54% of principal over 10 years, 98% over 20 years, and 100% by 2033. After the issuance of the series 2012 bonds, the district will have $20 million of authorized, but unissued, bonds remaining. The district does not have any definitive debt plans within the next two years.

Outlook

The stable outlook on the program rating reflects Standard & Poor's assessment of the strength and liquidity of the Texas Permanent School Fund. Over the next two years, the stable outlook on the 'A+' rating reflects our opinion that management will likely maintain its strong finances, which should help it weather future growth-related pressure. It is our understanding management intends to monitor population and enrollment growth closely, which will likely generate additional capital needs and cause debt to remain, what we consider, high. While we do not expect to adjust the rating within the outlook's two-year period, a substantial reserve deterioration, weakening finances, could place negative pressure on the rating.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.