FitchRatings

Fitch Affirms Crandall ISD, TX's ULTs at 'A+'; Outlook Stable

Fitch Ratings-New York-14 May 2014: Fitch Ratings affirms the following underlying rating on Crandall Independent School District (ISD), Texas (the district):

--$42.7 million unlimited tax (ULT) bonds, series 2002, 2008, and 2010 at 'A+'.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by ad valorem taxes levied against all taxable property within the district, without limitation as to rate or amount. In addition, the series 2002 and 2010 bonds are secured by the Texas Permanent School Fund (PSF), whose bond guarantee program is rated 'AAA' by Fitch.

KEY RATING DRIVERS

STABLE FINANCIAL POSITION: The district maintains strong reserves despite pressures associated with enrollment growth. A history of favorable financial performance reflects conservative budgeting and prudent cost management.

RESIDENTIAL COMMUNITY OUTSIDE DALLAS: The district's tax base remains somewhat limited and largely residential in nature. Access to the large and diverse Dallas-Fort Worth (DFW) employment market contributes to the district's low unemployment rate and income levels above state and national averages.

HIGH DEBT: High overall debt reflects facility construction associated with the enrollment growth experienced by the district in the past decade. Near-term plans to address capacity issues will require additional issuance and place pressure on the district's interest and sinking fund (I&S) statutory tax rate capacity.

RATING SENSITIVITIES

PRESSURE TO FUND CAPITAL NEEDS: Pressure to maintain a tax rate below the statutory $0.50 per $100 taxable assessed valuation (TAV) test for new debt issuance may hinder the district's ability to issue additional new money debt for its capital needs.

CREDIT PROFILE

RURAL NORTH TEXAS SCHOOL DISTRICT

Located approximately 25 miles southeast of the city of Dallas, Crandall ISD is one of seven school districts serving Kaufman County. As a result of its proximity to the Dallas-Fort Worth Metroplex and availability of inexpensive land, the county's population grew by over 60% since the 2000 census. District enrollment growth has mirrored the population with average daily attendance (ADA) almost doubling in the past 15 years to a total of 3,001 students in 2014.

The county's unemployment rate of 5.8% as of March 2014 is on par with the Texas average and lower than the national average. The county's median household income exceeds that of the DFW area, state and nation.

STABLE TAX BASE

The district's TAV was resilient during and after the recession, experiencing just one year of decline in fiscal 2013 of 2.2%, partly driven by the revaluation of raw acreage resulting from a one-time change in the county's valuation methodology. Growth in TAV resumed in fiscal 2014 with a 1.5% increase and management expects a growth rate of approximately 2% annually in the near term, which Fitch considers reasonable given the residential construction currently underway.

The total tax rate will stay flat in fiscal 2014 for the fourth consecutive year, with operations and I&S tax rates at $1.04 and $0.484 per $100 TAV, respectively. The district is currently at its operations tax cap and does not have plans to go to voters for an override. Future debt issuances will cause the debt service tax rate to push up against the Texas Attorney General's $0.50 per $100 TAV tax limit for new money issuances, somewhat restricting the district's ability to address future facility needs driven by enrollment growth.

STABLE FINANCIAL POSITION

The district has completed seven consecutive years with operating surpluses, including a modest $434,000 surplus net of transfers for fiscal 2013. The unrestricted general fund balance of $8.2 million represents a strong 41% of spending, which exceeds the district's fund balance policy (two-three months of general fund spending). Management expects an additional year of positive operations in fiscal 2014 due to an adopted surplus budget and higher-than-expected state funding from a jump in enrollment. In addition to adding $500,000 to unrestricted fund balance, the district will use surplus revenues to fund a variety of projects that address technology upgrades, transportation improvements, and athletic facility renovations.

ABOVE-AVERAGE DEBT

As a result of facility construction due to enrollment growth, overall debt levels are high at 8.8% of market value and $5,836 on a per capita basis without taking into consideration the approximately 50% of debt service support the district receives from the state.

The district currently has $20 million authorized but unissued bonds from the 2007 election and plans to seek additional authorization in the amount of $15 million. The additional debt is scheduled for 2016 to address capacity issues at the elementary and high school levels based on enrollment projections of 3.5%-5%.

Amortization is average with 54.5% of debt retired in 10 years despite the district's heavy reliance on capital appreciation bonds (CABs).

OTHER LONG-TERM LIABILITIES MANAGEABLE

Retiree pension and healthcare benefits are provided through the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer plan. TRS is adequately funded at 81.9% as of Aug. 31, 2012, though Fitch estimates the funded position to be lower at 73.8% when a more conservative 7% return assumption is used.

The district's annual contribution to TRS is determined by state law as is the contribution for the state-run post-employment benefit healthcare plan. The district's cost for pension and other post-employment benefits (OPEB) represented just 1.03% of governmental fund expenditures in fiscal 2013, as plan contribution amounts are principally paid by the state and district employees.

The state's payment of district pension costs is an important credit strength as it keeps overall carrying costs manageable in the face of a high and growing debt burden. Carrying costs for the district (debt service in addition to pension and OPEB costs) remain very manageable, consuming 9% of governmental fund spending in fiscal 2013. Fitch will continue to monitor the level of state support for school district pension payments, noting contributions for all districts in the state will increase modestly to 1.5% of the statutory minimum portion of payroll from 0% beginning fiscal 2015.

TEXAS SCHOOL FINANCE LITIGATION

In February 2013 a district judge ruled 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 unsuitable and arbitrarily funds districts at different levels'. The judge also cited inadequate funding as a constitutional flaw in the current system.

The judge reopened the lawsuit in June 2013 after state legislative action that partially restored state funding levels and made other program changes. A new trial date of Jan. 6, 2014 has been set. 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 a positive credit consideration.

Contact:

Primary Analyst
Leslie Ann Cook
Analyst
+1-212-908-0507
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Rebecca Meyer
Director
+1-512-215-3733

Committee Chairperson
Michael Rinaldi
Senior Director
+1-212-908-0833

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

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and the National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)
U.S. Local Government Tax-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

Additional Disclosure

Solicitation Status (http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=830162)

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