S&P Global Ratings

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Research Update:

Hamilton Independent School District, TX Series 2025 Unlimited-Tax Bonds Rated 'A+'; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating (based on credit enhancement) and 'A+' underlying rating to Hamilton Independent School District (ISD), Texas' anticipated $19.8 million series 2025 unlimited tax school building bonds.
- The outlook is stable.
- The underlying rating is based on the application of our "Methodology For Rating U.S. Governments," Sept. 9, 2024.

Rationale

Security

Revenue from an unlimited ad valorem tax levied on all taxable property in the district secures the bonds.

The long-term enhanced rating reflects our view of the district's eligibility for, and participation in, the Texas Permanent School Fund (PSF) bond guarantee program. For more information, see our analysis on the Texas PSF, July 3, 2024.

Proceeds of the 2025 bonds will finance the renovation and improvement of the district's existing facilities and purchase new school buses. The district has no plans to issue additional debt within the outlook period.

Credit highlights

The rating reflects the district's concentrated but stable economy, stable financial position and healthy reserves despite a recent draw for capital, elevated debt burden following this issuance, limited financial policies, and a manageable pension liability.

Hamilton ISD operates three schools that provide educational services to rural communities in central Texas, where the local economy is primarily driven by the agricultural and related businesses, health care, retail, and public administration. Beyond organic economic activity in the local economy, we anticipate a significant increase in the district's assessed value (AV) due to ongoing solar farm developments, which have yet to realize their peak valuations, as well as the construction of a pipeline that will soon be incorporated into the tax base. However, the expected rise in AV will also further entrench concentration within the tax base, which we consider a credit weakness. Furthermore, given the relatively rapid depreciation associated with solar assets, we anticipate potential volatility in the tax base's post-valuation peak. Notably, the district has mitigated the adverse effects of solar farm depreciation by entering into Chapter 313 agreements, which allow the district to levy full taxation on the solar farms for debt service purposes while limiting operational taxation.

The district's financial position has remained relatively stable, enabling the maintenance of healthy reserves. This stability has been partially reinforced by COVID-19 pandemic stimulus resources, which have helped counterbalance a stagnant funding environment. Year-to-date projections for fiscal 2025 indicate a minor shortfall of approximately $200,000 due to the district's use of fund balance for property acquisition. Nevertheless, bolstered by the recent increase in per-pupil funding and the strategic deployment of bond authorization to finance essential capital projects, the district anticipates strengthening its reserve position in the outyears.

The district's 2025 bond authorization has substantially elevated its debt burden relative to its population. However, we assess this debt load as manageable owing to the relative strength of its tax base and levy capacity. Beyond the near term, we assess the district's credit stability to be contingent on maintenance of its reserves to sustain operations if per-pupil funding does not keep pace with inflation legislation, adversely affecting the state school-funding environment. However, we expect the district's fiscal position will remain stable in the near term, aligning with what we typically observe among similarly rated peers, due to the conservative management team's prudent budgeting practices.

The rating further reflects our view of the district's:

- Rural-yet-stable economy, characterized by a concentrated tax base, which exhibits lagging economic output as measured by gross county product, while maintaining high per capita personal income. Our expectations for continued AV growth are bolstered by a development pipeline that includes a solar farm and a new mid-stream pipeline, which will contribute to maintaining elevated levels of tax base concentration.
- Operating results that are generally positive, contributing to the maintenance of healthy reserves and stable financial conditions. We anticipate continued favorable budgetary variances that are likely to preserve strong reserves and liquidity in the near term, despite a projected drawdown of fund balance to support capital expenditures. This strategy should enable the district to mitigate potential tax base volatility if it arises. The district also maintains additional resources in its committed general fund balance, which can be used for operational needs upon board approval. The committed fund balance amounted to $510,000 in 2024, translating to an adjusted available fund balance of $3.4 million, or 29% of fiscal 2024 operating revenues.
- Limited formal financial policies, but management employs budgeting practices aimed at ensuring budget stability. This is achieved using conservative revenue and expenditure assumptions, grounded in historical trend analysis, along with monthly budget-to-actual performance reporting to the governing body. A formalized investment management policy is

in place, aligning closely with state guidelines, but the district lacks an adopted debt management policy. It maintains an informal reserve target to keep general fund balance equivalent to three months of operating expenditures, a level it currently exceeds. The district does not engage in formal long-term financial or capital planning. Lastly, the district is actively undertaking measures to mitigate cyber-security risk.

- Elevated direct debt burden relative to its population with a slow, but level, amortization schedule with no debt plans after this issuance. To support this bond authorization, the district will increase its interest-and-sinking-fund levy to 22 cents. Despite higher debt-servicing costs, we note budgetary pressure is limited due to an electorate-approved unlimited ad valorem tax that supports all the district's debt outstanding.
- Limited near-term credit risk associated with pension and other postemployment benefits, as the state covers a significant portion of the employer contributions and assumes responsibility for the corresponding share of the unfunded liability. (For more information on Texas' pension landscape, see "Pension Spotlight: Texas, April 4," April 4, 2023, on RatingsDirect.)
- For more information on our institutional framework assessment for Texas school districts, see "Institutional Framework Assessment: Texas Local Governments," Sept. 9, 2024.

Environmental, social, and governance

Communities across the southern U.S. are susceptible to episodic tornado and flood events, which can create adverse conditions that could affect district finances and the broader economy. We view social and governance factors as neutral.

Outlook

The stable outlook reflects our expectation that the district will continue to adjust its budget as needed to sustain stable finances and maintain a healthy reserve position that we asses offset its taxpayer concentration.

Downside scenario

We could lower the rating if increasing operating costs or one-time capital outlay result in the depletion of available reserves to levels that we no longer consider sufficient to offset taxpayer concentration.

Upside scenario

All else being equal, we could raise the rating if local economic expansion materially improved economic metrics and a more diversified tax base coupled with the adoption of more comprehensive financial management policies.

Hamilton Independent School District, Texas--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.75
Economy	4.5
Financial performance	2
Reserves and liquidity	1

Hamilton Independent School District, Texas--credit summary

Management	3.00
Debt and liabilities	3.25

Hamilton Independent School District, Texas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	50	--	50	50
County PCPI % of U.S.	102	--	102	105
Market value ($000s)	691,726	658,333	599,927	423,858
Market value per capita ($)	124,344	114,294	107,591	76,220
Top 10 taxpayers % of taxable value	27.4	--	--	--
County unemployment rate (%)	4.2	4.1	3.8	3.8
Local median household EBI % of U.S.	74	--	74	82
Local per capita EBI % of U.S.	73	--	73	86
Local population	5,563	5,760	5,576	5,561
Financial performance				
Operating fund revenues ($000s)	--	11,771	10,491	10,595
Operating fund expenditures ($000s)	--	11,517	11,077	9,997
Net transfers and other adjustments ($000s)	--	(173)	(124)	118
Operating result ($000s)	--	81	(710)	716
Operating result % of revenues	--	0.7	(6.8)	6.8
Operating result three-year average %	--	0.2	1.6	5.7
Enrollment	--	--	--	833
Reserves and liquidity				
Available reserves % of operating revenues	--	29.1	36.3	42.6
Available reserves ($000s)	--	3,421	3,803	4,512
Debt and liabilities				
Debt service cost % of revenues	--	--	--	--
Net direct debt per capita ($)	3,559	--	--	--
Net direct debt ($000s)	19,800	--	--	--
Direct debt 10-year amortization (%)	22	--	--	--
Pension and OPEB cost % of revenues	--	3.0	3.0	3.0
NPLs per capita ($)	--	642	746	553
Combined NPLs ($000s)	--	3,699	4,160	3,076

Financial data might reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$19.8 mil unltd tax sch bldg bnds ser 2025 due 08/15/2055	
Long Term Rating	AAA/Stable

Ratings List	
Underlying Rating for Credit Program	A+/Stable
New Rating	
Local Government	
Hamilton Indpt Sch Dist, TX Permanent School Fund Program	AAA/Stable
Hamilton Indpt Sch Dist, TX Unlimited Tax General Obligation	A+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.