Research Update:

Washington County Junior College District, TX Series 2026 Combined Fee Revenue Bonds Rated 'AA-'; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to Washington County Junior College District (JCD), Texas' $55.5 million combined fee revenue bonds.
- At the same time, we affirmed our 'AA-' underlying rating on the college district's existing debt.
- The outlook is stable.

Rationale

Security

Following this sale, the district's pro forma debt outstanding will remain all revenue-supported and about $160 million, including about $13.7 million in long-term leases. The revenue bonds are secured by what we consider a broad pledged revenue stream, which includes net auxiliary system revenues, general fees, and a 25% portion of tuition revenues.

Credit highlights

The rating reflects our view of Washington County JCD's very strong enterprise risk profile and very strong financial risk profile. The enterprise risk profile reflects our view of the district's diversified and broad service area population, with a sizable enrollment base demonstrating recent growth supported by its role as a primary pathway to the Texas A&M college system with high retention and transfer rates, and an experienced and sound leadership team. The financial risk profile reflects our view of the district's history of full-accrual surpluses, which are projected to continue through fiscal 2026, and healthy balance-sheet metrics, with no immediate plan to issue additional debt in the next few years.

The rating reflects our view of Washington County JCD's:

- Healthy enrollment base, with solid student quality that allowed the district to secure notable articulation agreements with the flagship four-year colleges in the state and support its role a community college with a high successful transfer rate;
- Healthy balance sheet, with no plans for drawdowns, supported by a history of generating full-accrual surpluses; and
- Experienced and capable management team.

Partially offsetting the above strengths, in our opinion, are the district's:

- Elevated reliance on student-dependent revenues compared with that of peers; and
- Moderate maximum annual debt service burden.

Environmental, social, and governance

We acknowledge that the district benefits from favorable demographic trends, including a growing population within its service area in the Houston metropolitan statistical area. We believe that this population growth is a social capital opportunity when compared with many other college districts, and that it supports the market position over the long term. We consider environmental and governance risk factors neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that, during our two-year outlook period, full-accrual operating surpluses and financial resource ratios will remain steady and the debt burden will remain manageable. The outlook also reflects our expectation that the college will maintain at least stable demand trends.

Downside scenario

We could consider a negative rating action if Washington County JCD experiences significant full-time equivalent enrollment decreases, or if financial operations and financial resources materially weaken to levels that we consider no longer consistent with the rating.

Upside scenario

We could consider a positive rating action if the college’s market position were to demonstrate a trend of sustained strengthened enrollment, material diversification of operational revenues, and moderation of its debt profile to a level comparable with that of higher-rated peers.

Credit Opinion

Enterprise Risk Profile

Washington County JCD has a main campus in Brenham, a large academic facility adjacent to College Station in Bryan, and academic sites in Schulenburg and Sealy. It is a unique district in that, although it serves an extensive service area in east-central Texas (which includes all of Washington County and eight additional contiguous counties, as well as parts of five others), almost 94% of its fall 2017 students were considered out of district. More recently, Washington County JCD received approval to annex Waller, Texas, into its service area, allowing access to the rapid growth occurring west of Houston. The largest campus is in Bryan, about 100 miles northwest of Houston and 100 miles east of Austin. Originally a private men's ministry college, it was converted into a public junior college in 1937. The district offers two-year programs with an emphasis on preparation for transfer to four-year institutions. It also offers vocational and technical programs, although just 10% of students take vocational courses. with an estimated service population of approximately 525,000. Although this figure is taken from the surrounding service area, it does not completely capture Washington County JCD's statewide draw with more than 75% of students coming from outside the defined service area. In our view, the district's tax base is relatively diverse when considering the top 10 taxpayers as a percentage (13.5%), and assessed value (AV) remains steady at more than $6.5 billion in fiscal 2026, Management expects multiple major economic development projects related to oil and gas will materially increase AV in the medium term, along with single-family housing developments located west of Houston and part of the recently annexed service area in Waller. Despite exposure to these relatively volatile sectors, we believe AV growth in recent years demonstrates economic growth within the tax base. Further supporting our opinion of the tax base are the very good wealth and income levels, fueling healthy property tax base growth that we expect will continue over the outlook period.

Although enrollment did experience a contraction in recent years, it is showing signs of growth for fiscal 2026 at a projected 18,650 largely due to increased transfers and a broadening dual-credit program, with continued growth expected in the near term. In addition, management reports that spring enrollment is tracking higher than the previous year, further supporting continued growth trends. Overall, management expects further enrollment growth over the next two years. We expect Washington County JCD will maintain stable-to-growing trends over the outlook period.

We consider management seasoned and stable, with expertise in multiple business lines. With the exception of replacing the vice chancellor of academics, who retired, and the current chief financial officer (CFO) hired in August 2023, the management team remains largely unchanged. In addition, the college has incorporated human resources under the vice chancellor of business following the retirement of the vice chancellor for human resources. We believe the new CFO's experience at another area Texas community college has allowed for a seamless transition. In our view, the district follows generally conservative budgeting, and financial management practices and tends to outperform budgeted expectations. Officials have maintained a strong relationship with Texas A&M through collaborative programming and transfer agreements supporting its role as the primary transfer community college to the Texas A&M system in the state.

Management prepares monthly finance reporting to the board, and the district maintains a long-term strategic plan for growth and sustainability purposes. In addition, Washington County JCD maintains a formalized investment management policy that includes quarterly reporting of holdings and earnings, a capital plan that is updated as needed, and a basic debt management policy. Despite a lack of a formal reserve policy, the district maintains a minimum reserve equal to five months of operational expenses, which it historically exceeds, and engages in informal long-term financial planning spanning two years beyond the current year's budget.

A seven-member board of trustees governs operations, with each member elected by the public and serving a staggered six-year term. The board is vested with supervision over district operations and policymaking responsibilities, which include setting tuition and fees, approving annual operating and capital budgets, and approving debt issuances. Key members of the senior management team remain stable with minimal turnover, and we view this favorably.

Financial Risk Profile

We view the district's financial position as healthy, with a history of generating full-accrual operating surpluses. Although Washington County JCD had historically posted consecutive double-digit full-accrual operating surpluses in previous years, in part to build up reserves to cash-fund capital projects, recent operating margins have been softer, albeit positive. The district closed fiscal 2024 and fiscal 2025 with about a 3% and a 1% surplus, respectively. Officials attribute the softer results to higher expenses tied to programs and capital projects. Officials expect fiscal 2026 results to end materially better than fiscal 2025 with a projected $11 million-$12 million operating surplus due to expenses coming in well under budget and healthy state support under House Bill 8. We would view a consistent improvement in margins closer to historical performance as a positive credit factor.

Financial resources metrics have remained relatively consistent with the rating level. Cash and investments, not including bond proceeds, were 82% relative to operations and 85% relative to pro forma debt for fiscal 2025. We expect financial resource ratios will remain at least consistent over the outlook period, supported by steady full-accrual surplus projections over the near term. with no current planned spenddown of reserves other than bond proceeds associated with the series 2026 bonds. We understand that management is currently reviewing improvements to athletic facilities on the Brenham campus and could draw on reserves in accordance with the district's informal reserve policy.

We view the overall pro forma maximum annual debt service burden as moderate at 6.75%. Amortization is average, in our view, with 52% of debt to be retired within 10 years. Management has no immediate plans to issue additional debt following the series 2026 bonds.

We consider the college's pension and other postemployment benefit (OPEB) liabilities a minimal credit pressure. Pension costs remain manageable, in our view, with pension and OPEB costs accounting for approximately 1.4% of total operational expenditures.

The college participates in the following defined-benefit plans:

- Teacher Retirement System, a cost-sharing, multiple-employer plan measured as of Aug. 31, 2025: 77.51% funded using a 7.25% discount rate, with the college's share of net pension liability at $24.5 million.
- Employees Retirement System, a cost-sharing, multiple-employer OPEB plan funded on a pay-as-you-go basis with the college's share of net OPEB liability at about $55.7 million.
- Combined pension and OPEB costs remain manageable at about 1.4% of operations.

For more information on our view of Texas pensions, see our report "Pension Spotlight: Texas," April 4, 2023.

Washington County Junior College District, Texas--enterprise and financial statistics

	--Fiscal year ended Aug. 31--				Medians for 'AA-' rated community colleges
	2026	2025	2024	2023	2024
Enrollment and demand					
FTE enrollment	18,650	18,284	19,009	18,744	3,500
Annual full-time-equivalent change (%)	2.00	(3.81)	1.41	7.50	MNR
Tax base					
Service area population	525,000	525,000	525,000	525,000	182,447
Total AV ($000s)	6,531,306	6,455,109	5,931,680	5,598,453	MNR
Top 10 taxpayers as % of total AV	13.5	13.7	10.0	10.6	MNR

Washington County Junior College District, Texas--enterprise and financial statistics

	--Fiscal year ended Aug. 31--				Medians for 'AA-' rated community colleges
	2026	2025	2024	2023	2024
Market value per capita ($)	N.A.	14,911	13,617	12,648	MNR
Per capita EBI as % of U.S.	N.A.	N.A.	108	101	MNR
Median household EBI as % of U.S.	N.A.	N.A.	104	97	MNR
Annual unemployment rate (%)	N.A.	N.A.	3.8	3.8	MNR
Income statement					
Adjusted operating revenue ($000s)	N.A.	168,807	167,676	150,244	MNR
Adjusted operating expense ($000s)	N.A.	166,842	162,236	151,734	MNR
Net adjusted operating income ($000s)	N.A.	1,965	5,440	(1,490)	MNR
Net adjusted operating margin (%)	N.A.	1.18	3.35	(0.98)	8.80
State appropriation dependence (%)	N.A.	24.0	24.3	21.1	24.3
Student dependence (%)	N.A.	53.8	55.1	59.7	20.2
Taxes and other local support dependence (%)	N.A.	1.7	1.5	1.5	25.3
Financial resources					
Cash and investments ($000s)	N.A.	136,917	162,980	166,341	MNR
Cash and investments to operations (%)	N.A.	82.1	100.5	109.6	99.1
Cash and investments to total debt outstanding (%)	N.A.	130.1	152.4	147.2	147.2
Debt					
Total debt outstanding ($000s)	N.A.	105,205	106,967	112,979	MNR
MADS ($000s)	N.A.	7,447	7,447	7,447	MNR
MADS burden (%)	N.A.	4.5	4.6	4.9	8.1
Pro forma metrics					
Total pro forma debt ($000s)	N.A.	160,205	106,967	112,979	MNR
Cash and investments to total pro forma debt (%)	N.A.	85.46	152.36	147.23	MNR
Pro forma MADS ($000s)	N.A.	11,826	N.A.	N.A.	MNR
Pro forma MADS burden (%)	N.A.	7.1	N.A.	N.A.	MNR

Total adjusted operating revenue = total operating revenues + institutionally funded financial aid + government appropriations + government grants + endowment spending + tax revenues - realized and unrealized gains/losses. Total adjusted operating expense = operating expenses + institutionally funded financial aid + interest expense – noncash pension and other postemployment benefits expenses. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. MADS burden = 100*(MADS/adjusted operating expenses). Cash and investments = cash + unrestricted and restricted financial investments + foundation cash and investments. Total outstanding debt = tax supported debt + revenue/ enterprise-secured debt + foundation debt + other debt. All debt metrics include revenue/enterprise-secured and foundation debt if applicable. FTE--Full-time-equivalent. AV--Assessed value. EBI--Effective buying income. MADS--Maximum annual debt service. N.A.--Not available. MNR--Median not reported. N.M.—Not meaningful.

Ratings List	
New Issue Ratings	
US$55,500,000 Washington County Junior College District, Washington County, Texas, Combined Fee Revenue Bonds, Series 2026, dated: February 01, 2026, due: October 01, 2056	
Long Term Rating	AA-/Stable
Ratings Affirmed	
Education	
Washington Cnty Jr Coll Dist, TX Unlimited Student Fees	AA-/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.