

# RatingsDirect®

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## Summary:

# Montgomery Independent School District, Texas; School State Program

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

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### Credit Profile

US\$16.83 mil unlted tax rfdg bnds ser 2016

<i>Long Term Rating</i>	AAA/Stable	New
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
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Montgomery Indpt Sch Dist Texas PSF/CRS

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
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## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term program rating and 'AA-' underlying rating to Montgomery Independent School District (ISD), Texas' series 2016 unlimited-tax school refunding bonds. At the same time, Standard & Poor's affirmed its 'AA-' underlying rating on the district's previously rated general obligation (GO) debt. The outlook on all ratings is stable.

The 'AAA' program rating reflects the district's eligibility for, and participation in, the Texas Permanent School Fund bond guarantee program. The program provides the security of a permanent fund of assets that could be used to meet debt service on bonds guaranteed by the program.

The 'AA-' underlying rating reflects our assessment of the district's:

- Access to the Houston metropolitan statistical area's (MSA) broad and diverse economy;
- Very strong income and extremely strong wealth levels; and
- Very strong level of financial reserves.

The 'AA-' underlying rating is constrained, in our opinion, by the district's high overall net debt per capita and elevated carrying charges.

An unlimited ad valorem tax levied on all taxable property in the district secures the bonds. Officials intend to use bond proceeds to refund portions of the series 2006A and 2006B unlimited-tax bonds for debt service savings.

Montgomery ISD serves an estimated population of 51,072 and is located in northwestern Montgomery County, approximately 40 miles north of downtown Houston. The area is an affluent bedroom community, with a primarily single-family residential tax base, some retail development to serve those residents, and the majority of homeowners commuting elsewhere within the Houston MSA for employment. District officials indicate that most future development will be home construction.

In our opinion, incomes in the district are very strong, with median household effective buying income (EBI) at 139%

of the national average and per capita EBI at 157%. Unemployment is below the state and national levels, at 4.2%, and market value per capita, a measure of wealth, is extremely strong, in our opinion, at \$97,968. The tax base has grown in recent years and reached \$5 billion for fiscal 2016, an 8.6% increase from the year before. The tax base is also very diverse, in our view, due to the primarily residential development, with the 10 largest taxpayers contributing only 2.5% of the total valuation. District officials expect the rapid growth to continue for the foreseeable future. Student enrollment is 8,179 for the current school year. As would be expected, considering the ongoing residential construction, enrollment has steadily expanded in recent years. Enrollment grew by 5.2% in 2014 and 3.6% 2015; officials indicate that several campuses are currently at capacity, although the construction that the ISD plans to fund via bond proceeds should address those concerns for the next six to eight years.

Despite a \$793,000 general fund deficit for fiscal 2014, the district's financial reserves are still very strong, in our opinion, at 18.4% of operational expenditure, or \$10.2 million on a nominal basis. The 2014 deficit was due to higher-than-usual levels of capital outlay. Officials adopted a balanced budget for 2015 and 2016. The district is subject to Chapter 41 wealth equalization provisions under the Texas school finance system due to its property-wealthy status, although the district only had to pay approximately \$150,000 for fiscal 2015, and officials expect that future payments will decline.

Montgomery ISD's property tax rate for maintenance and operations is \$1.04 per \$100 of assessed value (AV). Although the district could raise the operations tax rate via a tax ratification election, it has no plans to call such an election at this time. The ISD levies an additional 30 cents per \$100 of AV for debt service.

Standard & Poor's deems the district's financial management practices "good" under its Financial Management Assessment methodology, indicating that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. Highlights of the district's policies and practices include the use of five years of historical data when making revenue and expenditure assumptions, monthly reporting of budgetary performance, and formal debt and investment management policies. The district's policies regarding financial reserves and liquidity are informal in nature, but have a minimum target of 15% of operations with a long-term goal of reaching 25%. The ISD does not currently maintain a long-term financial or capital plan, although officials indicate that they intend to implement a capital plan.

The district participates in the Teacher Retirement System of Texas (TRS), which the state of Texas administers. The district also contributes to a health care plan TRS administers. Funding requirements for the plan are not actuarially determined, but the Texas legislature establishes them biennially. As of the 2014 audited financial results, the district's combined costs associated with these plans accounted for less than 1% of total governmental expenditure and district officials do not have concerns about these costs increasing in the future.

Including overlapping issuers, the district's debt burden is moderately high at 9.1% of AV for fiscal 2016 and high at \$8,921 per capita. Carrying charges as of fiscal 2014 are elevated at 15.9% of total expenditures. Furthermore, debt amortization is slower than average, with only 25% of principal scheduled to mature within the next 10 years and the final maturity occurring in 2045. Although we expect that the district will grow, officials expect this bond issuance will fulfill the district's capital needs for at least the next two years and don't expect to issue additional debt within that time frame.

## Outlook

The stable outlook on the 'AAA' program rating reflects our view of the Texas Permanent School Fund's strength and liquidity. The stable outlook on the underlying rating reflects our anticipation that the rating will not change over the two-year outlook horizon. We expect the district will maintain its very strong available reserves and the district's economic indicators and property tax base to continue to benefit from its proximity to the Houston MSA.

### Upside scenario

A moderation of the high debt burden to less than 6% of market value, coupled with a rise in reserves, could likely result in a positive rating action.

### Downside scenario

A lower rating is possible if available reserves were to deteriorate to a level we no longer consider very strong.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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