

15 JUL 2022

## Fitch Affirms Clint ISD, TX's ULT Bonds Underlying at 'AA-'; Outlook Stable

Fitch Ratings - San Francisco - 15 Jul 2022: Fitch Ratings has affirmed the Clint Independent School District's, Texas (ISD or the district) Issuer Default Rating at 'AA-' and affirmed the underlying 'AA-' rating on approximately \$165 million in outstanding unlimited tax bonds. The outstanding bonds are rated 'AAA' based on the enhancement provided from the Texas Permanent School Fund (PSF) bond guarantee program.

The Rating Outlook is Stable.

### SECURITY

The bonds are payable from an unlimited property tax levy and are further backed by the PSF bond guaranty program. A change in Fitch's assessment of the Texas PSF bond guarantee program would automatically result in a change in the rating of Clint ISD's Unlimited Tax bonds. For more information on the Texas Permanent School Fund see "Fitch Affirms Texas Permanent School Fund at 'AAA'; Outlook Stable," dated Jan. 5, 2022.

### KEY RATING DRIVERS

Revenue Framework: 'bbb'

Revenue growth has been strong, above the national GDP for the 10 years through fiscal 2021. Fitch expects future long-term growth may diminish towards Fitch's long-term expectations for national inflation as the effect of enrollment declines is partially offset by a state funding framework that allocates additional revenue for economically disadvantaged students. The district's independent legal ability to raise revenues is limited by state law.

Expenditure Framework: 'aa'

Solid expenditure flexibility is aided by a low fixed-cost burden for debt service and retiree benefits. Spending growth is expected to trend in line with revenue growth.

Long-Term Liability Burden: 'a'

The long-term liability burden is elevated but still within the moderate range, and likely to remain relatively stable given the lack of future debt plans.

Operating Performance: 'aaa'

Robust reserves, maintained through the long economic expansion that preceded the pandemic, and ample expenditure flexibility, provide the district with superior gap-closing capacity in the event of economic downturns.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improved revenue growth prospects due to sustained enrollment or per student state aid increases;
- A sustained decline in the long-term liability burden below 20% of residents' personal income.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Inability to maintain fiscal balance as nonrecurring federal aid is spent down;
- An increase in the long-term liability burden above 40% due to direct or overall debt issuances above Fitch's expectations;
- Large and sustained assessed value (AV) and property tax revenue declines, accompanied by a material decline in K-12 education funding that lead to notably weaker financial resilience.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CREDIT PROFILE**

Ease of access to the city of El Paso and the Fort Bliss Air Defense Training Center make the district's affordable housing the primary growth driver. El Paso County and Juarez, Mexico comprise the largest U.S.-Mexican binational metroplex, with a combined population of more approximately 2.7 million. The top 10 taxpayers in the district are represented by the energy sector, but are not highly concentrated as they make up roughly 6% of the total tax base.

ADA over the past five years through the fiscal 2022 has declined by a CAGR of approximately 2% and the district expects a decline of nearly 1% in fiscal 2023. The opening of the first and second charter schools in fiscal 2020 and 2021, respectively, may have exacerbated declining ADA, which had fallen in four of the previous six years.

## CURRENT DEVELOPMENTS

Clint ISD reported a fiscal 2021 general fund surplus of \$18.2 million (16.6% of spending) after transfers. The primary cause of the large surplus was from reclassification of general fund expenditures to grants from the federal government's Elementary and Secondary School Emergency Relief (ESSER) program. The unrestricted fund balance of \$76.6 million at the end of fiscal 2021 represented 70% of spending and transfers out.

Year-over-year, general fund revenues increased 3.3% and expenses were down by 10.6%. District management currently projects a modest operating surplus for fiscal 2022, using some ESSER funds. ADA declined to its lowest level since fiscal 2013, at about 10,200 in fiscal 2022.

The district qualified for about \$56 million in ESSER grant monies. The district has spent approximately \$33.4 million with the remainder to be spent through fiscal 2024. The funds are going towards additional instructional staff, instructional remediation, staff development and to supplant funding once pandemic aid has been exhausted. Fitch expects Clint ISD to maintain superior gap-closing capacity once federal coronavirus funds are spent given the reserves the district has accumulated.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Clint Independent School District (TX)	LT IDR	AA- 	Affirmed	AA- 

- Clint  
Independent  
School  
District  
(TX)  
/General LT  
Obligation  
-  
Unlimited  
Tax/  
1 LT
- |  |   |          |   |
|--|---|----------|---|
|  | AA-  | Affirmed | AA-  |
|--|---|----------|---|

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating assumption sensitivity\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Clint Independent School District (TX) EU Endorsed, UK Endorsed

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