

## RATING ACTION COMMENTARY

# Fitch Upgrades Clint ISD, TX's IDR to 'AA' Underlying on Criteria Change; Outlook Stable

Thu 23 May, 2024 - 3:27 PM ET

Fitch Ratings - Austin - 23 May 2024: Fitch Ratings has upgraded Clint Independent School District, TX's (the district) Issuer Default Rating (IDR) and the underlying GO bond rating on unlimited tax bonds outstanding to 'AA' from 'AA-'. The outstanding bonds are rated 'AAA' based on the enhancement provided from the Texas Permanent School Fund (PSF) bond guarantee program (BGP).

The Rating Outlook is Stable.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Clint Independent School District (TX)	LT IDR	AA Rating Outlook Stable	AA- Rating Outlook Stable
	Upgrade		
Clint Independent School District (TX) /General Obligation - Unlimited Tax/1 LT	LT	AA Rating Outlook Stable	AA- Rating Outlook Stable
	Upgrade		

### [VIEW ADDITIONAL RATING DETAILS](#)

The 'AA' IDR and underlying GO bond ratings reflect the implementation of Fitch's new U.S. Public Finance Local Government Rating Criteria. The ratings also reflect a superior

financial resilience assessment of 'aaa' based on a low midrange level of budgetary flexibility and an assumption that unrestricted general fund reserves will be maintained at at least 20% of spending and transfers out. The ratings also incorporate both a very weak population trend and demographic level metrics and a midrange long-term liability composite.

The 'AAA' enhanced rating on the GO bonds reflects the credit enhancement provided by the Texas PSF BGP. A change in Fitch's assessment of the Texas PSF BGP would automatically result in a change to the enhanced rating of Clint ISD's GO bonds but would not affect the underlying rating.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--A decline in available general fund reserve levels sustained below 20% of spending, which would lower Fitch's assessment of financial resilience to below 'aaa';

--An approximately 30% increase in long-term liabilities assuming current levels of personal income and governmental resources.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--An approximately 80% decline in long-term liabilities assuming current levels of personal income and governmental resources;

--Marked improvement in demographic and economic metrics including but not limited to a stronger population trend.

## **SECURITY**

The bonds are payable from an unlimited property tax levy and are further backed by the PSF bond guaranty program (excluding the series 2013 bonds). Local school district bonds approved under the PSF's bond guarantee program (BGP) are guaranteed by the assets of the PSF. By law, if a Texas school district is unable to pay its debt service, it must notify the Commissioner of Education at least five days prior to the payment date. Funds would then be transferred from the appropriate PSF account of the state treasury to the paying agent in an amount sufficient to cover any potential shortfall.

For more information on the Texas Permanent School Fund see 'Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable', dated Dec. 21, 2022.

## **FITCH'S LOCAL GOVERNMENT RATING MODEL**

The Local Government Rating Model (LGRM) generates Model Implied Ratings (MIR) which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the MIR will be the IDR except in certain circumstances explained in the applicable criteria). The MIR is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher ('AAA'), 9.0 ('AA+'), 8.0 ('AA'), and so forth down to 1.0 ('BBB-' and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile (MP), and a structured framework to account for Additional Analytical Factors (AAFs) not captured in the Metric Profile that can either mitigate or exacerbate credit risks. AAFs are reflected in notching from the MP and are capped at +/-3 notches.

## **RATINGS HEADROOM & POSITIONING**

Clint Independent School District Model Implied Rating: 8.14 ('AA')

-- Metric Profile: 8.14 ('AA')

-- Net Additional Analytical Factor Notching: 0.0

Clint Independent School District's Model Implied Rating of 8.14 is at the lower end of the 8.0 to 9.0 range for its current 'AA' rating.

## **KEY RATING DRIVERS**

### **FINANCIAL PROFILE**

#### **Financial Resilience - 'aaa'**

Clint Independent School District's financial resilience is driven by the combination of its 'Low' revenue control assessment and 'High' expenditure control assessment, culminating in a 'Low Midrange' budgetary flexibility assessment.

-- Revenue control assessment: Low

-- Expenditure control assessment: High

-- Budgetary flexibility assessment: Low Midrange

-- Minimum fund balance for current financial resilience assessment:  $\geq 20.0\%$

-- Current year fund balance to expenditure ratio: 33.3% Analyst Input (vs. 56.0% 2023 Actual)

-- Five-year low fund balance to expenditure ratio: 33.3% Analyst Input (vs. 47.4% 2023 Actual)

### **Revenue Volatility - 'Strong'**

Clint Independent School District's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 0.0% decrease for the three-year period ending fiscal 2022

-- Median issuer decline: -3.9% (2023)

### **Analyst Inputs to the Model**

Fitch adjusted the fund balance to include a forward look of the issuer's planned use of reserves.

## **DEMOGRAPHIC AND ECONOMIC STRENGTH**

### **Population Trend - 'Weakest'**

Based on the median of 10-year annual percentage change in population, Clint Independent School District's population trend is assessed as 'Weakest'.

Population trend: 0.1% 2022 median of 10-year annual percentage change in population (13th percentile)

### **Unemployment, Educational Attainment and MHI Level - 'Weakest'**

The overall strength of Clint Independent School District's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Weakest' on a composite basis, performing at the 15th percentile of Fitch's local government rating portfolio. This is due to relatively weak education attainment levels, median-issuer indexed adjusted MHI and unemployment rate.

-- Unemployment rate as percentage of national rate: 122.2% 2023 (26th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 15.1% (2022) (9th percentile)

-- MHI as a percent of the portfolio median: 71.5% (2022) (10th percentile)

### **Economic Concentration and Population Size - 'Strongest'**

Clint Independent School District's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 49,657 (2022) (above the 15th percentile)

-- Economic concentration: 45.3% (2023) (above the 15th percentile)

### **LONG TERM LIABILITY BURDEN**

#### **Long-Term Liability Burden - 'Midrange'**

Clint Independent School District's liabilities to governmental revenue has deteriorated while carrying costs to governmental expenditures remain strong and liabilities to personal income remain weak. The long-term liability composite metric in 2023 is at the 55th percentile, roughly in line with Fitch local government rating portfolio.

-- Liabilities to personal income: 16.9% Analyst Input (5th percentile) (vs. 17.4% 2023 Actual)

-- Liabilities to governmental revenue: 146.3% Analyst Input (65th percentile) (vs. 151.1% 2023 Actual)

-- Carrying costs to governmental expenditures: 7.0% (2023) (94th percentile)

### **Analyst Inputs to the Model**

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

Fitch adjusted long-term liabilities to net out debt amortized since the last published audit.

### **PROFILE**

Clint ISD is located approximately 18 miles southeast of the city of El Paso. The district serves Horizon City, the town of Clint, and the unincorporated area of East Montana within a large 380-square mile boundary. The 2022 population was estimated at 49,657, which was an 18.2% increase from 2010 census.

Utilities, specifically gas/energy companies, and construction and transportation are among the top 10 taxpayers in the area. TAV has shown steady growth since 2019, increasing 50.8%. TAV was reported at \$2.02B in 2023, which was a 14% YOY.

### **Sources of Information**

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Solve.

### **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**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## **APPLICABLE CRITERIA**

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

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

U.S. Local Government Rating Model, v1.2.0 (1)

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Clint Independent School District (TX)

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