S&P Global Ratings

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Summary:

Collin County Community College District, Texas; General Obligation

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Credit Profile		
US$350.0 mil ltd tax bnds ser 2020 due 08/15/2040		
Long Term Rating	AAA/Stable	New
Collin Cnty Comnty Coll Dist GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Collin County Community College District, Texas' roughly $350 million series 2020 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the district's existing GO debt.

The district has roughly $534 million of GO debt outstanding.

The district's direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the district secures the bonds. Local referendum limits the tax rate for local operations and maintenance at eight cents per $100 of assessed value (AV) and the interest-and-sinking fund for debt service at 12 cents per $100 of AV. The district's total property tax rate, in fiscal 2019, was 8.1222 cents per $100 of AV, including 7.819 cents for operations and maintenance and 0.3032 cents for the interest-and-sinking fund. Despite tax-rate limitations, we rate the district's limited-tax debt on par with our view of its general creditworthiness.

The district is issuing the series 2020 bonds to reimburse up to $150 million under a school-board-approved reimbursement resolution for ongoing capital construction and finance the construction and equipping of school buildings.

Credit overview

The district, roughly 31 miles north of Dallas' central business district, has, in our view, a stellar economy with very strong income and extremely strong market value per capita, coupled with very strong reserves. We think the district's good financial management practices under our Financial Management Assessment (FMA) methodology and long-range planning contribute to strong financial reserves. We posit the district has the flexibility, common to community college districts, to manage enrollment and programs in response to enrollment and funding fluctuations

The rating reflects our opinion of the district's:

- Large and expanding property tax base in the broad and diverse Dallas-Fort Worth metropolitan statistical area;
- Very strong wealth and income;

- Very strong finances, supported by diverse revenue streams and significant revenue-raising flexibility;
- Strong financial management practices; and
- Moderate-to-high overall net debt, expected to remain near current levels due to additional debt issuance, offset by ongoing tax base growth.

The district's GO bonds are eligible to be rated above the sovereign due to moderate sensitivity to national risk. The district's GO pledge is the primary source of bond security; this severely limits the possibility of negative sovereign intervention in the district's debt repayment or operations. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. The district has considerable financial flexibility, demonstrated by very high general fund balance as a percent of expenditures and very strong liquidity.

The stable outlook reflects S&P Global Ratings' opinion that during the two-year outlook, management will likely maintain strong financial performance due partially to revenue-raising flexibility and S&P Global Ratings' expectation that the district's inclusion in a healthy and expanding economy will likely continue to support fiscal stability.

Due to COVID-19, the district extended spring break through March 22. Beginning March 23, the district is transitioning to an online format and keeping computer labs and libraries open for students that do not have access to technology. At the same time, much of the staff is temporarily working remotely. Relatively few classes must have in-person activity, so the district will have extended schedules for faculty and staff to meet with fewer students at a time. All college facilities will remain open, albeit with scaled back hours as needed. Management indicates the deadline for students to drop classes for refunds has passed; the district does not plan to issue refunds.

It is too early to know the full financial effect COVID-19 will have on the district. There is the possibility of extending some classes into the second half of May 2020. In addition, there might be a need for social distancing to continue into summer and fall. The district will continue to offer online classes. We think its healthy liquidity will likely assist the district in navigating any short-term financial pressure. We will continue to monitor the rapidly evolving situation.

Stable Two-Year Outlook

Downside scenario

We could lower the rating or revise the outlook to negative if robust reserves or liquidity were to weaken materially, budget flexibility were to decrease significantly, or debt were to increase to levels that compromise financial operation stability. Although we think the district has taken proactive steps to address COVID-19, and we recognize the virus is a global risk, we could also lower the rating or revise the outlook to negative during the outlook period if unforeseen pandemic-related pressure were to have a material effect on the district's demand, finances, or trajectory.

Credit Opinion

Very strong economy

We view the district's economy as very strong. The district, which serves a population estimate of 971,393, is coterminous with Collin County. The county includes many towns and cities, including Plano, McKinney, Frisco, and Allen. The county remains one of the region's fastest-growing areas. The U.S. Census shows county growth of 28.5% from 2010-2019. The district's median household and per capita effective buying incomes are very strong, in our opinion, at 149% and 136%, respectively, of national levels. Market value increased by an average of 11.4% annually for the past three fiscal years to $152.7 billion in fiscal 2019, or $157,194 market value per capita, which we consider extremely strong.

The county's economy centers on various manufacturing, computer technology, electronics, oil-and-gas research, and agriculture. Leading industries with headquarters or divisions in the county include the petroleum research, telecommunication, computer technology, electronics, retail, food, and insurance industries. Ongoing new residential and commercial construction and growing existing property values will support additional growth. The county's appraisal district is projecting 7% annual growth for the next several years.

District student enrollment surpassed 59,000 for the first time in fall 2019. In fall 2019, full-time-equivalent enrollment increased by 9.28% to 19,436, up from 18,784 in fall 2018. Officials expect enrollment growth to continue as the county's population grows and more district dual-credit options become available in local high schools; dual-credit enrollment grew by 30% during the past year. Management is planning for continued growth. It plans to open a new campus in Wylie, as well as Collin College Technical Campus in Allen in 2020. Management also plans to open campuses in Farmersville and Celina in 2021.

These new campuses will provide even greater access to education countywide, building on the district's service history. The 2018-2019 tuition per credit hour increased by $4 for in-district residents; $8 for out-of-district students; and $13 for out-of-state, out-of-country residents. Despite these increases, the district has the lowest tuition among its state peers.

Finances

In our opinion, finances are very strong. The district has reported consecutive surpluses since fiscal 2002. At fiscal year-end 2019, it reported a $38.1 million surplus and unrestricted net assets totaled $277 million, or 134% of operating expenditures, which we consider very strong. We think liquidity will also likely remain very strong with year-end cash and investments of $246 million, or about 434 days' operating expenditures.

Management is projecting ending fiscal 2020 with another surplus due primarily to conservative budgeting. Property taxes generated 45% of general fund revenue in fiscal 2019 while other sources accounted for 21%; state appropriations accounted for 18%; and net tuition, fees, and auxiliary revenue generated 16%. We think this represents a diverse revenue stream that provides financial-operation stability.

FMA

We consider the district's financial management practices good under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Key practices include management's:

- Monthly monitoring and reporting of revenue and expenditures to the board;
- Quarterly investment-holdings reports to the board that are also available on the district's website;
- Financial planning, such as tax-rate-stabilization plans--It, however, has not adopted a formal long-term financial plan;
- Board-required five-year update to the facilities master plan, which it is currently updating; and
- Debt-management plan, adopted in 2017, including comprehensive, quantitative, and qualitative policies.

Debt

In our opinion, overall net is moderately high at 5.9% of market value, or high at $9,283 per capita. Management attributes most of this to underlying entities, primarily school districts, within the district's boundaries. In May 2017, the district's electorate approved a $600 million bond election; this current issuance of $350 million is the entire remaining balance. There are currently no additional debt plans.

The district offers pension benefits through the Texas Teachers' Retirement System, a cost-sharing, multiple-employer, defined-benefit pension plan. It also contributes to the state retiree health plan, a cost-sharing, multiple-employer, defined-benefit, postemployment, Texas Employees' Retirement System-administered health-care plan.