S&P Global Ratings

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Collin County Community College District; General Obligation

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Table Of Contents

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Credit Profile		
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Long Term Rating	AAA/Stable	Current

Credit Highlights

- S&P Global Ratings' rating on Collin County Community College District, Texas' existing GO debt is 'AAA'.
- The outlook is stable.

Security

The district has approximately $480.4 million of GO debt outstanding as of June 30, 2023. 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 (I&S) fund for debt service at 12 cents per $100 of AV. The district's total property tax rate, in fiscal 2023, was 8.122 cents per $100 of AV, including 7.500 cents for operations and maintenance and 0.622 cents for the I&S fund. Despite tax-rate limitations, we rate the district's limited-tax debt to be on par with our view of its general creditworthiness.

Credit overview

The rating reflects our view of the district's very strong enterprise risk profile and strong financial risk profile. The enterprise risk profile reflects the district's sizable service area, large and growing enrollment base, and tenured management team that has sound financial practices and policies in place. The financial risk profile reflects the district's historically positive financial performance, despite softer operations recently, and healthy financial resources coupled with an overall manageable debt profile, despite a slightly elevated maximum annual debt service (MADS) burden. The rating also reflects the depth and breadth of the district's sizable and diverse property tax base, which continues to experience strong growth, and its healthy wealth and income metrics, which provide significant support for the CCD's operations and the debt obligations.

The rating reflects our opinion of the district's:

- Large and expanding property tax base and service area population;
- Sizable and growing enrollment levels;
- Historically positive financial operating trends supporting solid financial resources;
- Experienced management team and stable board with solid financial policies and practices; and
- Moderately elevated MADS burden, which is somewhat offset by healthy financial resources relative to debt and no additional debt plans.

Environmental, social, and governance

We analyzed the district's environmental, social, and governance factors and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our opinion that during the two-year outlook, management will likely maintain stable financial performance and relatively consistent financial resource levels, due partially to expectations of continued enrollment growth and ongoing local economic expansion. The outlook also reflects our expectation that the district will not issue a significant amount of debt within the next two years.

Downside scenario

We could lower the rating or revise the outlook to negative if the district's financial resources weaken materially, financial operating performance significantly weakens, or debt increases to levels that compromise financial stability.

Credit Opinion

Enterprise Risk Profile

Sizable service area, with significant economic growth, supporting a large and growing enrollment base

The district, approximately 31 miles north of Dallas' central business district, with an estimated service area population of 1,109,462, has 11 campuses across the northeastern portion of the Dallas-Fort Worth metropolitan statistical area (MSA). The district's taxing boundary is coterminous with Collin County, which includes many towns and cities, including Plano, McKinney, Frisco, and Allen. The county remains one of the region's fastest-growing areas, and AV has increased by nearly 40% over the past four years to a total of $193 billion in fiscal 2023.

The county's economy revolves around various manufacturing, computer technology, electronics, oil-and-gas research, and agriculture. Leading industries with headquarters or divisions in the county include: 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.

District enrollment experienced a slight dip in fiscal 2021 but has since increased by nearly 5% in the past two years to a total annualized full-time equivalent (FTE) enrollment of 22,794 for fiscal year 2023. Enrollment growth has been driven by local economic expansion, coupled with the opening of three new campuses since 2020. Officials expect enrollment growth will continue as the service area population continues to grow, supported by the addition of new program offerings, including a new full automotive program. The 2023 tuition per credit hour increased by $5 for in-district residents and $14 for out-of-district students; despite these increases, the district still has one of the lowest tuition rates among its state peers.

Experienced management team, with conservative budgeting practices and sophisticated financial management practices and policies

In our view, the district's leadership team is sophisticated, experienced, and highly capable, providing a solid foundation of oversight guided by detailed strategic planning efforts. The district is governed by a nine-member board of directors, which has administrative and financial oversight over the activities of the district, approving annual operating and capital budgets (including monthly review of budget-to-actual results), formulating district policies, and approving debt issuances. Board elections are held every two years with alternating positions. We note the district's executive vice president retired within the past year but was quickly replaced by a staff member that is long-tenured with the district. A majority of the management team has been with the school for more than 10 years.

Management practices and policies include monthly monitoring and reporting of budget performance to the board, quarterly investment reports to the board, 20-year financial forecasting, board-required five-year update to the facilities master plan, a debt-management plan, and a formal minimum fund balance policy of 25% of operations.

Financial Risk Profile

Positive financial operations in most years and healthy financial resources

The district's financial position is healthy, in our view, demonstrated by a history of positive full-accrual operating results, with the exception of fiscal 2022, which was fueled by increased salaries, the opening of campuses, and one-time capital expenditures related to a new HVAC system for the district's Plano campus. Prior to fiscal 2022, the district had reported consecutive surpluses since fiscal 2002. At fiscal year-end 2023, management reported a $10 million, or 3% surplus, which was driven by a large increase in property tax revenues, coupled with solid investment returns. The district's overall track record of solid financial performance has been spurred by growing property tax revenue and growing state appropriations tied to enrollment growth. Furthermore, financial performance has been bolstered in recent years by healthy grant and stimulus funding. District management expects to benefit from the state's recent change in the funding formula for community colleges, which will move to an outcomes-based approach. According to management, state appropriations are increasing by 15.5% for fiscal 2024, with an addition increase of 9.0%-15.0% expected for fiscal 2025.

Financial resources are healthy, in our opinion, demonstrated by the CCD's cash and investments relative to operations at 124.9% and relative to debt at 87.8% for fiscal 2023. However, we note the district's fiscal 2023 financial resources are somewhat inflated, as they include previously issued bond proceeds, and without these proceeds the cash and investment ratios would have been approximately 111.7% of operations and 78.5% of debt. Management plans to spend down about $150 million in unrestricted cash over the next two-to-four years to aid in the opening of two new technical campuses, renovating the existing Plano campus, and building a new health science center. Despite this, given the district's nominally large financial resource base, history of positive-to-stable operating results, and healthy liquidity levels, we expect financial resources ratios will remain relatively in line with current levels.

Relatively elevated MADS burden, but manageable pension and other postemployment benefits (OPEB) liabilities, with no additional debt plans

As of June 30, 2023, the district's total debt outstanding was $480.3 million, with a slightly elevated MADS burden of 12.1%, relative to fiscal 2023 adjusted operating expenditures. However, the district's financial resources relative to debt outstanding is healthy, in our view, at 78.5% (excluding restricted bond proceeds) for fiscal 2023. Debt amortization is relatively slow with 53.7% of debt scheduled to be retired in 10 years. The district has no plans to issue additional debt over the medium term nor does it have any approved and unissued bonds from prior elections.

We consider the college's pension and OPEB liabilities to be a minimal credit pressure. Fixed costs remain manageable, with pension and OPEB contributions accounting for 1.8% of total operating expenditures in fiscal 2023.

The college participates in the following plans:

- Teacher Retirement System, a cost-sharing, multiple-employer plan measured as of Aug. 31, 2023: 75.6% funded using a 7.0% discount rate, with the college's share of net pension liability at $57.6 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 $95.6 million.

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

Rating above the sovereign

The district's bonds are eligible to be rated higher than the sovereign due to a moderate sensitivity to country risk. We believe the college can maintain better credit characteristics than the nation in a stress scenario. Furthermore, the institutional framework in the U.S. is predictable, with Collin County CCD having significant autonomy, independent treasury management, and no history of federal government intervention. In addition, the district's low relative debt levels and a predominantly locally derived revenue base provide financial flexibility, in our view. See our criteria, "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions," published on Nov. 19, 2013.

Collin County Community College District, Texas--Enterprise and financial statistics

	--Fiscal year ended Aug. 31--				
	2023	**2022**	**2021**	**2020**	**2019**
Enrollment and demand					
FTE enrollment	22,794	21,998	21,766	21,907	18,784
Annual FTE change (%)	3.6	1.1	-0.6	16.6	-3.7
Tax base					
Service area population	1,109,462	1,064,465	1,034,730	971,393	969,000
Total AV ($000s)	192,900,000,000	167,895,364,000	159,566,485,000	152,697,476,000	137,950,849,000
Top 10 taxpayers as % of total AV	2.8	2.7	2.9	2.8	2.9
Market value per capita ($)	270,771	236,127	194,651	157,194	142,364
Per capita EBI as % of U.S.	N.A.	128.0	151.0	137.0	138.0
Median household EBI as % of U.S.	N.A.	140.0	148.0	150.0	151.0
Annual unemployment rate (%)	3.6	3.2	4.4	6.4	3.1

Collin County Community College District, Texas--Enterprise and financial statistics (cont.)					
	--Fiscal year ended Aug. 31--				
	2023	**2022**	**2021**	**2020**	**2019**
Income statement					
Total adjusted operating revenue ($000s)	347,725	313,306	285,040	277,932	256,553
Total adjusted operating expense ($000s)	337,454	321,503	283,456	246,310	218,430
Net adjusted operating income ($000s)	10,271	-8,197	1,584	31,622	38,123
Net adjusted operating margin (%)	3.0	-2.5	0.6	12.8	17.5
State appropriations dependence (%)	15.4	16.2	17.4	18.3	17.2
Student dependence (%)	20.7	20.3	21.1	21.1	21.0
Taxes and other local support dependence (%)	44.3	42.3	43.6	42.6	43.1
Financial resources					
Cash and investments, including foundation cash and investments ($000s)	421,582	418,254	486,164	614,661	425,924
Cash and investments to operations (%)	124.9	130.1	171.5	249.5	195.0
Cash and investments to debt (%)	87.8	83.9	94.5	115.6	177.9
Debt					
Total debt ($000s)	480,350	498,565	514,470	531,590	239,445
MADS ($000s)	40,956	40,956	40,956	40,956	20,528
MADS burden (%)	12.1	12.7	14.4	16.6	9.4
Pro forma metrics					
Total pro forma debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.
Cash and investments to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Pro forma MADS ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.

FTE--Full-time-equivalent. AV--Assessed value. EBI--Effective buying income. N.A.--Not available. MADS--Maximum annual debt service. 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.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

This report does not constitute a rating action.