HITCHCOCK INDEPENDENT SCHOOL DISTRICT

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BOND RATINGS

Fitch Affirms Hitchcock ISD, Texas' ULT Bonds at 'AA-'; Outlook Stable

Issue:	$19.4 Million School Building and Refunding Bonds				
Issuer:	Hitchcock ISD, Texas	**State:**	TX	**Country:**	USA
Date:	2/12/2015	**Rating**	AA-	**Rating Action:**	Affirm
Outlook:	Stable	**Outlook Action:**	Affirm		

Fitch Affirms Hitchcock ISD, Texas' ULT Bonds at 'AA-'; Outlook Stable

Fitch Ratings-New York-12 February 2015: Fitch Ratings has affirmed its 'AA-'underlying rating on the following Hitchcock Independent School District, Texas' (the district) obligations:

--$19.4 million in outstanding ULT school building and refunding bonds, series 2008.

The Rating Outlook is Stable.

SECURITY

The bonds are payable from an unlimited ad valorem tax pledge against all taxable property within the district. In addition, the bonds are supported by the Texas Permanent School Fund (PSF) whose bond guaranty program is rated 'AAA' by Fitch. (For more information on the Texas Permanent School Fund see 'Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable', dated Sept. 4, 2014.)

KEY RATING DRIVERS

SOUND FINANCIAL OPERATIONS: The district has maintained balanced operations in recent years due to enrollment growth and cost control measures. A modest fund balance draw is projected for fiscal 2015 for capital; reserve levels are expected to remain sound.

HIGH DEBT: The district's overall debt is high and the interest and sinking fund (I&S) tax rate will likely remain at the state attorney general's cap for the near to intermediate term. Low carrying costs reflect a combination of state support for retirement benefits and a debt profile dominated by capital appreciation bonds.

INCREASED ECONOMIC ACTIVITY: Tax base growth has resumed following the recovery from Hurricane Ike and the recession reflecting ongoing residential and commercial expansion to the district's modest service area.

MIXED SOCIOECONOMIC INDICATORS: Income and wealth levels trend somewhat below state and national averages, while employment metrics perform favorably, due to the growing regional economy.

RATING SENSITIVITIES

FAVORABLE FINANCIAL PERFORMANCE: Fitch expects the district to retain sound reserve levels to counterbalance concerns over a small service area and revenue constraints, credit factors that Fitch believes combine with elevated debt to limit the rating to its current level over the foreseeable future.

CREDIT PROFILE

The district is located in Galveston County ('AA+'; Outlook Stable) adjacent to Texas City and 10 miles northwest of the city of Galveston. The district serves a 2014 population of 9,056 with an enrollment of 1,530 students, which has grown at a moderate pace in recent years.

INDUSTRIAL BEDROOM COMMUNITY

The county's economy is centered on petrochemicals, port activities, tourism and the University of Texas Medical Branch. District residents benefit from two major road systems that allow easy access to employment opportunities outside the district's borders, including the petrochemical job market in nearby Texas City. Local employment has performed well relative to the nation, increasing in each of the last five years with 3.5% growth registered in November 2014 from one year prior. Additionally, the November 2014 unemployment rate of 5.2% compares favorably to the U.S. rate of 5.5%, but remains modestly elevated in relation to the state average of 4.6% for the same period.

The district's tax base has largely recovered from the destruction caused by Hurricane Ike in September 2008 and subsequent recessionary pressures. Commercial and industrial expansion and the resumption of residential development increased fiscal 2015 TAV by a sound 4.3%. Near-term prospects are favorable based on a reported increase in building permits and further commercial developments currently underway.

The district's fiscal 2014 TAV of $521 million is 65% residential and is without single taxpayer concentration, though natural resources and mining represent an elevated 4.8% of the regional economy compared to .7% nationwide. Any negative impact to local oil service companies from persistently lower oil prices likely would be offset by lower energy costs to the large petrochemical facilities in the area. Other top taxpayers include real estate, energy, retail, telecom, and rail concerns.

IMPROVED FINANCIAL POSITION

The district strengthened its reserves in fiscals 2011 to 2014 through cost control, aided by enrollment growth and one-time insurance proceeds. A fiscal 2013 net operating surplus (after transfers) of $911,000 (8.5% of general fund spending) was achieved despite the underperformance of state and federal revenues due to the reallocation of grant monies.

General fund spending increased a substantial 24% in fiscal 2014 due to a combination of salary increases and deferred capital spending. Personnel increases in fiscal 2015 were largely offset by a substantial enrollment gain of 120 students (8.8%), increasing enrollment-driven state funding. Fitch expects historically volatile enrollment growth to stabilize, preserving flexibility through conservative revenue budgeting. Unaudited results were break-even and the district closed the year with an unrestricted general fund balance of $3.7 million (28.1% of general fund spending), exceeding the district's fund balance target for unassigned general funds equal to 20% of spending.

Management expects a lower than budgeted fiscal 2015 operating deficit (after transfers) of approximately $300,000 after a capital contribution of equal value. Unrestricted fund balance would decline to a still sound $3.4 million, or 25.8% of general fund spending. Officials report that revenues are outperforming budgeted flat growth for the first half of the year due to conservative enrollment projections.

Revenue flexibility is limited by the district's current maintenance and operations tax rate at the cap of $1.04 per $100 of TAV. Voter authorization is required to exceed the cap and the district reports no immediate plan to pursue a tax ratification election.

HIGH DEBT

Overall debt levels are high at $6,467 per capita and 9.9% of market value, with a moderate principal amortization rate of 46% in 10 years. CABs constitute the nearly all district debt, slowing amortization. Although the I&S tax rate of $0.50 per $100 of TAV is at the statutory cap for new debt issuance, the district's recent TAV growth allows for modest annual borrowing to remain at the cap. This, combined with pay-go spending, is expected to adequately fund the district's enrollment-driven capital needs in the intermediate term.

The district contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple employer defined benefit pension plan; OPEB is also provided through TRS. The district's annual combined pension and OPEB obligations, which are set by state law, totaled $213,000 or less than 1% of governmental spending in fiscal 2014, due in large part to state support of retiree benefits obligations. The district's low carrying costs equate to a manageable 13.2% of governmental fund spending for fiscal 2014.

TEXAS SCHOOL FUNDING LITIGATION

In August, for the second time in the past 18 months, a Texas district judge ruled that the state's school finance system is unconstitutional. The ruling, which was in response to a consolidation of six lawsuits representing 75% of Texas schoolchildren, found the system inefficient, inequitable and underfunded. The judge also ruled that local school property taxes are effectively a statewide property tax due to lack of local discretion and therefore are unconstitutional.

Following a similar ruling in February 2013, the judge granted a motion to reopen the lawsuit four months later after state legislative action that partially restored state funding levels and made other program changes. The Texas attorney general has appealed the judge's latest ruling to the state supreme court. If the state school finance system is ultimately found unconstitutional, the legislature will be directed to make changes to the system to restore its constitutionality. Fitch would view positively any changes that include additional funding for schools and more local discretion over tax rates.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure

Solicitation Status

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Fitch Affirms Hitchcock ISD, Texas' ULT Bonds at 'AA-'; Outlook Stable

Issue:	$20.3 Million School Building and Refunding Bonds				
Issuer:	Hitchcock ISD, Texas	**State:**	TX	**Country:**	USA
Date:	2/22/2013	**Rating**	AA-	**Rating Action:**	Affirm
Outlook:	Stable	**Outlook Action:**	Affirm		

Fitch Affirms Hitchcock ISD, Texas' ULT Bonds at 'AA-'; Outlook Stable
Fitch Ratings-Austin-22 February 2013: Fitch Ratings has affirmed its 'AA-'underlying rating on the following Hitchcock Independent School District, Texas' (the district) obligations:
--$20.3 million in outstanding ULT school building and refunding bonds, series 2008.
The Rating Outlook is Stable.
SECURITY
The bonds are secured by an unlimited ad valorem tax pledge against all taxable property within the district. In addition, the bonds are secured by the Texas Permanent School Fund (PSF) whose bond guaranty program is rated 'AAA' by Fitch.
KEY RATING DRIVERS
RETURN TO BALANCED OPERATIONS: The district recorded a net surplus in fiscals 2011 and 2012 following three years of deficits. The favorable financial performance resulted from cost cutting, enrollment growth and the benefit of one-time grant monies.
HIGH DEBT: The district's overall debt is high and the interest and sinking fund (I&S) tax rate is at the state attorney general's cap for new debt issuance. However, future capital needs are expected to be minimal in the near term based on existing capacity and moderate enrollment projections.
RESUMED HOUSING DEVELOPMENT: Tax base growth in the district has historically been strong, but was halted in 2009 due to the impact of Hurricane Ike combined with a weaker economy and depressed housing market. Moderate fiscal 2013 taxable assessed valuation (TAV) growth reflects commercial and industrial (C&I) expansion and a pickup in residential construction activity.
BELOW AVERAGE ECONOMIC INDICATORS: Income and wealth levels trend somewhat below state and national averages.
RATING SENSITIVITY
FAVORABLE FINANCIAL PERFORMANCE: Fitch expects the district to retain sound reserve levels to counterbalance concerns over a small service area and revenue constraints, credit factors that Fitch believes combine with elevated debt to limit the rating to its current level over the foreseeable future.
CREDIT PROFILE
The district is located in Galveston County (the county, general obligation debt rated 'AA+' with a Stable Outlook by Fitch) adjacent to Texas City and 10 miles northwest of the city of Galveston, serving a population of about 8,800 including the City of Hitchcock.
INDUSTRIAL BEDROOM COMMUNITY
The county's economy is centered on petrochemicals, port activities, tourism and the University of Texas Medical Branch. District residents benefit from two major road systems that allow easy access to employment opportunities outside the district's borders, enabling many in the district to take advantage of the petrochemical job market in nearby Texas City. A December 2012 unemployment rate of 6.8% is improved from 8.6% a year ago and compares favorably to the U.S. rate of 7.6%, but remains elevated in relation to the state average of 6% for the same period.
New single family properties largely contributed to a more than doubling of the district's tax base in the decade leading up to 2010, mirroring growth of the region's economy. However, the destruction caused by Hurricane Ike in September 2008 along with the subsequent recessionary pressures experienced nationwide contributed to a TAV loss of 10.3% between fiscal 2010 and 2012. C&I expansion and the resumption of residential development increased fiscal 2013 TAV by a sound 3.2%, with favorable prospects over the near term based on a reported increase in building permits.
The district's fiscal 2012 TAV of $477 million is 68% residential and is without tax base concentration. Top taxpayers represent real estate, energy, retail, telecom, and rail concerns.
IMPROVED FINANCIAL POSITION
The district strengthened its reserves in fiscals 2011 and 2012 through cost cutting, aided by enrollment growth and

federal grant monies. A fiscal 2011 net operating surplus of $249,000 (2.2% of spending) reflects staff reductions, a salary freeze and the benefit of $362,704 in federal grant monies.

Officials continued the salary freeze and eliminated further positions in fiscal 2012. This, combined with an enrollment gain of 100, allowed the district to more than offset per-pupil state funding losses of about $388,000. The district completed the year with a $1.1 million (10.6% of spending) net surplus. Unrestricted general funds of $3.3 million (31.3% of spending and transfers out) exceed the district's fund balance target for unassigned general funds equal to 20% of spending.

Officials report expected fiscal 2013 break-even results based on further enrollment gains and cost management. Revenue flexibility through tax rate adjustment is limited by the district's current maintenance and operations tax rate which resides at the cap of $1.04 per $100 of TAV, above which voter authorization is required. The district reports no immediate plan to pursue a tax ratification election.

HIGH DEBT/MANAGEABLE CARRYING COSTS

Overall debt levels are high at 10.1% of market value, with an average amortization rate of 49% in 10 years. Although the I&S tax rate of $0.50 per $100 of TAV is at the statutory cap for new debt issuance, the district does not anticipate the need for significant new debt in the mid-term given the ample capacity provided by new facilities.

The district contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple employer defined benefit pension plan; other-post employment benefits (TRS-Care) are also provided through TRS. The district's combined pension and other post-employment benefits, which are set by state law, totaled $208,400 or a low 1% of governmental spending in fiscal 2012. The district's debt and retirement carrying costs equate to a manageable 13.6% of governmental fund spending for fiscal 2012.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Bond Rating Definitions

Moody's		S&P		Fitch			
Long-term	Short term	Long-term	Short-term	Long-term	Short-term		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	An obligor has EXTREMELY STRONG capacity to meet its financial commitments.
Aa1		AA+		AA+		High grade	An obligor has VERY STRONG capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+		A+			
A2		A		A		Upper Medium Grade	An obligor has STRONG capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
A3		A-		A-			
Baa1		BBB+		BBB+			
Baa2	P-3	BBB	A-3	BBB	F3	Lower medium grade	An obligor has ADEQUATE capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
Baa3		BBB-		BBB-			
Investment Grade ↑		**High Yield / Junk ↓**			**Investment Grade ↑**		**High Yield / Junk ↓**
Ba1	Not prime	BB+	B	BB+	B		
Ba2		BB		BB		Non-investment grade. Speculative	An obligor is LESS VULNERABLE in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.
Ba3		BB-		BB-			
B1		B+		B+			

B2		B		B		Highly speculative	An obligor is MORE VULNERABLE than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
B3		B-		B-			
Caa1		CCC+	C	CCC	C		
Caa2		CCC				Substantial risks. Extremely speculative	An obligor is CURRENTLY VULNERABLE, and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. In default with little prospect of recovery.
Caa3		CCC-					
Ca		CC					An obligor is CURRENTLY HIGHLY-VULNERABLE.
		C					
C		D	/	DDD	/	In default	An obligor has failed to pay one or more of its financial obligations (rated or unrated) when it became due.
/				DD			
/				D			
WR							Rating withdrawn for reasons including: debt maturity, calls, puts, conversions, etc., or business reasons (e.g. change in the size of a debt issue), or the issuer defaults.