

AUSTIN, Texas--([BUSINESS WIRE](#))--Fitch Ratings has assigned an 'AA-' rating to the following Laredo Community College District, Texas (the district) limited tax general obligation (LTGO) bonds:

--\$100 million in limited tax bonds, series 2014.

The bonds are scheduled to sell via negotiation July 16, 2014. Proceeds will be used to construct and renovate campus facilities as well as pay issuance costs.

Fitch also affirms its 'AA-'rating on the district's outstanding debt as follows:

--\$39.1 million limited tax bonds

--\$41.3 million maintenance tax notes;

--\$1.6 million public property finance contractual obligations (PPFCOs).

The Rating Outlook is Stable.

SECURITY

The limited tax bonds are secured by an ad valorem tax levied on all taxable property within the district, not to exceed \$0.50 per \$100 taxable assessed valuation (TAV). The outstanding maintenance tax notes and PPFCOs are secured by a separate ad valorem tax levied for operations on all taxable property within the district, capped at \$0.40 per \$100 TAV.

KEY RATING DRIVERS

SOLID FINANCES; REDUCED MARGINS: The district's financial position remains sound despite a small deficit in the most recent fiscal year due to state funding cuts, counter-cyclic enrollment losses above budget, and some non-recurring costs. Operations are aided by the college's diverse revenue base, ample taxing margin, and tuition-raising flexibility. Liquidity is sufficient.

EXPANDING ECONOMY: Transportation, warehousing, and distribution sectors have historically produced Laredo's core economic growth. More recently, Eagle Ford natural gas and oil drilling activity has bolstered employment. Fitch believes expectations for continued growth are reasonable based on recent trends (notwithstanding inherent environmental and regulatory risks).

STRENGTHENED TAV: TAV is anticipated to strengthen further over the near term after a multi-year period of stagnation during the recession. Taxpayer concentration is minimal.

WEAKER SOCIOECONOMIC METRICS: Rapid population expansion and income levels that remain well below state and national averages characterize the Laredo metropolitan statistical area (MSA).

HIGH DEBT BUT MODERATE CARRYING COSTS: Overall debt levels relative to market value are elevated due to the area's growth-related capital pressures, including the implementation of the district's multi-year capital improvement program (CIP). Principal amortization of tax-supported debt is below average. However, carrying costs are presently low and are expected to remain moderate despite the projected step-up in annual debt service.

NO RATING DIFFERENTIAL: Fitch does not distinguish between the maintenance tax notes, PFCOs, and limited tax ratings due to the district's significant financial flexibility.

RATING SENSITIVITIES

IMPACT OF ADDITIONAL LEVERAGING: Fitch is concerned about the impact of an expanded CIP on operating performance. However, voter support for the district's recent bond election was strong, ample tax rate margin remains, and management expects that the district's capital needs will be met for the intermediate term. Fitch will continue to evaluate the district's ability to maintain operating balance despite increased costs from new and expanded facilities and programs coupled with continued, counter-cyclic enrollment declines projected over the near term.

CREDIT PROFILE

GROWING POPULATION BASE

Laredo Community College District serves primarily Webb County; its taxing boundaries are coterminous with the city of Laredo, Texas (general obligation bonds rated 'AA' by Fitch). The city of Laredo continues to grow rapidly, with an estimated 2014 population of 267,000 that reflects an average annual increase of nearly 3% since the 2000 census, slightly higher than the state's 2% growth rate. The population of its nearby sister-city in Mexico, Nuevo Laredo, is estimated to add another 300,000 to the combined metropolitan center referred to as 'Los Dos Laredos'.

COUNTER-CYCLIC ENROLLMENT DECLINES REALIZED

The district began to experience counter-cyclic enrollment declines in fiscal 2012 given positive economic trends (not unlike other community colleges) after a period of solid enrollment growth during the recession. The overwhelming majority of district students come from within its taxing jurisdiction; more than half are enrolled in workforce training programs. Student enrollment declined modestly in fiscal 2012 and fell by roughly 7% in fiscal 2013 to 6,864 as measured by full-time student equivalents (FTSEs). Further enrollment loss in fiscal 2014 that exceeded budgeted projections for the third fiscal year brought the cumulative decline to 13%, although student enrollment remains at

pre-2010 levels.

Management expects to budget a moderate 4% enrollment decline for fiscal 2015 and projects enrollment declines will bottom out in fiscal 2016. Increased participation in the district's relatively new oil & gas training programs (particularly by dually enrolled high school students and current energy sector employees) is anticipated by management to offset some of the recent enrollment losses in the near term. Fitch believes the district's new programs may spark some enrollment uptick with time, but remains skeptical this will materially change the present trend, given management's previously optimistic enrollment assumptions that were unrealized as well as the likelihood of the Laredo MSA maintaining a strong job market over the near-term.

ROBUST EAGLE FORD SHALE ACTIVITY CONTRIBUTES TO ECONOMIC EXPANSION

As the nation's largest inland port and key NAFTA trade corridor, Laredo's international trade sector is a key component of the local economy. In recent years, economic activity has been further boosted by substantial oil and natural gas exploration and production in the nearby Eagle Ford formation. Aided by growing sectors in higher education, healthcare, and government, the city's unemployment rate declined to a low 4.9% as of April 2014, which compares favorably with the state and falls below the U.S. rate of 5.9% for the same time period. Income levels remain low despite the surging economic activity, but Fitch notes they are growing faster than state or national averages. Additionally, the area's lower cost of living partially mitigates the low wealth levels as a credit concern.

STRENGTHENED TAV TRENDS

Historically solid TAV gains stalled due to recessionary pressures in recent years (fiscals 2010-2013), but modest TAV growth returned in fiscal 2014, lagging from the area's improving economic conditions. District TAV grew by nearly 4% and reached \$10.4 billion in fiscal 2014. About half of the district's tax base is residential and market value per capita remains low at \$44,000. Top 10 taxpayers provide minimal tax base concentration at 6%. TAV is estimated to increase by a slightly stronger 6% in fiscal 2015 based on preliminary values according to management and minimally continue a pace of modest TAV growth over the near term. Fitch considers these assumptions to be reasonable based on

recent economic trends.

FINANCIAL PROFILE AIDED BY REVENUE-RAISING FLEXIBILITY

The district's financial performance is enhanced by a diverse revenue stream and revenue-raising capacity, comparable to all Texas community colleges. This revenue-raising flexibility has typically allowed the district to successfully offset much of the fiscal pressure associated with state funding cuts and enrollment declines. About 34% of the district's revenues (or \$28 million) came from property taxes in fiscal 2013 (which was the district's largest revenue source). At \$22.3 million, federal revenues for Pell grants provide a comparable (32%) portion of the district's total revenues, although this was down by a sizeable \$3 million from fiscal 2012 due to the district's internal implementation of strengthened academic achievement standards, which added to the year's enrollment declines. Tuition/fees continue to provide a steadily increasing percentage of district revenues, reaching 27% in fiscal 2013, up from 18% in fiscal 2009, which largely countered the downward trend in state aid over the same time period.

The district has maintained solid, positive operating margins in four of the last five fiscal years, averaging 4.6% over fiscals 2009-2012. Temporary and multi-year expenditure cuts in response to state funding shortfalls and enrollment declines drove positive results. The district, like most community colleges, maintains inherent spending flexibility by employing largely part-time, non-tenured faculty. A modestly negative operating result of less than 1% of spending in fiscal 2013 uncharacteristically evidenced some operating pressure, due primarily to the year's pay-out of retirement incentives (about \$650,000) previously offered to reduce staffing costs.

Liquidity levels, as measured by available funds (defined by Fitch as cash and investments not permanently restricted), net of unspent bond proceeds, totaled a sufficient \$25.7 million or 30.8% of expenditures, which is in line with historical levels. The district maintained \$16.6 million in unrestricted reserves at fiscal 2013 year-end or approximately 33% of operating expenditures, well above the district's stated 15% reserve policy as has been its practice recently.

The structurally balanced \$49.8 million fiscal 2014 adopted general operating budget included modest salary increases without a corresponding tuition/fees increase and was assumed to maintain the prior year's actual enrollment level. The year's increased spending

was supported by revenue gains from additional state aid and property tax revenue. Fitch anticipates a positive but reduced operating margin at fiscal 2014 year-end as compared to historical trends given management's expectation of a modest operating surplus of roughly \$500,000 or 1% of spending. Despite the higher than budgeted enrollment loss, these projections appear reasonable to Fitch given the offset from reported salary savings and better than budgeted tax collections.

Preliminary budget plans for fiscal 2015 include the development of a structurally balanced operating budget supported by assumptions of stable state revenue in the current biennium (fiscals 2014-2015) and ample revenue-raising flexibility, along with projections for a modest enrollment decline. Additional, multi-year salary savings of about \$1.4 million/year may also be realized with management consideration of staffing changes. The district maintains significant capacity under its total tax rate cap, levying roughly \$0.22 of the \$0.40 per \$100 TAV limit in fiscal 2014 for operations. Officials may consider using a larger portion of the year's available taxing margin in order to hold off on tuition/fee increases.

HIGH OVERALL DEBT BUT MODERATE CARRYING COSTS

Growth-related capital pressures have led to a high overall debt burden relative to the district's market value, totaling 7.8%. Overall debt per capita approximates a moderate \$3,430. Overlapping debt is comprised primarily of debt issued by United Independent School District (ISD) and Laredo ISD, whose ULTGOs are both rated 'AA-' by Fitch. Both aforementioned metrics do not factor in the significant amount of state support received by these local school districts due to their relatively low property wealth levels. Including this issuance, amortization of the district's tax-supported debt is below average with 44% of principal retired in 10 years. The district's direct debt includes a sizeable portion of self-supporting revenue bonds, which Fitch excludes from its debt burden calculation.

The college participates in the state-administered Teachers Retirement System of Texas (TRS) for pension and other post-employment benefit (OPEB). TRS is a cost-sharing, multiple-employer plan in which the state has historically provided the bulk of the employer's annual pension contribution. The college's annual contribution to TRS is determined by state law as is the contribution for the state-run post-employment benefit healthcare plan.

The state began shifting some of this funding burden to community college districts in the 2012-2013 biennium, requiring districts to contribute more (roughly 60%) of the annual cost. The employer's pension contribution is now shared at a marginally lower 50% with the state as of the 2014-2015 biennium. Despite the increase, carrying costs for debt service, pension, and OPEB costs, net of state support, remained low at 8% of total expenses in fiscal 2013 due in part to the below-average pace of amortization. Carrying costs are expected to remain moderate even with the projected step-up in annual debt service to reach maximum annual debt service (inclusive of the new issuance) in fiscal 2016.

EXPANDED CIP

Management reports phase two of the district's six-year CIP (fiscals 2010-2015) is nearly complete and on schedule with some construction savings realized. Capital projects in the first and second phases were funded with about \$89.5 million in revenue bonds and maintenance tax notes; all phases of the CIP were previously estimated at \$119.2 million. Subsequently, management decided to expand its final phase three priority list of capital projects and include additional modernization/renovation projects, furniture and equipment needs, as well as a new Oil & Gas Institute facility. This expanded CIP as recently presented to Fitch now totals an elevated \$212.5 million once the prior phases are considered. Management indicates this may require additional debt (around \$20 million) in the next few years in order to complete all of the modernization projects. In its entirety, the CIP is expected to meet the district's deferred maintenance and facility expansion needs throughout both campuses over the next 10-15 years.

Voters recently approved at a strong 64% margin the district's \$100 million bond authorization. This was presented to voters to fund the bulk of the final phase of the district's CIP. A maximum of \$0.07 per \$100 TAV increase to the debt service tax levy was assumed to support the bonds, but is currently estimated to be slightly lower given improved TAV trends.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, Texas Municipal Advisory Council, and LoanPerformance, Inc.

Applicable Criteria and Related Research:

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

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

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

Additional Disclosure

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