

Palestine Independent School District, Texas

The downgrade of the district's IDR and bond rating reflects Fitch's lowering of the financial resilience assessment to 'aa' from 'aaa' due to planned and unplanned general fund drawdowns. Fitch expects available general fund reserves to rebound to 15% of spending within two years. The Negative Outlook reflects potential headwinds that might prevent a return to higher reserve balances. The district's long-term liability composite is 'Weak'. The current offering will double direct debt but is intended to reduce general fund maintenance costs. The rating also reflects 'Weak' demographic and economic metrics and flat population growth.

Rating Sensitivities

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

- Failure to increase available general fund reserve levels to 15% of spending, which would lower Fitch's assessment of financial resilience to below 'aa'.
- A 25% increase in long-term liabilities and carrying costs, assuming current levels of personal income and governmental resources.
- Continued material declines in average daily attendance if not accompanied by offsetting right-sizing efforts.

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

- Sustained increase in available general fund reserves above 15% of spending may lead to a revision of the Outlook to Stable;
- Improved underlying demographic and economic performance, including but not limited to sustained population growth, lower unemployment, and higher educational attainment and median household income;
- An approximate sustained reduction greater than 15% in long-term liabilities and carrying costs, assuming current levels of personal income and governmental resources.

Security

The bonds are payable from an unlimited property tax levy and are further backed by the PSF bond guaranty program. Local school district bonds approved under the PSF's bond guarantee program 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 PSF see "Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable," dated Nov. 21, 2025.

Maintenance tax notes are secured by a limited (operating) ad valorem tax pledge levied against all taxable property within the district.

Ratings

Long-Term IDR A+

Outlooks

Long-Term IDR Negative

New Issues

Unlimited Tax School Building Bonds and Refunding Bonds, Series 2026^a AAA

^aThe rating is based on a guaranty provided by the Texas Permanent School Fund, whose insurer financial strength is rated 'AAA' by Fitch. The bonds' underlying rating, reflecting the credit quality before consideration of the guaranty, is 'A+'.

Sale Date

Negotiated sale scheduled during the week of April 6.

Outstanding Debt

[Issuer Ratings Information](#)

Applicable Criteria

[U.S. Public Finance Local Government Rating Criteria \(April 2024\)](#)

Related Research

[Fitch Affirms Palestine ISD's \(TX\) IDR at 'AA-'; Outlook Stable; Removed from UCO \(August 2024\)](#)

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Fitch's Local Government Rating Model

The Local Government Rating Model generates Model Implied Ratings which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the Model Implied Ratings will be the IDR except in certain circumstances explained in the applicable criteria). The Model Implied Ratings 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, and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

Rating Headroom & Positioning

Palestine Independent School District's Model Implied Rating: 'A+' (Numerical Value: 6.60)

- **Metric Profile: 'A+' (Numerical Value: 6.60)**
- **Net Additional Analytical Factor Notching: 0.0**

Palestine Independent School District's Model Implied Rating is 'A+'. The associated numerical value of 6.60 is in the middle of the 6.0 to 7.0 range for a 'A+' rating.

Current Developments

The district's available general fund balances have declined in four out of the last five fiscal years and fell to 13.8% of spending in fiscal 2025. Fund balance drawdowns in fiscal years 2021 and 2022 were planned for the purpose of school facility improvements. Fiscal 2024's modest deficit was the result of a dispute over the district's claim for \$1 million in SHARS Medicaid reimbursement. After the entire amount was denied, the district entered mediation, resulting in an award of \$600,000, which is expected to be finalized this June and paid by the end of August. Fiscal 2025's \$2.5 million net general fund deficit was the result of unanticipated maintenance costs for HVAC and roofing repairs, foundation repairs for the junior high campus caused by drainage issues, plus needed facilities upgrades. Average daily attendance (ADA) declined by 1.8%, modestly exceeding the budgeted decline of 1.5%. The adopted fiscal 2026 budget is balanced based on essentially flat ADA of 2,900, which the district reports is on track.

Inclusive of the SHARS settlement and expected savings in maintenance costs enabled by district-wide facility improvements funded by bond proceeds, the district projects a \$500,000 net general fund surplus in fiscal 2026, a \$1 million-\$1.5 million operating surplus in fiscal 2027, and a return to its informal 2.5 months of expenditures or 20% of spending policy by fiscal 2028.

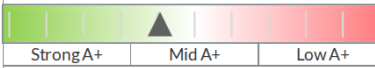
Declines in ADA since fiscal 2023 were planned as the result of suspending out-of-district transfers due to capacity constraints for the district's own special education students at the high school level. The district cut 35 positions in the fiscal 2025 budget in order to maintain right-sized operations. The district expects to reopen such transfers upon completion of campus upgrades that will expand high school capacity.

The current offering is comprised of the entirety of the \$60 million bond authorization approved in Nov. 2025. Most of the authorization (\$40 million) will fund campus upgrades including \$20 million for new roofs and HVAC systems. Another \$15 million will fund the expansion of the district's career technology programs and \$5 million will provide safety and security improvements. The district's last bond authorization totaled \$64 million in 2009. Prior to 2009, the district had two failed bond elections.

Profile

The district is in Anderson County, TX, approximately 95 miles southeast of Dallas and 135 miles north of Houston. The city of Palestine serves as the district's population center and commercial hub. The enrollment base is small at 3,151 students as of fiscal 2026. The area's economy is mainly rural and agricultural, with below-average socio-economic indicators. Taxable assessed value (TAV) equaled \$1.49 billion in fiscal 2026, down 4.4% from the prior year but has averaged gains of 4.7% over the prior five years. The top 10 taxpayers, primarily composed of retail, healthcare, utilities and oil and gas sectors, total 12% of total TAV.

Key Drivers

Issuer: Palestine Independent School District (TX)	Financial Profile	0.0	Issuer Position Within A+ Model Implied Rating  Rating position post application of analytical overlay			
Type: School District General Obligations	Demographic & Economic Strength	0.0				
Current: AA-,RO:Sta (2025/08/14)	Long-Term Liability Burden	0.0				
Fiscal Year	2025	AAAF Notching Total(4)	0.0			
Metric Profile	6.60	MIR - Metric	6.60			
Metric Profile Mapping	A+	MIR - Mapping	A+			

Metric	Analyst Input		Metric		Composite		
	2025	2025	Percentile	Weight	Percentile/Value	Assessment	Weight
Financial Profile							
Financial Resilience Components							
Available Reserves (FB/Expenditures: 5-Year Low) (%)	13.8	15.0					
Revenue Control Assessment	Low	Low					
Expenditure Control Assessment	High	High				aa	35%
Budgetary Flexibility	Low Midrange	Low Midrange					
Financial Resilience	a	aa		100%			
Lowest Cumulative 3 Year Revenue Performance (+/-) since 2008 (%)	-3.9						
Revenue Volatility(1)	0.51	0.51	50%	100%		Midrange	0%
Demographic and Economic Strength							
Trend							
Population Trend %(2)	0.1		14%	100%	14%	Weakest	8%
Unemployment Rate as Percentage of National Rate %(5)		110.0	36%	33%			
Population w/ Bachelor's Degree and Higher %(2)	23.9		32%	33%	30%	Weak	26%
MHI as a % of the Portfolio Median (2)	81.5		21%	33%			
Concentration & Size							
Population Size(2)(3)	21,524		10%	50%			
Economic Concentration %(2)(3)	44.5		100%	50%	55%	Midrange	9%
Long-Term Liability Burden							
Liabilities/Personal Income (%)	5.5	9.7	21%	35%			
Liabilities/Governmental Revenues %(6)	128.5	226.3	29%	25%	35%	Weak	21%
Carrying Costs/Governmental Expenditures (%)	8.9	14.7	51%	40%			

(1) Model directly uses revenue volatility. Percentiles are for information only; metric percentile represents the issuer; composite percentile represents the average of the issuer's class. The Revenue Volatility metric represents the issuer's revenue volatility relative to the median revenue volatility of the total issuer portfolio.

Revenue Volatility is treated asymmetrically, where weight is marginal for issuers that exhibit low to moderate revenue volatility. For issuers with higher revenue volatility, this factor will moderately lower the metric profile, implying a somewhat reduced weighting for all other variables in these instances.

(2) Population, Concentration, MHI and Educational Attainment data is lagged by one year e.g. 2021 data is used and displayed for fiscal year 2022.

(3) Percentiles represent the class. Economic concentration is defined as the sum of the absolute deviation of the issuer from the national average proportion across major economic sectors.

Sector data is on the county level for all entities or the MSA level for cities that span multiple counties. If data is unavailable for an issuer, median figures based on reported data for all counties within the issuer's state are used as proxy values.

(4) Additional Analytical Factors (AAF) have a potential notching range of +/-2 for each of the three categories and an overall IDR notching range of +/-3.

(5) County level data used for sub-county entities when prior year's data is unavailable. If county data is unavailable, MSA data is used. MSA level data is used for cities that span multiple counties.

(6) As a proxy for per capita personal income for sub-county levels of local government, Fitch calculates the ratio of money income to per capita income for the county in which the rated entity is located and applies that ratio to the entity's money income. The estimated per capita personal income figure is multiplied by population to estimate total personal income.

Source: Fitch Ratings

Financial Profile

Financial Resilience - 'aa'

Palestine 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: >=15.0%
- Current year fund balance to expenditure ratio: 13.8% 2025 Actual
- Lowest fund balance to expenditure ratio for the fiscal-year period 2021-2025: 15.0% Analyst Input (vs. 13.8% actual in fiscal 2025)

Revenue Volatility - 'Midrange'

Palestine Independent School District's weakest historic three-year revenue performance has a modest negative impact on 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):** 3.9% decrease for the three-year period ending fiscal 2011
- **Median issuer decline:** -4.3% (2025)

State-Specific Revenue/Expenditure Context & Budgetary Control

Palestine ISD's independent legal ability to raise revenues is limited by state law. Any tax rate increases for maintenance and operations (M&O) must be approved by voters through a tax ratification election. However, ample flexibility in headcount, wages and benefits is afforded by the lack of a collective bargaining framework and reliance on individual annual contracts with instructional staff. Although Texas school districts are subject to class-size restrictions (maximum 22:1 student-to-teacher ratio for grades K-4), districts can request class size waivers from the Texas Education Agency (TEA).

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.

The analyst input of 15% as the lowest five-year fund balance low reflects Fitch's expectation that such reserves will rebound to this level or higher by fiscal 2027.

Demographic and Economic Strength

Population Trend - 'Weakest'

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

Population trend: 0.1% 2024 median of 10-year annual percentage change in population (14th percentile)

Unemployment, Educational Attainment and MHI Level - 'Weak'

The overall strength of Palestine Independent School District's demographic- and economic-level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2025 are assessed as 'Weak' on a composite basis, performing at the 30th 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 a percentage of national rate:** 110.0% Analyst Input (36th percentile)
- **Percent of population with a bachelor's degree or higher:** 23.9% (2024) (32nd percentile)
- **MHI as a percent of the portfolio median:** 81.5% (2024) (21st percentile)

Economic Concentration and Population Size - 'Midrange'

Palestine Independent School District's economy is sufficiently diversified but this is offset by the limited population size.

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 fifth 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:** 21,524 (2024) (from fifth to 10th percentile)
- **Economic concentration:** 44.5% (2025) (above the 15th percentile)

Analyst Inputs to the Model

The analyst input reflects the use of the 2024 unemployment metric in the absence of 2025 data.

Long-Term Liability Burden

Long-Term Liability Burden - 'Weak'

Palestine Independent School District's carrying costs to governmental expenditures, liabilities to personal income, and liabilities to governmental revenue have deteriorated. The long-term liability composite metric in 2025 is at the 35th percentile, indicating a somewhat elevated liability burden relative to Fitch's local government rating portfolio.

- **Liabilities to personal income:** 9.7% Analyst Input (21st percentile) (vs. 5.5% 2025 Actual)
- **Liabilities to governmental revenue:** 226.3% Analyst Input (29th percentile) (vs. 128.5% 2025 Actual)
- **Carrying costs to governmental expenditures:** 14.7% Analyst Input (51st percentile) (vs. 8.9% 2025 Actual)

Pension Adjustments

On an aggregate basis for all pension plans as of the most recent measurement date, the reported asset to liability ratio was 77.5%, or an estimated 68.3%, using Fitch's standard 6% rate of return adjustment. The Fitch-adjusted NPL was equal to \$19.7 million, or about 1.6% of personal income.

Analyst Inputs to the Model

Direct debt, debt service, and governmental expenditures were adjusted to reflect the current offering and amortization of outstanding debt through fiscal 2026.

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>.

Financial Summary

(\$000, Audited Fiscal Years Ending Aug. 31)	2021	2022	2023	2024	2025
General Fund Revenues					
Property Tax	-	-	-	-	-
Sales Tax	-	-	-	-	-
Income Tax	-	-	-	-	-
Other Tax	-	-	-	-	-
Total Taxes - Undifferentiated	-	-	-	-	-
Intergovernmental	24,541	24,442	24,444	27,394	25,874
Other Revenue	13,227	13,854	14,768	12,993	13,056
Total	37,768	38,296	39,212	40,387	38,930
General Fund Expenditures					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Educational	21,388	20,062	20,491	23,273	22,780
Debt Service	298	298	298	296	296
Capital Outlay	-	29	1,105	-	-
Other Expenditures	12,609	15,722	17,188	17,059	18,319
Total	34,296	36,111	39,081	40,628	41,395
Transfers In and Other Sources	-	88	-	-	-
Transfers Out and Other Sources	4,739	3,974	-	-	-
Net Transfers & Other	-4,739	-3,886	-	-	-
Adjustment for Bond Proceeds and Extraordinary One-Time Uses	-	-	-	-	-
Net Op. Surplus (Deficit) After Transfers	-1,267	-1,702	131	-241	-2,465
Net Op. Surplus (Deficit)/(Total Expenditures + Transfers Out and Other Uses) (%)	-3.25	-4.25	0.34	-0.59	-5.96
Total Fund Balance	10,045	8,343	8,474	8,233	5,768
Unrestricted Fund Balance	10,006	8,302	8,431	8,191	5,721
Other Available Fund Balances	-	-	-	-	-
Total Available Unrestricted Reserves (GF + Other)	10,006	8,302	8,431	8,191	5,721
Available Reserves as % of Spending (Adj for Bond Proceeds and Other One-Time Uses)	25.63	20.71	21.57	20.16	13.82

Sources: Fitch Ratings, Fitch Solutions, Palestine Independent School District (TX)

Long-Term Liability Burden (\$000)

(\$000, Audited Fiscal Years Ending Aug. 31)	2025
Direct Debt	47,265
Less: Self-Supporting Debt	-
Net Direct Debt	47,265
Fitch Adjusted NPL	19,708
Net Direct Debt + Fitch-Adjusted net pension liabilities (NPL)	66,973
Population	21,524
Per Capita Personal Income	56,554
Estimated Personal Income (\$000)	1,217,277
Net Debt + Fitch-Adjusted NPL/Personal Income (%)	5.5
Total Governmental Revenues	52,128
Net Direct Debt + Fitch Adjusted NPL as Percentage of Governmental Revenue (%)	128.48
Debt Service (Net of State Support)	3,373
Actuarially Determined Pension Contributions	1,120
Actual OPEB Contributions	260
Total Governmental Expenditures	53,313
Carrying Costs/Governmental Expenditures (%)	8.92

Note: Figures above do not reflect any Analyst Input Adjustments.

Sources: Fitch Ratings, Fitch Solutions, Palestine Independent School District (TX)

Summary

Description	Final Value
Budgetary Flexibility Assessments	
Revenue Control Assessment	Low
Expenditure Control Assessment	High
Collective Bargaining and Resolution Framework	High
Workforce Outcomes	High
Cost Drivers	Midrange
Metrics Assessments	
Financial Profile - Financial Resilience	aa
Financial Profile - Revenue Volatility	Midrange
Demographic & Economic Strength - Trend	Weakest
Demographic & Economic Strength - Level	Weak
Demographic & Economic Strength - Concentration & Size	Midrange
Long-Term Liability Burden	Weak
Metric Profile Mapping	A+
Metric Profile	6.60
Additional Analytical Factors	
Total Notching - capped	-
Financial Profile	
Fiscal Oversight	-
Revenue Capacity	-
Contingent Risks	-
Non-Recurring Support or Spending Deferrals	-
Political Risks	-
Management Practices	-
Demographic & Economic Strength	
Economic and Institutional Strength	-
Revenue Concentration Risks	-
School District Resources	-
Long-Term Liability Burden	
Pension Funding Assumptions	-
Pension Contributions	-
OPEB	-
Debt Structure	-
Capital Demands and Affordability	-
Model Implied Rating - Mapping	A+
Model Implied Rating - Metric	6.60
Outliers and Developing Situations Considerations	
Notching Rationale - 1	-
Notching Rationale - 2	-
Issuer Default Rating/Issuer Default Credit Opinion	A+
Outlook/Watch	RO:Neg
Source: Fitch Ratings	

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