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New Issue

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Arlington Independent School District, TX

New Issue: Moody's assigns Aa1 UND/Aaa ENH to Arlington ISD's, TX GOULT Bonds, Series 2017

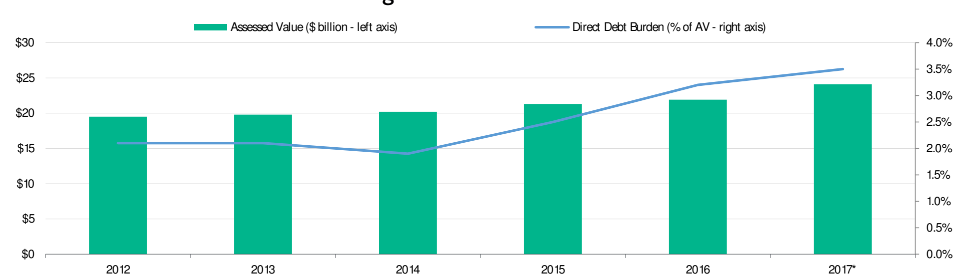
Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to Arlington Independent School District's, TX $87.9 million Unlimited Tax School Building Bonds, Series 2017. Moody's maintains the Aa1 underlying rating on the district's outstanding general obligation debt, which will total $849.8 million post-sale. In addition to the underlying rating, Moody's has assigned a Aaa enhanced rating to the current sale reflecting the guarantee of the Texas Permanent School Fund (PSF). The outlook is stable.

The Aa1 rating reflects the solid tax base in the Dallas/Fort Worth metroplex, and the healthy general fund reserves and adopted financial policies that demonstrate a willingness and ability to maintain strong financial operations into the future. The rating also reflects the district's elevated debt burden that is likely to remain elevated over the next five years given a large voter-authorized bond program currently being carried out, with subsequent bond issuances expected.

The Aaa enhanced rating is based on the rating of the Texas Permanent School Fund and the structure and legal protections of the transaction which provide for timely payment by the PSF if necessary. Moody's currently rates the Permanent School Fund Aaa. For additional information on the PSF program, please see Moody's Rating Update Report on the Texas Permanent School Fund dated January 27, 2017.

Exhibit 1
Increased Debt Burden Remains Manageable Due to Taxable Value Growth



*includes current issuance
Source: Arlington ISD, TX

Credit Strengths

» Healthy General Fund reserve supported by Board adopted policies

» Large and stable tax base in the Dallas/Fort Worth metro area

» Additional liquidity provided by the Natural Gas Fund

Credit Challenges

» Weak socioeconomic profile for the rating category

» Two years of slightly declining enrollment

» Above-average debt burden expected to remain elevated due to subsequent issuance planned

Rating Outlook

The stable outlook is based on the assumption that the strength of the tax base coupled with the sophisticated and forward-looking management team will lead to a continuation of a healthy financial position and well-managed debt program.

Factors that Could Lead to an Upgrade

» Substantial increase in the tax base and improvement in wealth levels

» Significant reduction in the direct debt burden

Factors that Could Lead to a Downgrade

» Trend of declining General Fund reserves to levels inconsistent with the current rating category

» Substantial decrease to the tax base size

Key Indicators

Exhibit 3

Arlington Independent School District, TX	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 19,472,766	$ 19,779,331	$ 20,220,918	$ 21,265,403	$ 21,985,947
Full Value Per Capita	$ 57,040	$ 57,360	$ 58,214	$ 60,420	$ 57,954
Median Family Income (% of US Median)	91.5%	89.4%	90.1%	89.1%	89.1%
Finances					
Operating Revenue ($000)	$ 483,772	$ 497,860	$ 545,829	$ 566,832	$ 581,477
Fund Balance as a % of Revenues	32.9%	35.0%	37.8%	37.3%	39.6%
Cash Balance as a % of Revenues	29.9%	34.0%	35.0%	35.8%	37.8%
Debt/Pensions					
Net Direct Debt ($000)	$ 412,603	$ 414,705	$ 388,704	$ 525,104	$ 709,272
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.7x	0.9x	1.2x
Net Direct Debt / Full Value (%)	2.1%	2.1%	1.9%	2.5%	3.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.5x	0.5x	0.6x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.2%	1.3%	1.4%	1.6%	1.9%

Operating Revenue, Fund Balance, and Cash Balance are the General & Debt Service Funds Combined
Source: Arlington ISD, TX; Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large and Stable Tax Base

The district's tax base will grow in the near term due to property appreciation and ongoing residential and commercial development and redevelopment. Located in Tarrant County (Aaa), approximately equidistant from Dallas (A1 negative) and Fort Worth (Aa2 stable), the district primarily serves the city of Arlington (Aa1 stable), as well as Tarrant County portion of Grand Prairie (Aa2), the town of Pantego and the city of Dalworthington Gardens. The district is largely mature and built out, but continues to experience population growth deriving from development of remaining vacant land as well as redevelopment of existing areas. Population in the district is currently just over 350,000, representing 3% growth since the 2010 census. Following modest tax base declines in fiscal years 2010 and 2011, the district full valuation has grown an average of 4.4% annually over the past five years. Most recently, the tax base grew by 9.7%, bringing the fiscal 2017 value to $24.1 billion. Based on preliminary indications from the county appraisal district, the district anticipates that tax base growth for fiscal 2018 will be approximately 7%, but does not reflect protested values yet.

Despite a below-average wealth level, the local and regional economy provide ample job opportunities, which we believe contributes to the stability of the tax base. Median family income in the district is 89.1% of the national level as of the 2015 American Communities Survey. However, characteristic of the Dallas/Fort Worth metroplex, unemployment in the district is low, at 4.3% as of March 2017, which compares favorably to both the state level (5.0%) and the national level (4.6%) over the same period. Residents have access to numerous employment opportunities in the region, including within the city of Arlington. The city of Arlington includes a number of large anchor entities such as such as General Motors, which is in the process of a $1.4 billion expansion, AT&T Stadium, home field for the Dallas Cowboys, Globe Life Park, home field for the Texas Rangers, and Six Flags/Hurricane Harbor amusement parks. Also of great economic importance to the region is the presence of the University of Texas at Arlington, which has experienced steady enrollment growth and is up to approximatley 38,650.

Enrollment in the district as of the 2017 school year was 62,181 which reflected the third year of modest enrollment decline in part due to the opening of several charter schools. With the numerous program and facility enhancements being implemented with the current bond program, the district does anticipate enrollment to stabilize. Over the past five years, the average annual change in enrollment is -0.8%.

Financial Operations and Reserves: Strong Operating Results & Healthy Reserves

The district's finances will remain stable over the near term supported by sophisticated and forward-looking financial management and underlying strength in the tax base. Since 2007 the district's management has demonstrated conservative budgeting reflected in favorable budget-to-actual results. The district board has adopted financial policies which include a target to maintain two months of operating expenses in reserve. The district originally budgeted for a $4.3 million deficit in fiscal 2016, but realized a $15.5 million operating surplus due to ongoing conservative budgeting practices. The surplus increased the total General Fund balance to $204.7 million, or a solid 40.9% of revenues. When including the district's Debt Service Fund, total operating reserves equaled $230.5 million or 39.6% of total revenues.

Management adopted a $14.6 million operational deficit budget for fiscal 2017, but currently anticipates a $9.5 million draw on reserves solely driven by one-time capital expenditures. While the district expects to produce a $5 million operating surplus, the district's board used $9 million of reserves to purchase land and started a $17.1 million expansion to an existing high school, of which $5.5 million expected to be expensed in fiscal 2017 with the remainder expensed in 2018. If fully realized, it would decrease the total General Fund balance to approximately $195 million, or a still healthy 39% of budgeted revenues. Officials plan to adopt a similar deficit budget in fiscal 2018, but anticipate near balanced operations given strict expenditure control and conservative budgetary assumptions.

The district has a maintenance and operations (M&O) tax rate of $10.40/$1000 of assessed valuation, which is the statutory maximum without voter approval. The district has the option to increase the M&O levy to $11.70/$1000 with voter approval but has no plans to do so at this time. Local sources represent approximately 54% of operating revenues, including the General and Debt Service Funds.

LIQUIDITY

Liquidity maintained in the district's General Fund was $195.1 million as of fiscal year-end 2016 (an healthy 39% of revenues). Inclusive of the Debt Service Fund, total operating cash equaled $219.5 million (a healthy 37.8% of operating revenues). Given the anticipated draw on General Fund reserves in fiscal 2017, liquidity levels will likely decrease in tandem and remain similar to total General Fund balance levels.

The district has access to additional liquidity outside the General Fund associated with natural gas lease bonuses and royalties paid to the district. These funds may be used for operations if necessary, although the intention is to apply them to investments in instruction innovation and capital needs. The district expects the balance of this fund by fiscal 2017 year end will be $30.1 million.

Debt and Pensions: Elevated But Manageable Debt Burden

Inclusive of the current sale, the district's net debt burden is elevated at 3.5% of the fiscal 2017 full value. Despite the elevated debt burden, we believe that the debt remains manageable for the district supported by the large and stable tax base, wide public support, and strong management. The 2017 bonds represent the fourth series under the district's $663.1 million general obligation authorization election that was held in May 2014. Following the current issuance, the district will have $35.9 million of authorized but unissued debt. The remaining debt authorization is expected to be issued in 2018. The bond program approved by voters is comprehensive and funds numerous projects including two elementary schools, a fine arts center, a career tech center, a multipurpose activity center for each high school campus, a district-wide athletics facility (with venues for swimming, gymnastics and wrestling), fine arts instruments and uniforms, renovations to facilities, technology and security improvements, new buses and service vehicles, as well as other improvements.

As of fiscal 2017, the district levied an interest and sinking fund levy of $3.50/$1,000. This is below the original estimate presented to voters with the May 2014 bond authorization of $3.92/$1,000 due to assessed valuation growth above the original conservative projections. With another year of AV growth expected, the I&S rate is projected to slowly decrease despite additional debt issuances planned.

DEBT STRUCTURE

All of the district's debt is fixed rate. Principal amortization is below-average at 48.5% retired in ten years, and final maturity in 2042. Debt service payments are structured to slightly decline over time.

DEBT-RELATED DERIVATIVES

The district is not a party to any derivative agreements.

PENSIONS AND OPEB

Budgetary pressure due to the district's participation in the Texas Teachers Retirement System (TRS) pension plan is expected to remain minimal in the near term. The State of Texas (Aaa stable) makes most of the employer pension contributions on behalf of the district annually. Moody's fiscal 2015 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $473.9 million, or a modest 0.8 times operating revenues. The district's three-year average ANPL to operating revenues is a modest 0.7 times, while the three-year average ANPL to full value is 1.85%.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at www.moodys.com/pensions.

Management and Governance

The district's board consists of seven members and supervises and controls all public schools and property within the district. The board employs a Superintendent of Schools, delegates administrative and supervisory functions to the superintendent, reviews and approves the district's budget.

Texas School Districts have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, one of the sector's major revenue sources is subject to a cap of $10.40 per 1,000 of assessed value, which can be overriden at the local level to $11.70 (with voter approval). The voter approved levy override provides for additional revenue-raising flexibility. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The bonds constitute direct obligations of the district, payable as to principal and interest from the proceeds of a continuing direct annual ad valorem tax levied by the district, without legal limit as to rate or amount, on all taxable property within the district.

Use of Proceeds

The 2017 Bonds will fund additional projects related to capital projects under the 2014 bond authorization as discussed.

Obligor Profile

Arlington Independent School District is a political subdivision located in the central portion of the Dallas/Fort Worth metroplex. The district provides K-12 educational services to roughly 62,000 students.

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the enhanced rating was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts published in December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 4

Arlington Independent School District, TX

Issue	Rating
Unlimited Tax School Building Bonds, Series 2017	Aa1
Rating Type	Underlying LT
Sale Amount	$87,910,000
Expected Sale Date	06/07/2017
Rating Description	General Obligation
Unlimited Tax School Building Bonds, Series 2017	Aaa
Rating Type	Enhanced LT
Sale Amount	$87,910,000
Expected Sale Date	06/07/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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