

RatingsDirect®

Summary:

Arlington Independent School District, Texas; School State Program

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Credit Profile

US\$87.91 mil unlted tax sch bldg bnds ser 2017 dtd 06/15/2017 due 02/15/2042		
<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	AA/Stable	New
Arlington Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed
Arlington Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' underlying rating for credit program and 'AAA' program rating to Arlington Independent School District (Arlington ISD), Texas' series 2017 unlimited tax school building bonds. At the same time, S&P Global Ratings affirmed its 'AA' underlying rating on the district's parity debt. The outlook on all ratings is stable.

The 'AAA' program rating reflects our view of the district's eligibility for, and participation in, the Texas Permanent School Fund bond guarantee program, which provides the security of a permanent fund of assets the district can use to meet debt service on bonds guaranteed by the program.

The 'AA' underlying rating reflects our opinion of the district's general creditworthiness, including the ISD's:

- Stable and diverse economy with direct access to and participation in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA);
- Very strong financial position with available reserves being sustained above 30% in the past three fiscal years; and
- Management practices we consider "good" under our financial management assessment (FMA) methodology.

In our opinion, partly offsetting the above credit strengths is the district's moderate overall net debt burden, which we expect to remain near current levels as the district completes its bond program.

An unlimited ad valorem property tax pledge secures the bonds. Bond proceeds will be used to fund various capital projects from the district's bond program.

Economy

Arlington ISD serves an estimated population of 379,370. The median household effective buying income in the district is 99% of the national average, and the per capita effective buying income in the district is 94% of the national average, both of which we consider good. The district's total \$24.1 billion market value in 2017 is strong, in our view, at \$63,590

per capita. Net taxable assessed value (AV) has grown by a total of 13.4% since 2015 to \$24.1 billion in 2017. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 5.5% of net taxable AV.

The district encompasses approximately 88 square miles in the eastern portion of Tarrant County and serves the city of Arlington and nearby cities, including Grand Prairie (the Tarrant County portion), Dalworthington Gardens, and Pantego. Arlington has a diversified economy with various industries. Residents also have access to larger employment bases in nearby Fort Worth and Dallas. Leading city employers include Texas Health Resources, the district itself, the University of Texas-Arlington, General Motors Corp., and a variety of technology and health care employers. The local economy also has a strong tourism sector. Leading attractions include AT&T Stadium, home of the National Football League's Dallas Cowboys and a major venue for concerts and national sporting events; Globe Life Park, home of Major League Baseball's Texas Rangers; and Six Flags Over Texas, an amusement park. Representative of growth across the metroplex, AV is estimated to continue growing at a rate similar to that of the past four fiscal years.

Finances

A wealth equalization formula, based on property values and average daily attendance (property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in average daily attendance (enrollment) can lead to increases or decreases, respectively, in the amount of state revenue a district receives. Enrollment totaled 62,181 students in 2017, and decreased by 4.3% overall from 2013 to 2017. Management partly attributes the decline in enrollment to some recent commercial development replacing apartment buildings. In the future, management expects enrollment to be flat or slightly lower given the communities' relatively built-out status. As such, we expect state aid, which accounted for 52% of general fund revenues in fiscal 2016, to likely remain stable, with any declines to be offset by AV growth.

The district's available fund balance of \$184.5 million is very strong in our view, at 38% of general fund expenditures at fiscal year-end (June 30) 2016. The district reported a surplus operating result of 3.3% of expenditures in 2016.

Arlington ISD's financial position has historically been very strong, with available reserves sustained above 30% for the past three fiscal years. Management attributes the district's positive operating performance to growth in the tax base and conservative budgeting, particularly in managing payroll costs. For fiscal 2017, the district budgeted for a \$31.7 million general fund deficit, \$17 million consisting of the planned one-time use of \$17 million in committed funds for construction purposes, and therefore budgeted for a \$14.6 million operating deficit. However, management notes that current projections indicate the district will likely end the fiscal year with a \$5 million operating surplus, as a result of higher-than-budgeted AV and payroll expenses trending \$10 million below budget. As such, although we expect the total fund balance to decrease because of the one-time use of committed reserves, we expect the district's available fund balance to remain very strong.

Management

We consider the district's management practices "good" under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key practices include a formal historical trend analysis in developing revenue and expenditure assumptions, which supplements the district's robust budget planning process that is completed by departments and then aggregated. The district uses enrollment estimates from an external demographer as well as its own projections. Officials regularly

update the board on budget performance and provide quarterly reports on investment holdings consistent with formal budgeting and investment policies. The district has developed a long-term financial plan that identifies both revenues and expenditures under meaningful assumptions, including AV and enrollment trends as well as personnel costs. The plan is subject to change on a biennial basis to reflect appropriations established by the legislature. The district's comprehensive capital planning overlaps its bond program, which runs through fiscal 2019 and details projects and phases for completion. The Citizens Bond Oversight Committee monitors the overall progress of the district's bond program. The board also maintains a formal reserve target of two months' expenditures, which it has historically exceeded. While the district lacks a formal debt management policy, as part of its bond program the board established criteria for the useful life of projects that are funded with bond proceeds and has historically funded them with fixed-rate general obligation debt.

Debt

At 5.4% of market value and \$3,411 per capita, overall net debt is moderate, in our view. With 46% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 11.8% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider moderate.

After this issuance, the district will have \$39.6 million in authorized but unissued debt, which it anticipates issuing in June 2018. We note that the district has two privately placed bonds, the series 2009 and series 2014, which account for about 12% of the district's total debt outstanding. We do not view these bonds as contingent liquidity risks, as the bond documents do not contain non-standard events of default, nor do they contain any acceleration provisions.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of \$12.4 million toward its pension obligations in fiscal 2016, or 1.6% of total governmental expenditures. In fiscal 2016, the district also paid \$2.4 million, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 2.0% of total governmental fund expenditures in 2016.

Arlington ISD participates in the Texas Teachers' Retirement System (TRS). According to its 2016 audit, which adhered to Governmental Accounting Standards Board Statement No. 68 reporting standards, its proportionate share of the plan's net pension liability was nearly \$139 million. The plan's fiduciary net position was 78.4% of the total pension liability. The district also contributes to TRS Care, a cost-sharing, multi-employer, defined-benefit postemployment health care plan. Given the small size of the district's pension and OPEB contributions as a percent of its budget, we view the resulting financial burden as minimal.

Outlook

The stable outlook on the program rating is based on our assessment of the strength and liquidity of the Texas Permanent School Fund bond guarantee program.

The stable outlook on the underlying rating reflects our expectation that the district will continue to maintain its very strong financial position, supported by strong management practices. As such, we do not expect to change the rating

within the two-year outlook horizon.

Upside scenario

If the district's wealth and income indicators improve to levels commensurate with higher rated peers, and its debt burden and carrying charges do not exceed levels we consider moderate or present budgetary challenges, we could consider raising the rating.

Downside scenario

If the district's available fund balance were to significantly deteriorate due to unexpected and sustained increases in operating or debt service costs, we could consider lowering the rating.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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